Allianz
Global Investors

Allianz Total Return Asian Equity

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in the Asian equity markets (excluding Japan) 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 index 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 July

Asian 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.

Elsewhere, 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. India equities gave back gains in July as a weak earnings season and tariff uncertainty weighed on market and portfolio returns. These dynamics offset positive trends in the form of a favorable monsoon season, moderating inflation, and improved domestic liquidity.

Portfolio Review

The Fund underperformed the index in July. From a market perspective, stock selection in Taiwan was a source of relative detraction, while selection effects in India contributed positively. At the sector level, selection effects in information technology and consumer discretionary were weak, offsetting positive contributions from communication services and health care.

At a stock level, a key detractor in July was Xiaomi*. Previously known for its smartphones, the Chinese company has expanded across a range of consumer products including smart home devices and more recently electric vehicles. The strategy of targeting higher quality, premium priced products has been well executed so far, leading to enhanced revenue growth and profitability. The stock has also benefited from the rerating of China technology companies since the DeepSeek announcement and we see the share price weakness last month being some profit taking after the previous rally.

Conversely, a key contributor was a clinical-stage Chinese 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.

During the month we selectively added new health care names in China. The Chinese biotech area has been recovering on the back of surging investor enthusiasm on strategic partnerships and new drugs. We also introduced exposure to the industrial sector in South Korea which is set to benefit from supply chain diversification in the area of naval and commercial shipbuilding and also from smart infrastructure and clean power solutions.

At the market level, the portfolio is overweight in Taiwan and the Philippines. This is balanced out by an underweight position in India. At a sector level, health care, industrials and financials are the primary overweight positions while the consumer areas and materials are among the main underweights. Top names in the portfolio at month end included TSMC*, Tencent*, and Samsung.*

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 Asian 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.

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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All data are sourced from Allianz Global Investors and Bloomberg, as of 31 July 2025 unless otherwise stated.

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