Allianz Global Investors

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 May

Asia Pacific equities delivered strong returns in May, with many Asian currencies appreciating significantly against the US dollar over the month. The tech-heavy markets of Taiwan and Korea led the way, buoyed both by a recovery in global tech sentiment as well as currency gains. China equities also gained initially following indications of a tariff truce with the US, before giving way to profit taking in the second half of the month. Australian equities closed the month higher amid bullish sentiment led by banking and mining stocks. Markets welcomed the continuation of political stability after Prime Minister Anthony Albanese won a second term in the federal elections.

Elsewhere, Japan equities also posted gains, supported by trade talk optimism after becoming the first country to enter into official negotiations with the US. Although the BoJ cut its 2025 growth forecast from 1.1% to 0.5%, the recently concluded Shunto wage negotiations resulted in pay rises of over 5%. As such, real wages are projected to rise in 2025, raising expectations for a recovery in consumer spending.

MAY 2025

Portfolio Review

The Fund outperformed the benchmark in May. Stock selection in the industrials and information technology sectors was particularly beneficial, with names from Japan, Korea, and Taiwan being strong contributors. Several high conviction stocks including a global logistics player, a high-complexity chip designer, a baseboard management control provider, and a major engineering and industrial conglomerate were among the top-performing stocks in the portfolio. These stocks represent positions that we believe offer exposure to niche capabilities, with long-term, sustainable earnings growth potential.

Conversely, stocks from Hong Kong/China were relative detractors amid the broader market weakness, though we continue to find attractive investment ideas in these markets given improved policy support and reasonable valuations.

Given the high level of market and macro uncertainty, particularly as countries across Asia reassess their relationships with the United States, in recent weeks we have built a buffer for some downside protection by raising cash and adding to fixed income. We will aim to deploy the cash in periods of market weakness and when we spot stock specific opportunities. As an example over the last month, we initiated select new ideas in the areas of drone technologies, semiconductor equipment testing, and uranium production.

Since last year, we have increased 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 artificial intelligence (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 10% at the end of May. There are signs of weakening demand for certain technology companies, related in part to the fast-moving changes in AI-related developments. In Japan, we continue to focus 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 challenging macro environment to some extent is the ability of many countries to implement easier monetary and fiscal measures. In China, we think there will be more decisive policy changes including the government stepping up support for asset prices, not just in equities but in the crucial housing market as well. Across much of the region, central banks also have some flexibility to cut interest rates, especially if the US dollar continues to weaken. 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.

All data are sourced from Bloomberg, Allianz Global Investors, as at 31 May 2025 unless otherwise stated.

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