

# Allianz

# All China Equity

## Monthly commentary

### Investment Objective

The Fund aims at long-term capital growth by investing in onshore and offshore People's Republic of China ("PRC"), Hong Kong and Macau equity markets.

### What Happened in October

There has been significant market rotation in recent weeks, with previously resilient stocks generally lagging. It has been noticeable, for example, how small cap stocks have rebounded strongly with increasing retail investor participation. In terms of attribution, there was a positive effect from an overweight position in the Information Technology sector which was offset by weaker stockpicking in the sector.

At a single stock level, a key contributor last month was a thermal management solution provider for data centres, energy storage and artificial intelligence (AI) chips. The company posted another good set of results with management remaining upbeat on its growth outlook. It continues to have a robust order pipeline both in China and overseas, particularly in Southeast Asia where data centre cooling demand remains strong.

Conversely, a key detractor was a hydraulic components maker. The share price gave back its gains from the previous month with a slightly disappointing set of quarterly results. Looking ahead, we expect the company to benefit from improving domestic excavator demand supported by a replacement cycle. It has also been actively diversifying its business and the recently opened factory automation division should also become a future growth driver.

## Portfolio Strategy and Outlook

Recent weeks have seen a slew of economic stimulus measures. There have been numerous announcements at both national level as well as local government initiatives piggybacking on the change of central government direction to a more pro-growth policy setting.

The outcome has been a rollercoaster ride for China equity investors with an initial market surge followed by some welcome consolidation as investors assess the extent to which the measures are likely to alter China's economic growth path.

The long-term economic objective is still, in our view, very much about building a more diversified future growth model based on technology-intensive manufacturing, and in doing so to reduce the reliance on property and infrastructure. Going hand-in-hand with this is the focus on national security, especially through the enhancement of self-sufficiency in critical industries.

As such, we view recent policy initiatives as an important change of approach which increases the likelihood of economic stabilisation, rather than being the precursor to a new growth surge. This stabilisation is much needed if China's longer-term vision is to be achievable.

If successful, this should remove some of the headwinds that have been blowing hard in the face of China equities, undermining both valuations and corporate earnings.

Indeed, a key aspect of the policy announcements is the eye-catching focus on financial markets, with the provision of significant liquidity for share buybacks and stock purchases as well as a potential equity market stabilisation fund. There have now been three key moments this year when the government has stepped in to stabilise equity markets during periods of particular weakness.

Our view is that this should at least provide a floor to China equity markets and, in a more optimistic scenario, potentially sets the scene for a more sustained market rally. In summary, we are now in a situation where the government is easing both monetary and fiscal policies, and actively looking to boost asset prices. This is a different position from just a few weeks ago.

In terms of portfolio activity, given our more optimistic view of the China A-shares market outlook, we have added to stocks which are more sensitive to an improvement in the domestic economy. These include insurance companies, brokers, consumption-related stocks, as well as selective industrial names. Conversely, we have trimmed more defensive areas such as banks.

At month-end, the portfolio has around 42% in China A-shares. Sector weightings continue to be relatively close to the benchmark allocations. The largest sector overweight is Industrials (+2.6%), while the largest underweight is Communication Services (-2.4%).

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