

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 October

Global equities mostly ended October lower. Early gains were more than offset by a weak close to the month. At a sector level, Health Care, Materials, Consumer Staples and Real Estate fell the most, while Financials, Communication Services and Energy moved higher.

ALLIANZ GLOBAL INTELLIGENT CITIES INCOME: MONTHLY COMMENTARY

Global bonds sold off, with yields rising sharply in the US as polls indicated Donald Trump was likely to win November's presidential election. The former president has promised to hike import tariffs substantially, while tax cuts are likely to further swell the fiscal deficit. The yield on the 10-year US Treasury bond rose 50 basis points (bps) over the month to close just below a 4-month high of 4.3%. On a global basis, corporate bonds outperformed government debt, with high yield debt faring better than investment grade securities.

With economic data continuing to indicate a soft landing for the US economy and a solid jobs market, expectations grew that the US Federal Reserve (Fed) may slow the pace of its rate cuts. In Europe, the European Central Bank (ECB) lowered interest rates by 25 bps, marking its third cut of this year. The People's Bank of China (PBoC) also reduced its 1- and 5-year loan prime rates by 25 bps. The rates are used as a reference point for most loans and mortgages in China.

Oil prices initially surged past USD 80 per barrel after Iran launched hundreds of rockets at Israel, sparking fears that Israel may retaliate by attacking Iranian oil facilities. However, oil prices subsequently retreated, closing the month around USD 73 per barrel, after Israel's response focused on military targets and Tehran signalled it would take a measured response to these strikes. Gold prices surged to a fresh record high of almost USD 2,800 an ounce amid ongoing geopolitical tensions and as investors evaluated political risks ahead of the US presidential election.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, performance was led by Financials. The favorable interest rate backdrop and strong earnings were tailwinds for the sector. Communication Services was the only other sector with positive absolute returns. The Materials and Consumer Staples sectors 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 provider of innovative supply chain solutions (equity, electronic manufacturing services), and a company engaged in the business of owning, acquiring, developing, and operating data centers. (equity, other specialised Real Estate Investment Trust (REITs)), and an internet infrastructure solutions company (equity, internet services and infrastructure) contributed to performance. In contrast, our positions in a semiconductor manufacturing equipment supplier (equity, semiconductor materials and equipment), a supply chain management software company (equity, application software), and an ecommerce company (equity, broadline retail) detracted from performance.

From a sector perspective, Real Estate and Information Technology were the top absolute contributors, and Health Care and Industrials were the top absolute detractors over the period.

Outlook and Strategy

We continue to have a constructive mid- to long-term outlook for equity markets given the earnings growth potential from continued AI innovation and adoption over the coming years. However, we could see higher market volatility in the near term as markets digest the outcome of the US elections, potential shifts in some policies, and timing of future rate cuts by the Fed. We continue to maintain a balanced portfolio positioning for the upcoming Trump presidency, which should be similar to his past administration. Overall corporate earnings have been relatively resilient year-to-date although there have been pockets showing some softness given the lag effect of higher rates. As we have done in periods of volatility, we will opportunistically look 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 normalise policy. The Fed started its cutting campaign by reducing the federal funds rate by 50 bps, with more reductions expected in the coming months. 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. We remain optimistic in the resiliency of the US economy, corporate earnings growth and AI innovation in the years ahead.

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 31 October 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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