

Allianz

All China Equity

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in onshore and offshore Equity Markets of the PRC, Hong Kong and Macau in accordance with environmental and social characteristics.

What Happened in July

The Fund outperformed the benchmark in July. Stock selection in the Health Care and Information Technology sectors were the key contributors.

At a stock level, a key contributor last month was Akeso, a clinical-stage 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 that Akeso will form a partnership with a global pharmaceutical company to support sales and marketing activity outside China.

Conversely, a detractor was a company which specialises in LiDAR (light detection and ranging) sensors. These use laser technology to create detailed 3D maps and play a key role in areas such as autonomous vehicles and robotics. During the month, the stock was impacted by a US court designating the company as a contributor to China military strategy. This triggered some profit taking after a strong rally. Given the lack of exposure to the US, we do not see this ruling as having a significant business impact. In longer term, we believe the company is well positioned to benefit from accelerating adoption of advanced driver assistance systems (ADAS) in China.

Portfolio Strategy and Outlook

July was another good month for both onshore and offshore China equities. The recent gains build on the previous market recovery. Since the middle of last year, a time when China's equity markets were being described as "uninvestable", China A-shares have rallied by nearly 25% in USD terms. China H-share returns have been even stronger.

There have been a number of reasons for this turnaround. On the one hand, some factors that previously weighed heavily on markets have eased. Local government financing has been significantly restructured, for example, and the property market is more stable, albeit still weak. This is reflected in bond markets, with the China real estate high yield index up by almost 80% since its low point in Q4 2023.

On the other hand, there have also been several new factors in place supporting China equities over the last year. One key change has been a shift in government policy. Overall, the long-term policy objective of developing a future growth model based on technology-intensive manufacturing has not changed.

However, economic momentum last year weakened significantly, putting the longer-term goals at risk. And this prompted an important course correction towards a more pro-growth policy setting. We expect policy support will need to be further strengthened during H2 to achieve the 5% gross domestic product (GDP) target.

The Technology sector has also been at the forefront of the market recovery. An initial catalyst was the moment when an open-sourced artificial intelligence (AI) model was launched by an emerging Chinese startup, which illustrated how China's technological progress is far more advanced than previously understood. More recently, the news that the US revoked export curbs that required American companies to obtain licenses to provide chip design software to customers in China – as part of an agreement intended to ease trade tensions – also provided a further boost to China's AI ambitions.

Linked to this has been a renewed overall focus on the private sector. A high-profile symposium chaired by President Xi Jinping earlier this year and attended by China's highest-profile business leaders, including Alibaba founder Jack Ma, sent a clear policy signal in our view. We anticipate the technology and innovation theme will continue to be a feature of China equities.

Overall, our view is that the factors which have contributed to a more positive market environment are still in place. Combined with reasonable valuations, we believe there should be ongoing support for China equities. In addition, the government's commitment to providing direct support for domestic equities during periods of higher volatility also provides downside support.

In this environment, portfolio activity has been focused on adding to several names that had pulled back during the period of tariff-induced weakness earlier in the year, but where we see growth opportunities related to AI demand as well as China's ongoing push for self-sufficiency. This has included areas such as rising demand for high voltage power usage. We have also added to Health Care exposure where we believe growth opportunities from new drug development has been underappreciated.

At month-end, the Fund has around 36% in China A-shares. The portfolio continues to have relatively close-to-benchmark sector allocations, so that stock selection remains the key relative performance driver. At month-end, the largest sector overweight is Information Technology (+4.2%), while the largest underweight is Communication Services (-3.6%).

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