

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 April

The Fund slightly outperformed the benchmark FTSE MPF Hong Kong Index in April. Positive stock selection in the consumer discretionary sector was the main contributor.

At a single stock level, a key detractor was a company which specialises in making LiDAR (Light Detection and Ranging) sensors. These use laser technology to create detailed 3D maps and play a key role in areas such as autonomous vehicles and robotics. The stock saw a strong recovery in April after some previous profit taking. Longer term we believe the company is well positioned to benefit from accelerating adoption of advanced driver assistance systems (ADAS) in China.

Conversely, a detractor was a leading smartphone and consumer electronic component producer and a key supplier to Apple. The share price saw a pullback after the higher-than-expected US tariffs prompted concerns about a slowdown in iPhone demand. We reduced the position size given near term risks. Longer term, the company continues to gain market share in the Apple supply chain by enhancing its ongoing vertical integration and supplying a broader range of capabilities.

Outlook and Strategy

In line with other global markets, Hong Kong and China equities – especially offshore markets – initially gapped lower after the tariff announcements on ‘Liberation Day’ before subsequently recovering a good part of the losses through the rest of the month. China A shares were notably less volatile, with government support limiting the downside.

In the near term, the tariff outlook remains uncertain. China’s negotiating position has hardened notably. This is partly because of the belief they can sustain the economic attrition for longer than the US. Operating under US export controls for the last five years has resulted in a meaningfully enhanced degree of self-sufficiency in critical industries.

Having said that, the current situation will result in significant economic damage for both China and the US. There is little historical precedent for this scale of tariff increase, but sell-side estimates suggest this could, in isolation, have a close to 2% gross domestic product (GDP) impact on China. As such, it is in the interests of both sides to de-escalate the situation. Recent days suggest some early signs of a move towards negotiations.

Looking ahead, a key question is to what extent China will lean against the tariff headwinds and the looming economic slowdown with renewed efforts to stimulate domestic demand. Just a few weeks ago, China set an official GDP target for 2025 of “around 5%”. Given the importance attached to achieving the annual growth target – it has been met or exceeded in each of the last 15 years with the exception of Covid in 2022 - both monetary and fiscal policy should be dialled up in coming months.

On paper, there is significant untapped potential including more than USD 20 trillion of household savings. But the consumption power and confidence of China consumers have been significantly hampered by the severe housing market downturn and labour market pressures in the post-Covid era. We think it is increasingly likely there will be decisive and forceful policy changes including the government stepping up support for asset prices, not just in equities but in the crucial housing market as well.

Indeed, the most evident policy move so far has been the “national team” boosting support for equity markets. Domestic ETFs have seen significant inflows, more than 240 China A-share companies have announced share buybacks in April, and insurance companies have been guided to increase their exposure to equities. The “Beijing put” has been in action several times over the last year, with the 3,000 level on the Shanghai Composite Index appearing to be the line in the sand. The current level of around 3,280 should therefore provide some indication of the expected downside risk.

Portfolio activity in April focused on adding selectively to stocks that were excessively sold down during the tariff-induced weakness as well as companies that should benefit from a recovery in domestic demand, especially in consumption-related areas. This includes increased exposure to real estate and beverage companies. 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 basic materials, while the largest underweight is consumer staples.

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Source: Bloomberg, Allianz Global Investors, as at 30 April 2025 unless otherwise stated.

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