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 February

February was another mixed month for Asia ex Japan equities, with markets closing the month modestly higher after US President Donald Trump stepped up rhetoric on a global trade war. China was by far the strongest market in the region. In part, the advance was driven by hopes that US tariffs may prove to be milder than expected, although the gains were tempered by President Trump's month-end announcement of an additional 10% US tax on Chinese exports. Technology companies also contributed to the rally as investor interest rose following DeepSeek's recent artificial intelligence (AI) success.

Elsewhere, South Korean equities ended slightly higher, while Taiwanese stocks sold off. ASEAN markets moved lower overall. During the month, the Bank of Thailand unexpectedly reduced rates by 25 bps to 2.0%, taking borrowing costs to their lowest level since July 2023. Officials said the move was in response to a weaker growth outlook and increased risks posed by global trade uncertainty. Indian equities also lost ground, declining sharply to mark their worst consecutive monthly pullback in nearly three decades. Given rising trade uncertainty and with inflation falling to a five-month low of 4.31% in January, the Reserve Bank of India cut interest rates by 25 basis points (bps) to 6.25%, its first reduction since May 2020.

Portfolio Review

The Fund outperformed the benchmark in February. From a market perspective, stock selection in Hong Kong / China was a key source of relative value add. Most sectors contributed positively apart from real estate.

At a single stock level, a key contributor last month was Xiaomi*. Previously known for its smartphones, the 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. Consensus sell-side growth forecasts have risen significantly, and the stock has also benefited from the rerating of China technology companies since the DeepSeek announcement.

Conversely, a key detractor was-the largest private bank in Indonesia. Although the company's recent financial results were stable, there were concerns about potential net interest margin (NIM) compression due to interest rate cuts in Indonesia. The shares were also vulnerable to general softness in the Indonesia market given trade and tariff fears. We continue to view the company as our preferred bank in Indonesia and added to our position on the weakness.

During the month, the main activity was initiating new names in China, selectively entering companies that are expected to benefit from the more rapid adoption of AI and advanced manufacturing processes, along with other growth areas. This includes two new positions related to IT and cloud management services, both of which assist enterprises in their digital transformation and AI journeys. On the flip side, we exited a real estate developer in India and an online travel agency in China.

As a result of these changes, at the market level, the top overweight market is now China. The portfolio also remains overweight in the ASEAN region, especially the Philippines and Indonesia. This is balanced out by an underweight position in India. At a sector level, information technology and financials are the primary overweight positions while industrials and consumer staples are among the main underweights. Top names in the portfolio at month end include TSMC*, Tencent*, and Alibaba*.

Outlook and Strategy

We maintain a constructive longer-term view on the regional outlook. Although the near-term outlook is clouded by risks related to higher tariffs, our view is that the ‘shock factor’ of a Trump presidency will be somewhat less the second time around. China authorities, in particular, will likely react with further domestically focused stimulus measures in the event of a major hike in tariffs. This comes in addition to the measures required to address more structural problems in China, especially related to the property sector as well as broad-based deflationary pressures.

Across 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 favorable demographics, rising consumption power, and reordering of supply chains associated with ‘China +1’ are boosting the growth outlook across ASEAN markets and India. Notably, the Indian market has seen around a 15% pullback since late September 2024. We see this as near-term profit taking rather than a more fundamental change to the outlook.

All data are sourced from Allianz Global Investors and Bloomberg, as of 28 February 2025 unless otherwise stated.

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