Allianz Hong Kong Equity

Monthly commentary

- The Fund aims at long-term capital growth by investing in equity markets in Hong Kong.
- The Fund is exposed to significant risks of investment/general market, country and region, emerging market (such as Mainland China), company-specific, and RMB (such as exchange controls), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund may invest in the China A-Shares market directly via the Stock Connect or other foreign access regimes and/or other permitted means and/or indirectly through all eligible instruments and thus is subject to the associated risks (including quota limitation, change in rule and regulations, repatriation of the Fund's monies, trade restrictions, China market volatility and uncertainty, potential clearing and/or settlement difficulties, change in economic, social and political policy in PRC and Mainland China tax risks).
- 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 July

In terms of portfolio activity, over July we initiated positions in an Australian mining company, a telecom service provider in Hong Kong, and an operator of merchandise trading markets. On the other hand, we exited our positions in a leading mall developer and operator in India, and a pharmaceutical company with a focus on oncology drugs in China.

At the end of the month, the top portfolio holdings included a multinational semiconductor contract manufacturing and design company, Tencent*, the leading gaming and communications platform in China, and a global electronics conglomerate from Korea.

Overall, the portfolio is overweight in China, Hong Kong and South Korea, while being underweight in Taiwan and India. On a sector level, communication services and real estate are the key sector overweights, while consumer discretionary and healthcare are the main underweights.

JULY 2025

Outlook and Strategy

July was another good month for both onshore and offshore China equities. The recent gains build on the previous market recovery. Since the middle of last year, a time when China's equity markets were being described as 'uninvestable', China A shares have rallied by nearly 25% in USD terms. China H share returns have been even stronger.

There have been a number of reasons for this turnaround. On the one hand, some factors that previously weighed heavily on markets have eased. Local government financing has been significantly restructured, for example, and the property market is more stable, albeit still weak. This is reflected in bond markets, with the China Real Estate High Yield Index up by almost 80% since its low point in Q4 2023.

On the other hand, there have also been several new factors in place supporting China equities over the last year. One key change has been a shift in government policy. Overall, the long term policy objective of developing a future growth model based on technology-intensive manufacturing has not changed.

However, economic momentum last year weakened significantly, putting the longer term goals at risk. And this prompted an important course correction towards a more pro-growth policy setting. We expect policy support will need to be further strengthened during the second half of 2025 to achieve the 5% gross domestic product (GDP) target.

The technology sector has also been at the forefront of the market recovery. An initial catalyst was the DeepSeek moment, which illustrated how China's technological progress is far more advanced than previously understood. More recently, the news that the US revoked export curbs that required American companies to obtain licenses to provide chip design software to customers in China – as part of an agreement intended to ease trade tensions - also provided a further boost to China's artificial intelligence (AI) ambitions.

Linked to this has been a renewed overall focus on the private sector. A high-profile symposium chaired by President Xi Jinping earlier this year and attended by China's highest-profile business leaders, including Alibaba founder Jack Ma, sent a clear policy signal in our view. We anticipate the technology and innovation theme will continue to be a feature of China equities.

Overall our view is that the factors which have contributed to a more positive market environment are still in place. Combined with reasonable valuations, we believe there should be ongoing support for China equities. In addition, the government's commitment to providing direct support for domestic equities during periods of higher volatility, also provides downside support.

In this environment, recent portfolio activity has focused on adding selectively to technology related stocks. In particular we identified several names that had pulled back during the period of tariff-induced weakness, but where we see growth opportunities related to AI demand as well as China's ongoing push for self-sufficiency. This included areas such as optical transceivers and acoustic components. We also added to healthcare exposure in the biotech space, where we believe there are several companies with promising late stage drug pipelines.

The portfolio is positioned with relatively close to benchmark sector allocations so that stock selection is the key relative performance driver. At month end the largest sector overweight is healthcare, while the largest underweight is consumer discretionary.

Source: Bloomberg, Allianz Global Investors, as at 31 July 2025 unless otherwise stated.

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