

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. With the adoption of the Sustainability Key Performance Indicator Strategy (Relative) ("KPI Strategy (Relative)"), the Fund also seeks 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 will be exposed to prepayment risk, 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 May

Global equities advanced over May. US equities set fresh record highs, although the market came off its best in the closing days of the month. The appreciation was mostly driven by robust gains from the technology sector. As a result, the tech-heavy Nasdaq Composite Index outperformed the broad-based S&P 500 Index, with growth stocks topping value ones by a sizable margin. In contrast, Japanese and United Kingdom shares rose only modestly, while the MSCI Emerging Markets Index was pressured by weak returns from Brazil and Mexico, among others.

Global bonds were mixed. US bonds closed a volatile month with positive returns, outperforming other bond markets as US inflation slowed. In contrast, yields rose in the eurozone as headline inflation rose for the first time this year. Japanese bonds were among the weakest performers, with the 10-year bond yield breaching 1.1% for the first time in almost 13 years amid growing speculation that the Bank of Japan would soon raise rates again and may start to reduce its bond purchase program. In general, corporate bonds outperformed government debt.

On the monetary policy front, US Federal Reserve (Fed) Chair Jay Powell signaled that investors would need to be “patient and let restrictive policy do its work” in reducing inflation: however, he also confirmed that the likelihood of a further increase in rates was “very small”. In the eurozone, the European Central Bank (ECB) gave its strongest hint yet that rates would be cut in June, despite higher-than-expected wage growth. Hopes that the Bank of England would also cut rates in June were dashed when U.K. inflation fell less than forecast and the government unexpectedly called a general election, to be held on 4 July.

In the commodity markets, oil prices eased, touching their lowest level since March on fears of a looming supply glut. Conversely, metals prices moved higher. Gold touched a fresh high of USD 2,450 a troy ounce, while copper topped USD 11,000 a ton for the first time on record as concerns over curtailed supply added to expectations of a pick-up in demand.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, all sectors had positive returns. The information technology sector was the top performer, with outperformance from the semiconductors and semiconductor equipment industry group. The utilities sector was another outperformer. Conversely, the energy and consumer discretionary sectors lagged broader markets.

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 a solar technology company (equities, semiconductors), a chipmaker (equities, semiconductors) and an energy solutions company (equities, electrical components and equipment) contributed to performance. In contrast, our positions in a software company (equities, internet services and infrastructure), a software solutions provider (convertibles, application software) and a public safety technology company (convertibles, aerospace and defense) detracted from performance. From a sector perspective, information technology and industrials were the top absolute contributors, and consumer discretionary and materials were the top absolute detractors over the period.

Outlook and Strategy

We continue to believe that the equity market recovery can extend from 2023 into 2024. Inflation has trended lower over the trailing twelve months but has moved sideways so far this year. As a result, the Fed likely maintains the restrictive stance by holding policy interest rates at current levels. Despite tight monetary conditions, the U.S. economy remains healthy, as labor markets, corporate earnings and consumer spending have been resilient.

Expectations for Fed rate cuts have been lowered from six to under two, over the year-to-date period. Amid this backdrop, equity markets have demonstrated resiliency. From the most recent Federal Open Marketing Committee (FOMC) meeting, Fed Chair Powell indicated that rates likely stay elevated for the time being. As the Fed gets comfortable that inflation is moving towards its 2% target, we should see rate cuts, which are looking likely to happen closer to the latter end of 2024.

A normalized monetary policy backdrop should be conducive for economic growth to broaden. We are starting to see a broader recovery in earnings growth that encompasses sectors outside of technology and for mid-and small market capitalization stocks. Even if there is more volatility ahead, we believe smaller companies have discounted more uncertainties, offering attractive risk rewards for longer term investors. Lower rates should eventually ease financial

conditions and help broaden the recovery as we head into 2025. These conditions should translate to better demand across various industries, easier access to capital and increased investment in high return-on-investment projects like generative artificial intelligence. There are likely bumps along the way, but we remain optimistic for the rest of 2024.

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 May 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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