Allianz Global Investors

Allianz Global Sustainability

Monthly commentary

- The Fund aims at long-term capital growth by investing in global equity markets in accordance with environmental and social characteristics. With the adoption of the socially responsible investment ("SRI") (Proprietary Scoring) strategy ("SRI (Proprietary Scoring) Strategy"), the Fund takes into account sustainability factors based on United Nations Global Compact Principles and follows the principles of SRI.
- The Fund is exposed to significant risks of investment/general market, company-specific, emerging market, liquidity, 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 risks relating to SRI (Proprietary Scoring) Strategy investment (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 SRI which may reduce risk diversifications and may be more susceptible to fluctuations in value.
- 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, particularly if such HSC are applying the IRD Neutral Policy.

What Happened in June

Global equities closed June higher as "tariff fatigue" took hold after months of heightened volatility. While it was yet another headline-rich month, especially on the geopolitical side with an escalation in the Middle East, US markets recovered their losses from the April lows. The S&P 500 was up 4.96%, while Nasdaq was in the green by over 6.5%, both reaching new all-time highs. The rally was driven by big tech, a slight dovish shift by the US Federal Reserve (Fed), and optimism on the trade front. These new highs, however, were also achieved despite a large amount of headline volatility around geopolitics and domestic politics. The strong performance of US stocks also means they continue to narrow the performance gap versus European Union (EU) peers.

De-escalating fears of a global trade war and soaring geopolitical tensions in the Middle East dominated the headlines for most of June. In monetary policy news, the European Central Bank (ECB) cut its key interest rate by 25 basis points (bps) to 2.0% amid increasing deflationary pressures on the back of President Donald Trump's erratic trade policy. Meanwhile, policymakers at the Fed, Bank of England (BoE), Bank of Japan (BoJ) and People's Bank of China (PBoC) kept rates on hold at their respective meetings during the month.

In currency markets, the US dollar extended its decline for most of June, hitting its lowest level in more than three years after President Trump announced that he would be writing to trading partners to outline new tariff rates after the current

90-day pause on reciprocal tariffs expires on 9 July. The euro and British pound were the main beneficiaries of the dollar's weakness, both hitting multi-year highs as the greenback slumped into month end, while the Japanese yen closed the month little changed against the dollar.

Portfolio Review

We saw a continuation of trend in the technology sector from the previous month with Taiwan Semiconductor*, Microsoft* and an advanced materials provider for the semiconductor industry amongst the top contributors – as well as our lack of exposure to a computer and consumer electronics manufacturer. Meanwhile our underweight position in Nvidia* impaired as the stock continued to perform strongly.

Our holding in a health, nutrition, and bioscience company detracted after a competitor announced a weak pre-close update. We don't think read across is particularly strong. Animal health company Zoetis* also underperformed over the month and was amongst the top detractors following their results that highlighted concerns on growth prospects for their Librela product and increased competition in some franchises. Again, this was known but healthcare remains out of favour which is why valuations are so attractive.

Outlook and Strategy

Global equity markets have cross winds that leave investors divided between taking the optimism of the tariff de-escalation and some stimulus, and the inherent pessimism of leading indicators looking poor with markets having rallied strongly.

We have mentioned before that there is a stagnant nature to many broad economic and consumer categories and have maintained that artificial intelligence (AI)-related exposure is the one constant through what has been large spikes in uncertainty. The "Big Beautiful Bill" adds some gross domestic product (GDP) stimulus but again the clearest positive is focused on AI and accelerated depreciation.

We are constructive on our positioning which has slightly less cyclicality and a mild defensive growth tilt but we have acted where excessive moves have happened in both directions and this continues to be our strategy through this uncertainty.

In the short term, we will see slightly weaker momentum in cyclicals and as such, the narrative for a rebound in H2 becomes even more important. We believe that stockpicking will be far more important this year, and a muted style exposure combined with positions that are accessing the AI theme (that continues to be prevalent) will lead to outperformance. We think we are overweight the AI theme, but we are diversified across the eventual winners as the speed and substance of change is heavily debated.

The July deadline for tariff deals, a mixed outlook for earnings, and lingering questions around America's debt and the leadership of the Federal Reserve are likely to result in further volatility ahead. We continue to believe that stock picking will be far more important this year, and a muted style exposure combined with positions that are accessing the AI theme will lead to outperformance.

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All data are sourced from Bloomberg and Allianz Global Investors as of 30 June 2025 unless otherwise stated.

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