Allianz Global Investors

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 June

The Fund outperformed the benchmark in June. Stock selection in the Information Technology sector was the key contributor. Performance in H1 was also ahead of the index supported by a broad base of stocks across multiple sectors.

At a stock level, a key contributor last month was a manufacturer 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 share price has recovered from a period of weakness earlier in the year, buoyed both by a good set of quarterly results as well as reassurance that US-based demand remains strong.

Conversely, a detractor was Midea, one of the world's largest manufacturers of home appliances and smart technologies. It produces a range of air conditioners, washing machines, refrigerators and other devices both for home and industrial use. Domestic demand has been resilient as a result of supportive government policy, and sentiment was impacted recently by concerns over a potential phasing out of trade-in subsidies. While this may have some shorter-term impact, we continue to rate the quality of the business highly, and also see the share price being supported by its high dividend yield.

Portfolio Strategy and Outlook

June was a good month for both onshore and offshore China equities, which defied the ongoing uncertainty related to trade negotiations with the US to finish close to the high points year to date. 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 20% in USD terms. Returns of China H-shares 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, where the Markit iBoxx China Real Estate High Yield Index is up by almost 80% since its low point in Q4 2023.

On the other hand, there have also been several new and more supportive factors in place for China equities over last year. A key change has been a shift in government policy. Overall, the key 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.

Linked to this has been a renewed focus on the private sector. The high-profile symposium chaired by President Xi Jinping earlier this year and attended by China's highest-profile business leaders, including the founder of a leading e-commerce company, sends a clear policy signal in our view.

Indeed, it has been notable how there has been a marked recovery in the share price performance of private/non-state-owned companies year to date. An initial catalyst was the moment when an emerging Chinese startup launched an open-sourced artificial intelligence (AI) model, which illustrated how China's technological progress is far more advanced than previously understood. While some people remain locked into the idea that China is at best an imitator of technology rather than an original creator, in our view the reality is different. We anticipate the technology and innovation theme will continue to be a feature of China equities.

Further support for markets has come from a structural improvement in the liquidity environment, especially in China A-shares. Previously, a heavy supply of equity in the form of initial public offerings (IPOs) and secondary issuance had been a big weight on the market. This has been significantly reduced due to regulatory changes. Conversely, there has been a meaningful pick-up in both dividend payments and share buybacks.

Overall, our view is that these factors which have contributed to a more positive market environment are still in place. Combined with attractive 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.

Portfolio activity in June was focused on adding selectively to Technology-related stocks. In particular, we identified several names that had pulled back during the period of tariff-induced weakness, but where we see growth opportunities related to AI demand as well as China's ongoing push for self-sufficiency. This included areas such as optical transceivers, printed circuit boards and power supply to data centres.

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 (+3.5%), while the largest underweight is Materials (-2.1%).

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All data are sourced from Bloomberg and Allianz Global Investors as at 30 June 2025 unless otherwise stated.