

Allianz

Oriental Income

Monthly commentary

- The Fund aims at long-term capital growth by investing in Asia Pacific equity and bond markets.
- The Fund is exposed to significant risks of investment/general market, country and region, company-specific, emerging market, valuation, asset allocation and currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation. Investing in bonds may be subject to specific risks such as interest rate, creditworthiness risk/credit rating/downgrading, and default.
- 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

Asia Pacific equities rose in July, with China being a top performer. The market was spurred by the US decision to revoke some of its previous export controls on chip design software. This provided a boost to technology stocks, which are benefiting from a significant increase in AI capex both in China and the US. Elsewhere, South Korean equities also outperformed and remain the best-performing regional market year to date, helped by expectations of corporate reform following the election of a new President. Taiwanese stocks also rallied, supported by ongoing artificial intelligence (AI)-driven chip demand.

In Japan, the market closed modestly higher as protracted trade negotiations with the US continued, before a deal was finally struck. Political uncertainty was a further headwind as the country's ruling coalition lost its majority following Upper House elections. Japanese core inflation cooled modestly to 3.3% over the year to June from 3.7% in May and once again, the Bank of Japan held rates steady at 0.5%. ASEAN equities were generally stronger, led by Thailand after a ceasefire was agreed with Cambodia in their longstanding border dispute as a pre-condition to trade talks with the US.

Portfolio Review

The Fund outperformed the benchmark in July. Stock selection in the health care sector was particularly beneficial, with the Chinese biotech area being a strong positive contributor. One of our long-term holdings in this space is a clinical-stage biotech company with a focus on oncology. The company is building out an increasingly diverse product pipeline with a number of promising new drugs at final stages of clinical trials. Domestic sales are ramping up quickly, and we believe it is likely they will form a partnership with a global pharmaceutical company to support sales and marketing activity outside China.

Conversely, a global logistics and freight management business headquartered in New Zealand has been a detractor. We have held this stock in the portfolio for more than a decade and continue to believe it is an exceptionally well-managed business with a highly competitive service and customer-focused culture. The share price has traded sideways for most of the last year in the face of headwinds from slower global growth projections.

Earlier in the year, we raised cash levels and added to fixed income given the high level of market and macro uncertainty, especially related to geopolitics. We have since reduced this more defensive exposure to take advantage of specific stock opportunities. During July, for example, we entered several new names in China including two biotechnology companies. The first specializes in protein technology and reagent development, while the second has a number of oncology-focused drug candidates in clinical trial stages.

Overall, since last year we have been incrementally increasing the portfolio exposure to China. This is partly a reflection of improved valuations as well as increasingly supportive government policy action. The DeepSeek announcement also demonstrated China's impressive advances in technology and AI which, in our view, have not yet been widely understood. We have added to ecommerce / internet stocks as well as insurance and healthcare companies.

Conversely, we have significantly reduced the allocation to Taiwan from 24% at the beginning of the year to 11% at the end of July. Although AI names staged a sharp rebound in July, we continue to see signs of weakening demand for certain technology companies, related in part to the fast-moving changes in AI-related developments. In Japan, we are focused on stocks where we see potential for enhanced shareholder returns and an improved earnings outlook as a result of governance reforms and a more inflationary environment. Many of these names sit in the industrials and financials sectors.

A significant proportion of the fund remains invested in mid and small cap stocks, which can lead to shorter-term volatility but has historically been a key source of added value and an area where we believe we can find differentiated ideas that are mispriced.

Outlook and Strategy

Overall, we are quite cautious on the near-term outlook for regional equities. Global trade developments, especially the ongoing decoupling of the US and China, are likely to result in a weaker growth ~~outlook~~. As well as putting pressure on corporate earnings, the visibility of growth is also reduced with some companies declining to provide their usual quarterly guidance.

Offsetting this to some degree is lower inflation across most Asia Pacific markets. With policy rates sitting at or below the neutral range across many key markets, there is flexibility for Asian central banks to lower interest rates. In China, we anticipate there will be more decisive support in order to achieve the annual economic growth target. Structural drivers such as ongoing governance reforms also remain in place for a more positive longer-term outlook in Japan.

In this environment, we are looking for opportunities to add to stocks that have been overly punished in the market volatility, as well as potential beneficiaries of Asian domestic policy stimulus measures to offset the tariff impact. Companies with strong balance sheets, exposure to long-term structural trends, and a competitive edge remain in focus.

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