

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 November

Despite widespread fears about a contested US election, things actually went relatively smoothly, at least if markets are to go by with. Against initial expectations, the Republicans have won the control of the presidency, House and Senate, for at least the next two years. This, in turn, will give Donald Trump far more scope to implement his agenda. The election outcome ignited a market rally as investors bet on proposed tax cuts and that deregulation would bolster corporate profits. Granted, the initial reaction makes directional sense, but it is unclear how long markets will remain on the optimistic side of the trade. While Trump and his administration are likely to boost corporate profitability, we learned during Trump 1.0 that it's usually not smooth sailing.

Add to that the smallest majority in roughly a century of either party in the House, the margin for error when it comes to policy making is tiny. Financial markets have recently started to reflect this view with yields starting to drop quite hard in the last 2 weeks of November despite what was initially thought as a pro growth and inflationary government.

Outside of the US election, geopolitics made some headlines as we saw positive development in the middle east with a ceasefire reached in the Israel-Lebanon war.

European equities struggled over November as the prospect of Donald Trump's return to the White House raised the spectre of higher tariffs. Rising political uncertainty also undermined sentiment: German Chancellor Olaf Scholz called a

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snap election after the three-year-old coalition government collapsed as it battled to agree a budget; in France, Prime Minister Michel Barnier's minority government also appear to be in peril as it struggled to gain sufficient support for a budget that contained tax increases and spending cuts.

At a sector level, consumer discretionary and financials stocks rallied the most, while materials and health care were the weakest sectors in global indices.

Portfolio Review

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

For a second consecutive month, our financial holdings were top contributors to performance with two financial companies featuring amongst the top contributors with the expectations of a more conducive regulatory environment in the upcoming Trump administration. A bank along with the wider banking sector, performed well, fueled by an improving capital markets outlook, partly driven by proposed de-regulation and lower taxes. A stock exchange also performed well and contributed to relative returns, they saw some upgrades following a strong set of results for the quarter.

Outlook and Strategy

We had expected a very close election and the financial markets and betting markets had moved aggressively towards a Republican win in October with a meaningful impact on the bond markets along the curve.

This traditionally puts us at a style disadvantage, as we do prefer growth and quality as factors, and this "duration" typically underperforms higher rate expectations. Both the short end and long end expectations were higher on both the expectation of more volatility in policy, and also higher inflation expectation as tariffs and tax cuts take centre stage. We concur with the probability of both being higher now. Nevertheless, there are offsetting factors with lower fuel prices and efficiency efforts within the newly formed Department of Government Efficiency which we will need to better understand. Immigration has been such a significant component of recent economic momentum in the US and this will clearly look different under Trump 2.0 and that also would lead to a new inflationary expectation.

So, whilst in the short-term inflation expectations and higher fixed income markets can impact our style, we do think having the pricing power of our quality compounders offsets that, and we would note our focus on valuation to further prevent that impact.

The performance of the fund since the election is ahead of the index which is a good indicator that the political agenda doesn't always translate easily to a view on how sustainable investments and fund flows actually perform.

In fact, the sustainable fund industry thrived under Trump 1.0 as many of the investments required to mitigate and adapt to climactic challenges are beneficiaries of more positive economic impulses.

We will have to be very alert to any new policies (of which we expect many) and feel the fund is in a good position at the moment. We are overweight to the US slightly but have a good slate of strong investment cases we feel can deliver in any economic scenario.

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All data are sourced from Bloomberg and Allianz Global Investors as of 30 November 2024 unless otherwise stated.

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