

Allianz Global Sustainability

Monthly commentary

- The Fund aims at long-term capital growth by investing in global equity markets of developed countries in accordance with environmental and social characteristics. With the adoption of the sustainable and 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 December

Global equities slid as the euphoria of Trump's decisive election victory faded and the US Federal Reserve (Fed) issued a more hawkish outlook for interest rates in 2025. Artificial intelligence-related (AI-related) stocks in the Consumer Discretionary, Communication Services and Information Technology sectors continued to hold up well, but elsewhere returns were mostly negative. Real Estate, Materials and Energy were the weakest sectors within global indices.

As widely expected, the Fed cut rates by 25 basis points (bps) in December, but policymakers issued more cautious guidance for 2025, reducing the number of expected 25-bps cuts to two from four at the previous Federal Open Market Committee (FOMC) meeting. Concerns that progress against fighting inflation had stalled were cited for the change. It was mostly a different story in Europe, with the European Central Bank (ECB) cutting rates by 25 bps, while the Swiss National Bank reduced borrowing costs by 50 bps, its largest cut in nearly a decade. However, the Bank of England (BoE) kept rates on hold as inflationary pressures remained stubbornly high. The Bank of Japan (BoJ) also maintained its monetary stance.

The Fed's more hawkish stance at its last meeting of the year provided a further boost to the US dollar. In contrast, the euro strengthened against the Japanese yen. The BoJ refrained from enacting another rate increase in December, given concerns over the growth prospects of the global economy and whether Japan's inflation rate is sustainably above 2%.

This ended a year that will go down in history as one of the most volatile years in recent history, but also a year when despite the odds, equities performed well and re-rated. That was in the face of some significant challenges which included two attempts on the life of the President-elect of the largest economy, a computing error that took down around 7,000 flights, and the biggest change of incumbent politicians in developed countries in 120 years.

Portfolio Review

The Fund underperformed its benchmark, the Dow Jones Sustainability Index over October (In USD, gross of fees).

Both stock selection and sector allocation were detrimental to performance over the month.

Our holding in a multinational technology company features as the top contributor over the month. Generally, Technology stocks with AI exposure performed well over the month.

On the negative side, rate-sensitive stocks underperformed and our holdings in that space such as a cellular tower company and a vertically integrated utilities provider were weak on higher bond yields and featured amongst the top detractors over the month.

Outlook and Strategy

We expect 2025 to be driven more by earnings revisions than by re-rating. Notably, Europe and Asia offer significant valuation advantages, particularly if there is an improvement in economic momentum or expectations of such. Both regions could benefit from potential stimulative policies, making them worth closely monitoring.

The US enters 2025 with record-high mortgage costs, persistent inflation, and relatively expensive equities, especially when compared to its bond market. This makes regional allocations appear balanced. We value having this optionality as the year unfolds and believe that any market broadening should enhance performance, given current conditions.

In the realm of generative AI, 2025 is likely to be a pivotal year, where tangible progress in its agentic deployment could solidify its landscape and create opportunities for many of our investments to thrive.

However, this year may also serve to prove the value of diversification, as the broad re-rating fuelled by generative AI in the US aligns with the realities of execution. In this environment, diversified stock selection will likely play an even greater role in driving success.

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All data are sourced from Bloomberg and Allianz Global Investors as of 31 December 2024 unless otherwise stated.

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