

# 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"). With the adoption of the Sustainability Key Performance Indicator Strategy (Relative) ("KPI Strategy (Relative)"), the Fund also seeks 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 May

Equity markets in Asia ex Japan rose modestly over May. China markets were mixed, with H-shares outperforming A-shares. The key event in China in May was policymakers stepping up support for the embattled property sector. We view the combined measures – including reduced downpayment ratios, cuts to mortgages rates, and funding for local governments to buy unsold homes - as representing the biggest nationwide property easing since the property turmoil started close to three years ago.

Elsewhere in the region, Taiwan equities were lifted by robust gains from chipmaker, but South Korean shares lagged, with Samsung Electronics announcing weak earnings. In ASEAN markets, Singapore rallied the most, but stock markets in Thailand, the Philippines, and Indonesia lost ground as early gains were eradicated by declines later in the month. India posted another month of gains ahead of the general election results in early June.

### Portfolio Review

The Fund performed slightly behind the benchmark in May. Stock selection in the India market was a key detractor, offsetting better picks in South Korea and Taiwan.

At a single stock level, a key detractor was a strong incumbent in the Indian mid-priced hotel category, with a portfolio of over 160 hotels across India and international expansion plans. Not only is the company set to benefit from growing consumer travel demand, but also scope to improve pricing with higher demand. Despite the recent share price weakness, we maintain conviction in the name and have conducted a Grassroots Research® study on the company to inform our views.

In contrast, a baseboard management controller (BMC) supplier, was a top contributor. The company plays an important role in the global artificial intelligence (AI) supply chain with its technology used to remotely monitor the physical state of a server. This area is benefitting from growing demand for AI chips and servers, especially in the areas of cloud computing and data centres.

During the month, we repositioned somewhat in India, where we exited a jewellery retailer, real estate developer, and a hospital chain. In its place, we initiated a transmission utility company and a public sector financial company. We also selectively added to China in the Health Care space, as we are seeing some signs of market stabilisation. Overall, we remain underweight in Hong Kong/China. Despite recent improvements, macro conditions continue to weigh on market sentiment. India continues to be a key market.

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

### Outlook and Strategy

Across the Asia region, we are expecting some of this year's macro headwinds to ease as we move into the new year. Within the region, our preference leans more towards South Asia where we are finding a number of attractively valued structural growth stories that are less impacted by geopolitical risks. In particular, the more favorable demographics, rising consumption power, and reordering of supply chains associated with 'China +1' are boosting the growth outlook across ASEAN markets and India. There are also signs of stronger momentum in the Technology sector, especially for companies with AI-related business exposure.

In China, our view is that the balance of risk and reward is looking considerably more favourable now than before. While near-term visibility on growth remains uncertain, any signals of macro stabilisation could trigger a market rally given the depressed valuations. Overall, from a regional standpoint, valuations remain at reasonable levels.

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