

Allianz

Total Return Asian

Equity

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in the equity markets of the Republic of Korea, Taiwan, Thailand, Hong Kong, Malaysia, Indonesia, the Philippines, Singapore and the People's Republic of China (the "PRC") in accordance with environmental and social characteristics. With the adoption of the Sustainability Key Performance Indicator Strategy (Relative) ("KPI Strategy (Relative)"), the Fund aims to achieve the reduction in greenhouse gas emissions ("GHG") of the Fund's portfolio which shall be at least 20% lower than that of its benchmark within the same period ("Sustainability KPI").
- The Fund is exposed to significant risks of investment/general market, interest rate, creditworthiness/credit rating/downgrading, country and region, emerging market, company-specific and currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund is exposed to sustainable investment risks relating to KPI Strategy (Relative) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, and/or selling securities when it might be disadvantageous to do so or relying on information and data from third party ESG research data providers and internal analyses which may be subjective, incomplete, inaccurate or unavailable). The Fund focuses on the Sustainability KPI which may reduce risk diversifications and may be more volatile compared to broadly based funds. Also, the Fund may be particularly focusing on the GHG efficiency of the investee companies rather than their financial performance which may have an adverse impact on the Fund's performance.
- 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 September

Asia ex Japan equities rallied strongly over September. Markets enjoyed a particularly strong end to the month following the Chinese authorities' announcement of the biggest stimulus package since the pandemic, as they attempted to kick the economy out of its doldrums and boost equity valuations. Additionally, sentiment was lifted by the US Federal Reserve's (Fed's) first cut in interest rates in more than four years, and a weaker tone to the US dollar.

Elsewhere, Taiwanese shares were broadly flat, but South Korean shares lost ground as corporate reforms appeared to stall. Meanwhile, ASEAN markets advanced, benefitting from both Chinese stimulus measures and currency appreciation versus the US dollar. Singapore led the advance, with the Straits Times Index touching a 17-year high, followed by Thailand and the Philippines – the country's central bank started cutting rates in August. In contrast, Indonesia and Malaysia lost ground slightly.

Portfolio Review

The Fund modestly underperformed the benchmark in September. Stock selection was the key source of detractor, with specific names in the Information Technology sector offsetting some of the gains from Financials. At a market level, stock selection in South Korea detracted, while Hong Kong and Thailand stock picks contributed positively.

A top detractor was index-heavyweight a Korea-based chipmaker and consumer electronics manufacturer. Its share price has been weak on fears that excess inventory levels in semiconductors and memory chips will lead to weaker pricing power. Overall, we believe longer term artificial intelligence (AI) demand will accelerate the need for high bandwidth memory, where the company is a key global provider. However, given the weaker near-term outlook, we have reduced the position size.

Conversely, a key contributor was a banking group in Thailand. The bank's turnaround strategy looks to be on track with management executing their plan to improve shareholder returns, capital management and return on equity (ROE), with a particular focus on improved control of asset quality. As an outcome of this, we anticipate a higher dividend payout going forward, which should help support valuations.

The main activity during the month was to increase exposure to China/Hong Kong. Most of this occurred before the announcement of the new policy measures, through initiating positions in a stock exchange and a property developer. Both stocks share similar characteristics of having previously derated significantly, seen sharply lowered earnings expectations, and have strong dividend support backed by resilient balance sheets. These additions were funded by reduced exposure to Korea, mainly through selling down part of the position in a Korea-based chipmaker.

At a sector level, Financials, Real Estate, and Health Care are the primary overweight positions, while Consumer Discretionary, Materials, and Industrials are the main underweights.

Outlook and Strategy

We maintain a constructive longer-term view on the regional outlook. The peak of the US rate cycle should provide a supportive overall backdrop, especially if accompanied by a weaker dollar. Overall, valuations generally remain at reasonable levels.

China also looks to be improving with the recent slew of policy measures. It is, nonetheless, still unclear how large the latest round of China stimulus will be and how effectively it will be implemented. While the recent policy initiatives have been successful in jumpstarting markets and boosting domestic confidence, eventually it will still be necessary to address the more structural problems, especially related to the property sector as well as the broad-based deflationary pressures.

Within the region, we are finding a number of attractively valued structural growth stories in South Asia that are less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook across ASEAN markets and India.

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All data are sourced from Allianz Global Investors and Bloomberg, as of 30 September 2024 unless otherwise stated.

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