

# 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 January

The Fund outperformed the benchmark in January. Stock selection in the Industrials and Information Technology sectors was the main contributor.

At a stock level, a key contributor was Montage Technology, a leading fabless semiconductor company that provides high-performance integrated circuit (IC) based solutions for cloud computing and artificial intelligence (AI) markets. The company announced a strong set of quarterly earnings in advance of a proposed secondary listing on the Hong Kong stock exchange. Montage remains one of our preferred ways to play the China AI opportunity given its very strong research and development (R&D) capabilities and ability to launch new products ahead of its peers.

Conversely, a detractor last month was Zhejiang Shuanghuan Driveline. The company has a strong position in electric vehicle (EV) gears and other transmission components and is a key supplier to clients such as Tesla. The share price was weaker last month due to overall sentiment towards the EV sector. Over the longer term, we see the company's growth being underpinned by the structural trend towards EV drivetrain outsourcing and expansion into the humanoid robotic supply chain.

## Portfolio Strategy and Outlook

China equities started the new year much as they ended 2025, in buoyant mood. Market volumes have been high and Technology-related stocks have paced the gains.

While semiconductor stocks have been notably strong, benefitting from China's ongoing push for greater self-sufficiency, the rally has also extended to a range of areas linked to AI. This includes rising power demand from AI activity, increased requirements for electronic components like printed circuit boards (PCBs), expanding datacentre infrastructure, and advancements in autonomous driving technologies. Space technology has also been in focus, with certain Chinese companies likely to be in the SpaceX supply chain.

The thematic nature of the market and the high volumes point to growing participation from China's sizeable retail investor base. The background is that having been in pragmatic savings mode for several years as a result of the turbulence of COVID and the weaker macro situation, there are signs of a more risk-on approach.

Indeed, the recovery of retail investor enthusiasm has prompted the first sentiment-cooling signals from the government. The margin deposit ratio for newly opened stock accounts in mainland China was recently raised from 80% to 100%, in an attempt to prevent excessive speculative activity. There have also been outflows from certain domestic exchange-traded funds (ETFs), likely withdrawals by state-backed funds.

These actions have been very targeted and measured, in our view, reinforcing the well-flagged intentions to avoid a speculative boom-bust cycle as was experienced in 2015 and instead to engineer a healthier and more sustainable "slow bull" for the China A-shares market. Since this action was taken, daily trade volumes have come down a little and the overall China A-shares market has generally moved sideways.

In addition to the significantly improved domestic liquidity environment compared to several years ago, we also see other fundamental factors supporting China equities. One of these is the reduced impact of the weaker housing market. After four years of contraction, the share of the property sector has fallen from about 18% gross domestic product (GDP) to 9% in 2025. There appears to be no quick fix for the property sector which, in our view, is likely to continue declining in 2026, but its drag on GDP should lessen.

And while China's rising Tech sector does not fully compensate in terms of macro growth, it has a proportionately greater impact on equity markets. The weighting of the Technology sector in the MSCI China A index has risen from around 10% a decade ago to close to 25% now, for example.

Recent portfolio activity has been to trim some Technology and EV-related exposure. A number of Technology names have performed strongly, taking valuations to somewhat stretched levels. In the case of EVs, we expect slower demand in coming months in China with some orders having been front-loaded last year before the phasing out of subsidies.

We maintain a preference for innovative companies with proven R&D capabilities and a proven ability to capture and expand market share. This extends to companies outside the Technology sector. For example, a stock we have added to in recent months is China's largest independent oilfield equipment and service provider. Significant investment in advanced oilfield equipment such as intelligent fracking systems and electric-driven shale gas solutions is, in our view, opening up new markets and supporting multi-year growth visibility.

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At month end, the Fund has around 40% 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 Industrials (+3.1%), while the largest underweight is Consumer Discretionary (-2.8%).

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