

Allianz

Thematic Income

Monthly commentary

- The Fund aims at income and long-term capital appreciation by investing in global interest bearing securities and global equities with a focus on theme and stock selection.
- The Fund is exposed to significant risks which include investment/general market, thematic concentration, thematic-based investment strategy, asset allocation, emerging market, company-specific, creditworthiness/credit rating/downgrading, interest rate changes, default, volatility and liquidity, valuation, and currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund may invest in financial derivative instruments ("FDI") which may expose the Fund to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. The use of derivatives may result in losses to the Fund which are greater than the amount originally invested. 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 income and/or capital which in the latter case 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 distribution unit 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 December

Global equities delivered a modest gain in December, with the MSCI All Country World Index (ACWI) rounding out an impressive rise of more than 20% for the year. Gains were muted for most of the month, although the traditional Santa Claus rally lifted investor sentiment into the holiday period. However, escalating protests in Iran and Chinese military exercises in the Taiwan Strait weighed on sentiment at month end. European stocks finished in front, followed closely by the UK. Japan was next but trailed the global index, while the US eked out a fractional gain over the month. Emerging markets trailed their developed market peers, dragged lower by index heavyweight China. Turning to sectors in the MSCI ACWI, financials and materials led the way, while utilities was the weakest sector in December.

Global bond yields inched higher over December. The US yield curve steepened, with short-term US yields pegged by another widely expected cut in interest rates from the US Federal Reserve (Fed), while longer-dated Treasury yields were undermined by uncertainty over President Donald Trump's pick for the next Fed chair. 10-year yields in Japan rose to the highest level since 1999, breaching 2.0%, after the Bank of Japan increased rates to their highest level in 30 years and indicated more tightening was likely. European bond yields also moved higher amid worries the European Central Bank (ECB) may raise rates in 2026.

Emerging market bonds delivered positive returns in December, mirroring positive returns from other higher risk areas of the bond market, with sentiment boosted by a further interest rate reduction from the Fed. Local currency bonds outperformed US dollar-denominated debt, helped by a weaker tone to the US dollar

Portfolio Review

Over December, the fund generated a positive return in USD terms (AM USD share class).

The equity investments focus on themes and topics of strong secular drives to generate long-term alpha. While sector allocation contributed well to overall performance stock selection has been a bit weaker resulting in the slight drag to overall performance. From a thematic perspective Humanoid Robots performed best, while Clean Water and Land was lagging.

The fixed income investments in the fund focus on global and emerging markets investment grade corporate bonds. The portfolio posted a modest positive total return in December and outperformed the underlying universe. Developed and emerging markets both saw positive return and contributed roughly evenly to the portfolio. Credit spreads tightened and partially reversed the widening in the previous two months. This is supported by generally sanguine macro backdrop into year-end. Rates was a return detractor while foreign exchange (FX) contributed positively. From country perspective, Panama, Mexico and Peru were the top performers while Saudi Arabia and Colombia ranked at the bottom.

By the end of December 2025, the portfolio had around 69% allocation to risky assets (including equity and commodity), and the remaining was allocated to fixed income and cash/cash equivalent.

During December, we have slightly reduced equity exposure mainly in US market. We have also slightly trimmed commodities exposure in precious metal. Fixed income investments remained relatively stable.

Outlook and Strategy

Overall, we stick to our optimistic outlook for equities, as global growth is likely to remain healthy. While fundamental and political uncertainty is still high, we believe it has passed its peak. Nevertheless, investors should be prepared for a potential increase in market volatility ahead of the US mid-term elections and the changeover at the Fed. In addition, market sentiment may change abruptly due to geopolitical crises. Turning to the individual regions, US equity valuations continue to appear elevated, particularly for tech large caps. However, in most cases they are supported by healthy corporate earnings, which is why we do not see a significant bubble risk at the moment. European valuations are cheaper and offer selective opportunities, not least thanks to larger fiscal stimulus and the EU initiative for strategic autonomy. The outlook for China and India is attractive thanks to structural growth factors and reforms. Generally speaking, we recommend a risk-aware, active investment approach with a longer-term horizon and broad diversification across regions and innovation topics.

From our vantage point, government bond valuations in the developed markets are largely fair. In the US, short-term maturities currently appear more promising, as the yield curve looks set to steepen. Further rate cuts in Europe and in the US should support the markets. In contrast, we expect interest-rate hikes in Japan. We prefer investment-grade bonds in the credit segment, as they benefit from solid fundamentals and technical support. This applies above all to senior securities, particularly in the financials and utilities sectors. High-yield bonds require a selective and diversified approach. From our vantage point, emerging markets and Asian high-yield bonds offer numerous attractive diversification and exchange-rate opportunities. If market participants become more risk-averse, they may temporarily shift their funds into bond segments they regard as particularly secure.

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All data sourced from Allianz Global Investors and Bloomberg as at 31 December 2025 unless otherwise stated.

[^]Magnificent Seven refers to a group of US stocks which includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

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