

# 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 March

The Fund delivered returns close to the benchmark in March. Positive stock selection in the Health Care sector was offset by weaker performance in the Industrials space.

At a single stock level, a key contributor last month was a large mining group engaged primarily in the exploration and development of gold, copper and zinc. As well as benefitting from higher material prices, the company also announced good results during the month. The company achieved record high output, ranking 4<sup>th</sup> and 6<sup>th</sup> globally for mined copper and gold globally.

Conversely, a detractor was a leading thermal management solution provider for data centres, energy storage and artificial intelligence (AI) chips. The share price weakened following concerns about slowing demand. While we continue to see longer-term growth opportunities, especially in Southeast Asia where data centre cooling demand remains strong, we have reduced the position size given some near-term uncertainty.

#### Portfolio Strategy and Outlook

China equities started the month strongly before giving up part of their gains, mainly due to tariff-related uncertainties. Overall, after a weak start to the year, China equities recovered well during the quarter. China A-shares were close to flat in USD terms. Offshore stocks delivered stronger returns. The trigger was the release of a new AI model by an

emerging Chinese startup, China's equivalent of an established AI model, that demonstrated how China is more advanced in the global technology and AI race than was previously understood.

Shortly after the end of the quarter, however, the market situation was turned on its head. The catalyst was President Trump announcing significantly higher-than-expected additional tariff rates for China. After signalling restraint earlier in the year, China retaliated with a strong tit-for-tat response. Although China basically matched US actions rather than escalating further, showing it is still open to negotiation, in practice the outlook is highly uncertain.

There is little historical precedent for this scale of tariff increase. However, early sell-side estimates suggest this could, in isolation, have a close to 2% gross domestic product (GDP) impact on China. It seems likely that Beijing will use stronger domestic stimulus to help offset the macro impact of the tariffs.

Just a few weeks ago, China set an official GDP target for 2025 that is the same as 2024 and 2023 – “around 5%”. Even before recent tariff developments, we viewed the GDP target as a lot more ambitious this time around. Last year, net exports accounted for around 30% of GDP expansion, but export momentum is set to fade sharply.

Given the importance attached to achieving the annual growth target – it has been met or exceeded in each of the last 15 years with the exception of COVID in 2022 – both monetary and fiscal policy should remain solidly in expansion mode. There is a clear need to boost domestic demand to maintain the recent economic momentum.

Looking beyond these near-term events, the emergence of AI as a key topic has sparked a new narrative for China's economy, with policymakers and regulators emphasising the importance of innovation and technology, and considering new approaches to support private companies.

One notable announcement in the last month was the government preparing a “national venture capital guidance fund”, which aims to raise around RMB 1 trillion (USD 140 billion) for funding high-tech companies. Although few details are available yet, it is likely to focus on areas described as “industries of the future” such as “biomanufacturing, quantum technology, embodied AI, and 6G technology”. As such, this new fund can be seen in the context of China's increasing emphasis on establishing leadership in new areas of technology, rather than fighting established incumbents.

In this environment, portfolio activity in March included adding selectively to companies which are expected to benefit from the more rapid adoption of AI. In particular, we switched out of some “AI infrastructure” exposure related to areas such as data centres and added to positions related to the rise of edge AI applications as well as other software developments.

At month-end, the portfolio has around 35% 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 Health Care (+2.2%), while the largest underweight is Communication Services (-3.9%).

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[sg.allianzgi.com](https://sg.allianzgi.com)

+65 6438 0828

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