Allianz Global Investors

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 February

Global capital markets delivered mixed returns over February. US equities were lower, as Trump administration policy uncertainty, conservative outlook from earnings and softer economic data points weighed on investor sentiment. Chinese stocks outperformed, boosted by strength in technology companies. European shares also advanced, underpinned by growing optimism over a potential end to the war in Ukraine.

US bonds rallied, reflecting lower economic growth expectations. The yield on the 10-year US Treasury bond, which had traded as high as 4.8% in mid-January, tumbled, falling back below 4.3% for the first time since mid-December 2024. Meanwhile, two-year yields closed the month at 4.0%, the lowest level since mid-October 2024. Corporate bonds delivered positive returns, helped by the decline in Treasury yields. However, a modest widening in credit spreads meant returns on both investment- grade and high-yield (HY) bonds lagged those on government debt. HY bonds lagged Treasuries the most, held back by their shorter durations and the smaller decline in yields at the short end of the curve.

February brought growing signs that the US economy was slowing, with inflation expectations higher. Retail sales, consumer sentiment and home sales slumped in January and early indications showed services activity in February contracting. While the US Federal Reserve (Fed) indicated it was in no rush to cut rates, the European Central Bank (ECB) is expected to continue to reduce borrowing costs. Conversely, accelerating Japanese inflation increased the likelihood of another rate hike from the Bank of Japan (BoJ).

Oil prices eased over February, with Brent crude closing the month back below USD 73 per barrel as slowing US growth and the threat of a global trade war dampened the demand outlook. Gold rallied further, touching a fresh record high of USD 2,950 an ounce, amid robust demand for safe-haven assets.

From a sector perspective for the MSCI All Country World Index, consumer staples was the best performing sector given its defensive characteristics. Real estate was another outperformer amid lower interest rates. The consumer discretionary and communication services sectors were laggards over the month due to profit taking.

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 Welltower* (convertible, health care real estate investment trust), a Chinese technology infrastructure conglomerate (equity, broadline retail) and Ecolab Inc.* (equity, specialty chemicals) contributed to performance. In contrast, our positions in a heating, ventilation and air-conditioning manufacturer (equity, building products), an electronics manufacturer (convertible, semiconductors) and an energy producer (equity, electric utilities) detracted from performance. From a sector perspective, real estate and communications services were the top absolute contributors. The information technology and industrials sectors were the top absolute detractors over the period.

Outlook and Strategy

We maintain a positive outlook for equity markets in 2025, though markets may have periods of volatility due to concerns over stickier inflation, the implementation of Trump's tariff and fiscal policies, subdued global growth and slower interest rate cuts. The Fed looks to be in a comfortable spot balancing inflation with economic stability and should continue its path towards rate cuts, albeit at a more gradual pace. An easier monetary policy backdrop should be constructive for pockets within the US economy to regain its footing and drive more broad-based growth.

In the months leading up to and following the election results, we had taken action to reposition the portfolio to optimise our positioning to the changing policy landscape. On the changing policy landscape, we believe the upcoming Trump administration represents an evolution of policy, with a net positive effect on innovation. A less regulated and business-friendly environment should be conducive for more technology investments, infrastructure build out and capital markets activity. However, companies heavily reliant on an overseas supply chain in some countries may face greater uncertainty. It remains to be seen how much tariffs and other restrictions could impact certain industries, but overall should be manageable.

Although volatility may continue as investors look to reduce risk, we believe this is a normal and healthy event in bull markets. While the recent equity market pullback has been sharp, it is in line with previous drawdowns over the past few years. We continue to have a constructive outlook on the long-term fundamental factors for the cloud ecosystem. Moreover, HY bond spreads have remained tight, signaling that the US economy remains in expansion territory. A large portion of investor concerns are macro related, and we will be paying attention to any policy responses that can help stabilise the economy and investor sentiment. Better clarity and certainty on the Trump administration's policies should help markets find better footing. As markets digests through these short-term risks, we believe this represents an opportunity to add to names that have overshot to the downside relative to their fundamental attributes and growth trajectory.

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, as well as 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 28 February 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").