

04/2017

Fund Commentary

Allianz Hong Kong Equity

Investment Objective

The Fund's investments are concentrated in Hong Kong-related equities.

What Happened in March

In March, the Fund slightly underperformed the benchmark, with detraction mainly coming from the information technology (IT) sector. In particular, we suffered from the outperformance of Tencent, the biggest benchmark name that we are forced to underweight because of its size in the index. To compensate for this, we hold other smaller cap IT names. We are actively looking for opportunities in the internet space.

On the positive side, real estate companies within our portfolio were the main contributors.

Market Outlook and Strategy

Economic growth in China has surprised on the upside over the past few months. However, with the higher base effect kicking in, macro indicators are likely to soften over the second half of 2017. Combined with the strong rally year-to-date, we would not be surprised to see Chinese equities consolidating their gains. Under such scenario, we would expect to see a degree of rotation within markets with relative laggards becoming more of a focus. If the macro momentum starts to wane, then we would also expect a greater focus on structural as opposed to cyclical growth opportunities, which could also be favourable to our investment style.

We are continuing to focus on turnaround names, especially those with structural growth potential. We favour the real estate sector in Hong Kong, in particular those companies with strong project pipeline, stable rental yield while trading at significant discount to its asset value. We believe such companies are overly punished by the negative sentiment ahead of the US Federal Reserve rate hike. We continue to underweight the banking sector, where we believe room for business growth and cost reduction is limited. From a bottom up perspective, we still prefer those banks that can distinguish themselves with stronger profitability and better long term growth model, such as China Merchant Bank and Bank of China Hong Kong.

Over the long term, the China and Hong Kong equity market is still meaningfully under-owned by global investors. This technically supportive environment should help to provide a floor to the equity market, as the pressure to narrow the underweight position is on the rise for those who have missed the rally. We expect the political and economic environment in China to remain quite stable in coming months, which should eventually allow market valuations to improve further.

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