

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 October

Global equities closed October higher. Japanese stocks were among the strongest performers, after fiscally dovish Sanae Takaichi became the first woman appointed to serve as the country's prime minister. Elsewhere, an extended US government shutdown clouded the outlook, although markets generally shrugged off jitters over escalating Sino-American trade tensions and concerns about the health of US regional banks. In late October, US President Donald Trump and Chinese President Xi Jinping agreed to postpone export controls on rare earths and semiconductors as part of a one-year trade deal, although sentiment was knocked by cautious Federal Reserve (Fed) comments about future rate cuts.

Global bond yields eased modestly over October, with 10-year yields in the US and Germany declining less than 10 basis points (bps) as investors started to consider that central banks were nearing the end of their rate-cutting cycles. In contrast, 10-year UK government bond yields fell almost 30 bps, as weaker-than-expected economic, inflation and labour data boosted hopes that the Bank of England will have room to cut rates. Corporate bonds were mixed, but outperformed government bonds at a global level.

Emerging market (EM) bonds delivered positive returns over October. US dollar-denominated bonds rose modestly, outperforming other higher risk areas of the US credit market, such as high-yield debt. Local currency bond returns were also positive, although renewed dollar strength against many EM currencies was a headwind over the month.

Portfolio Review

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

The equity investments focus on themes and topics of strong secular drives to generate long-term alpha. From theme perspective, electrification benefitted especially from the large investments associated to Artificial Intelligence as well as government related spending plans. Clean Water and Land has been a burden to performance. Besides so solid fundamental development the underweight to the index heavyweights (Magnificent Seven*) has been a major burden over the course of October. Especially given the strong returns among 4 of the Mag 7 companies, which are the largest detractors from a single stock perspective as those companies outperformed global equity markets, driven by strong earnings and investor optimism.

The fixed income investments in the fund focus on global and emerging markets investment grade corporate bonds. The portfolio delivered a modest return in October, slightly underperforming the corresponding market return. Credit spreads widened slightly across both developed and emerging market corporates, as risk assets faced headwinds from political uncertainty, the US government shutdown, and escalating US-China trade tensions ahead of the Trump-Xi summit. Additional pressure came from reported losses at some US regional banks and credit events in the private credit market, which raised concerns about corporate credit quality. We do not view these developments as systemic risks; while idiosyncratic losses may occur, the overall financial system remains healthy. Rates provided some offset, with US Treasuries and German Bunds rallying. The US dollar strengthened against Euro and Sterling, which had a negative impact on portfolio performance. Country-level performance was mixed: Saudi Arabia, Poland, and Indonesia outperformed, while Brazil and Pan-European credits lagged.

During October, we have increased equity exposure in both developed markets and emerging markets. We have also increased commodities exposure through precious metal and industrial metal. Fixed income investments have remained stable.

Outlook and Strategy

The global equity markets are continuing their robust uptrend. Even in the face of geopolitical tensions, risks to commodity supply chains and high government debt in the industrialised countries, most investors are still willing to take risks. The US market in particular looks set to benefit from optimistic earnings forecasts and lively demand for technology stocks. Expectations for European and Japanese companies are upbeat, too, particularly for those with a global footprint. China and other Asian emerging markets should continue to benefit from economic growth rates which are above the global average and driven increasingly by domestic demand. While we believe that opportunities still outweigh risks on the equity market, unexpected geopolitical and local developments are quite likely to trigger setbacks, mainly in the short term. Careful monitoring and limiting risks at the country, sector and individual stock level may be key, seeing that some valuations have reached highly elevated levels. At the same time, active management can help to target and exploit opportunities even during sentiment-related setbacks.

The bond markets are subject to several and sometimes contradictory influences. Inflation rates in most developed markets are still elevated – a fact which tends to limit the central banks' scope for action. However, the price uptrend seems to be abating. In some regions, this development is accompanied by growth weakness. While the US Federal Reserve (Fed) should remain cautious despite the slight slowdown in growth, monetary policy in the euro area might be more expansionary, seeing that there are not many other growth drivers. Overall, the interest rate environment should be favourable for bonds. At the same time, debt sustainability gives rise to concerns in some countries, such as France. That means that euro-area government bond yields might diverge even further. The yield premiums of investment grade corporate bonds still appear very small. High-yield bonds offer better risk premiums, but investors should take a close look at the risks involved, as some sectors (particularly in the industrial segment) are going through a weak spell. Emerging markets bonds continue to provide considerable opportunities. Some of them combine attractive premiums with good

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ratings, and several local-currency bonds offer a chance of exchange-rate gains, provided that the dollar remains weak and US rates trend downwards. Finally, higher-rated traditional government bonds may be an important asset in diversified portfolios, as they can help to cushion potential setbacks in market segments with high valuations.

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

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

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Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.

Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance. Investors should read the offering documents for further details, including the risk factors, before investing. This material and website have not been reviewed by the Securities and Futures Commission of Hong Kong. Issued by Allianz Global Investors Asia Pacific Limited.

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