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 have an adverse impact on the performance of the Fund.
- 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 September

Global equities moved higher in September as the US Federal Reserve (Fed) cut rates for the first time since Trump took the presidency. Interestingly the longer end of the bond market didn't quite move as much in sympathy reminding us that there is fiscal fragility to be considered. Equally noticeable would be the rise in the gold price as another symbol of mistrust of the broader financial and geopolitical complex with a strong focus on where the trade weighted dollar will end up. Inflation swaps remained unchanged, emphasizing the disconnect between market expectations for interest rate cuts and policymakers' determination to pursue them.

Technology, Communication Services and Consumer Discretionary (or largely speaking the Magnificent 7*) drove the market with the defensive sectors lagging, despite lower yields and an imminent government shutdown which again shows the extraordinary demand for artificial intelligence (AI) exposure.

Portfolio Review

AI exposure drove performance over September. The portfolio had nine positions returning over 10% in the month and eight of them are related to the AI rollout we see happening globally. It is noteworthy that the leading contributors to portfolio performance were driven by AI-related themes, while the weakest performers were predominantly those adversely affected by AI disruption. This trend indicates that, at present, market participants appear to be largely disregarding broader macroeconomic considerations. Investor risk appetite remained strong in September despite the US government shutdown, further intensifying concerns about the prevailing enthusiasm for AI-related investments

As expected, in a very speculative market, our biggest detractor was indeed our lack of ownership in an electric vehicle manufacturer that rose strongly. The stock has traded in a range from low USD 200 to mid-USD 400 for the last 12 months and this level of volatility and price range clearly highlight how difficult that equity is to price. The performance has also suffered in our quality growth companies that have a perception of being disrupted by the rollout of AI. We added tactically where we thought that made little sense.

We sold our position in a health insurance and services company following a circa 50% rise from the lows. While our decision to delay selling the position ultimately benefitted the Fund, it is evident that holding the stock earlier in the year had a negative impact on performance. We spoke with management and decided any recovery would be difficult and protracted so decided to put the capital to work in our better ideas. We also sold a cloud-based relationship management software as it became clear that our investment case was likely to take much longer than we initially anticipated. We also sold our long-held and very successful investment in a provider of vision care products, eyewear and med-tech solutions as it hit our price objective. The optimism over smart glasses is real but we think the valuation overstates the likelihood of long-term revenue growth.

Outlook and Strategy

The Fund has a slight overweight positioning in the AI winners group with the remainder being relatively defensive prioritizing stable earnings and returns in the current environment of economic uncertainty.

We believe there will be a pause in the outperformance of the Mag 7, and market returns will broaden in FY26 and beyond, as valuations and earnings revisions become less compelling for that group. In fact, we can already see dispersion of returns between them beginning to emerge.

The Magnificent 7* companies are spending record levels of capex and will need to show a return on this spend shortly. They also running the risk that there simply isn't enough power to satisfy the expectations of the market and this will be interesting during 2026. The recent narrative is that demand still outweighs supply, but this is coming to the point where more questions are being asked about sustaining this level of performance.

We continue to find attractive valuations and investment cases that will work well if the market rotates away from its narrow leadership.

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

*Magnificent Seven refers to a group of US stocks which includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla..

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