

# Allianz

## China A-Shares

### Monthly commentary

#### Investment Objective

The Fund aims at long-term capital growth by investing in China A-Shares equity markets of the PRC in accordance with environmental and social characteristics.

#### What Happened in July

The Fund outperformed the benchmark in July. Stock selection in the Information Technology sector was the key contributor.

At a stock level, a key contributor last month was a maker of high-speed optical transceivers used in areas such as data centres, telecom networks, and broadband systems to move large amounts of data quickly and reliably. The company announced a further set of strong quarterly results, well ahead of market expectations, buoyed by healthy artificial intelligence-related (AI-related) demand both in China and overseas.

Conversely, a detractor was a major pet food business. The company guided for slightly weaker-than-expected quarterly results, which triggered some profit taking after a sustained rally over the last year. The weaker results are mainly attributable to overseas sales which have been impacted by tariff issues. In longer term, we see the domestic business as the key growth driver. Pet food penetration in China is still at relatively low levels compared to more developed markets, and the company's premium brands are expected to gain further share.

#### 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 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 and testing and inspection machines which provide quality control for advanced electronic components.

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 Consumer Discretionary (+3.7%), while the largest underweight is Materials (-2.9%).

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

+65 6438 0828

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