

# Allianz China Future Technologies

## Monthly commentary

### Investment Objective

The Fund aims at long-term capital growth by investing in equity markets of the PRC (onshore and offshore), Hong Kong and Macau with a focus on companies with an engagement in the development of future technologies.

### What Happened in May

The Fund significantly outperformed the benchmark in May. Key contribution came from positive stock selection in the Industrials, Information Technology and Materials sectors. Our overweight allocation in the Information Technology sector also helped.

At a single stock level, the top contributors were:

- 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 stock has been a core holding given its technological advantage compared to peers coupled with China's increasing import substitution trend.
- Guangdong Dtech Technology – An integrated precision manufacturing provider supplying drill bit components for printed circuit boards (PCB) manufacturing. Beneficiary of strong order demand on PCB-related equipment makers as well as increased localisation trend of advanced manufacturing over the long term.
- Sinoma Science & Technology – The company specialises in advanced materials in wind power blades, fiberglass and battery materials. The company is emerging as a key materials enabler in the AI value chain, with its specialty electronic glass fibre benefitting from rising demand for AI hardware and data centre upgrades.

The top detractors, on the other hand, included:

- Futu Holdings – A fintech company that specialises in digitised brokerage and wealth management services. The stock saw a sharp pullback following the regulator's announcement to curb cross-broker brokerage business. While there would be some impact on the client base and revenue, we view that this helps to clear a long overhang in the

sector, and sets clear expectations on the operating model going forward. We maintain a position as its Hong Kong and overseas businesses remain profitable.

- Abbisko – A clinical-stage biopharmaceutical company specialising in the development of small molecule therapies for cancer. Share price was weak given the lack of near-term catalysts. The company has a number of promising candidates in clinical trials and we expect potential clinical updates in H2.
- Akeso – A clinical-stage biotech company with a focus on oncology. A slightly weaker update on its new drug has triggered some profit taking of the stock after a strong rally. In longer term, the company continues to build a diverse product pipeline with a number of promising new drugs at final stages of clinical trials.

## Portfolio Strategy and Outlook

May was another month where China A-shares significantly outperformed offshore markets. Year-to-date, the MSCI China A Onshore Index has returned +11%, compared to MSCI China -8% (USD). The difference is driven primarily by the performance of Technology stocks.

During a European client roadshow this month, one of the most frequently asked questions was: “Why has China Technology performed so badly?” This highlights how, for many Western investors in particular, the China Tech story remains anchored in the big internet and ecommerce platforms that dominate offshore indices.

These businesses are increasingly perceived as more mature “traditional” Tech names. Growth has moderated, weighed down by weak domestic consumption, while rising AI-related capital expenditure (capex) (albeit less intense than in the US) has reduced the free cash flow previously allocated to share buybacks. As a result, these stocks are often used as a funding source for more direct AI beneficiaries within China, or to support participation in new technology initial public offerings (IPOs) in Hong Kong.

In reality, broader China Tech has performed well, particularly companies more directly exposed to AI. The ChiNext Index, a growth and technology-focused board within the Shenzhen Stock Exchange often referred to as China’s Nasdaq, has recently broken through to new all-time highs, supported by strong performance in AI-related names.

Because China does not have a “TSMC” or a “Samsung Electronics”, its Tech companies do not often hit the headlines. Nonetheless, they are playing a key role in the buildout of China-centric AI infrastructure including chips, data centres, models and applications. Indeed, in a number of cases, they are also key suppliers to US hyperscalers.

For example, this includes “picks and shovels” companies specialising in optical transceivers, which convert data into light for ultra-fast transmission over fibre optic cables, and printed circuit boards, which provide the foundational layer connecting components such as processors, memory and storage. These technologies are critical for AI hardware, enabling high-speed data flow and supporting intensive computing workloads reliably.

May also saw President Trump’s visit to Beijing. From a market perspective, while short on concrete outcomes, the overall tone of the summit was constructive, with an apparent effort to establish a diplomatic roadmap. Geopolitical tensions, which have historically weighed heavily on Chinese equities, have clearly eased, supported by China’s increasing ability to neutralise US economic pressure.

We have not changed portfolio positioning significantly over the last month. Previously, in reaction to events in the Middle East, we used the market pullback as an opportunity to build exposure in companies leveraged to AI and electrification. For example, we initiated a position in a company transitioning from a legacy heavy-duty engine manufacturer to a power and energy solutions provider with exposure to data centre. Overall, we maintain a preference

for innovative companies with proven research and development (R&D) capabilities and an ability to capture and expand market share.

At the end of the month, the top portfolio allocations were to AI, advanced manufacturing/robotics, and internet & ecommerce platforms. The largest holdings were Tencent, an internet giant on internet gaming and social media company in China, Alibaba, another internet giant on ecommerce and leader in China's AI development, and Zhongji Innolight, a company that makes high speed optical transceivers which are an essential component for areas such as high-speed internet, cloud computing, and data centre communication. At month end, the allocation to China A-shares was around 51%.

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