

Allianz China Future Technologies

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in equities of companies of the People's Republic of China ("PRC"), Hong Kong and Macau with a focus on companies with an engagement in the development of future technologies.

What Happened in March

The Fund underperformed the benchmark in March. Key detraction came from negative stock selection in the Industrials and Consumer Discretionary sectors. Our overweight allocation in the Information Technology sector also hurt relative performance.

At a single stock level, the top detractors were:

- Hesai – The company specialises in LiDAR (Light Detection and Ranging) sensors that are used to create detailed 3D maps and are used in areas such as autonomous driving and robotics. Share price weakened following a weaker-than-expected quarterly results. We reduced our position size given the intensified competition in the near term.
- 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 share price pull back was largely due to profit taking after a strong run earlier in the year. The stock remains a core holding given its technological advantage compared to peers coupled with China's increasing import substitution trend.
- Shenzhen SEICHI Technologies – The company makes inspection and testing equipment primarily for inspecting new display devices and testing semiconductor memory devices. The share price pull back was largely due to profit taking after a strong run over the last year. We hold onto the position and continue to view the company as a key beneficiary of the increasing localisation of semiconductor production in China.

The top contributors, on the other hand, included:

- Akeso – A clinical-stage biotech company with a focus on oncology. The company announced encouraging updates on its product pipeline development, helping to reinforce confidence in both depth and quality of its research and development (R&D) platform. Akeso is building out an increasingly diverse product pipeline with a number of promising new drugs at final stages of clinical trials.
- Contemporary Amperex Technology (CATL) – The world’s largest battery manufacturer of electric vehicles (EVs) and energy storage systems (ESS). The Middle East conflict was seen to reinforce global energy security priorities and accelerating investment in energy storage and grid resilience, which are trends that play to CATL’s strengths.
- Suzhou Dongshan Precision Manufacturing – A printed circuit board (PCB) manufacturer and a key supplier of flexible circuit boards (FPCs) to Apple. Beneficiary of a healthy AI-related demand both domestically and overseas. The company’s acquisition to a vertically integrated optical solutions provider should support further market share gains.

Portfolio Strategy and Outlook

China equities were weaker in March with both onshore and offshore markets reacting to events in the Middle East, before stabilising towards the month-end. Indeed, year-to-date, China A-shares have been notably resilient, continuing their outperformance of the S&P 500 and also demonstrating relatively low correlations with global equities.

Stability has also been a feature of China’s fixed income and currency markets. China’s 10-year government bond yield remains just above 1.8%, almost unchanged from levels before the Middle East conflict began. The renminbi has appreciated against the US dollar year-to-date and was little changed during March.

The resilience of China’s financial markets reflects a number of factors, not least that China’s diversified economy is relatively well positioned for extreme scenarios, especially after years of building self-reliance across energy, food, and supply chains. As such, while sell-side analysts have been trimming China’s gross domestic product (GDP) growth expectations for this year, there have been greater reductions in the outlook for most other global economies.

In terms of energy supply, while China is still quite heavily dependent on fossil fuels, it has looked to reduce exposure to oil and gas, and also to hedge this via pipelines from Russia and Central Asia. Less than 10% of energy in China is exposed to the Gulf. Indeed, over a sustained period, China has been developing a technology stack focused on electricity and ways of generating, using and storing energy. Whereas in 2010, electricity accounted for around 18% of energy consumption, today it is above 30%. Solar and wind have increased their share of electricity from around 1% previously to around 20% today.

Another feature of China equity markets is that energy security has been a strong theme benefitting a number of energy, renewables, power grid, energy storage and EV companies. Looking ahead, the recent experience of surging energy prices and fuel shortages, combined with heightened geopolitical uncertainty, will likely prompt more countries to prioritise energy security.

This will involve activities including building nuclear power plants, increasing renewable energy installations, accelerating EV adoption, and further electrifying economies. As China dominates many of these sectors, it stands to gain from this global shift over the longer term.

The Middle East conflict has also masked another AI development milestone in China – the rise of agentic AI. If the “DeepSeek moment” was a game changer, which proved China was capable of producing globally competitive AI models, the recent surge of token usage – a key measure of model capacity and real-world demand – highlights how AI deployment in China is rapidly accelerating. We increasingly see a buildout of China-centric AI infrastructure, including chips, data centres, models and applications, which is set to become the backbone of future industrial growth supporting a range of areas such as autonomous driving, humanoid robotics and biotech.

In summary, in such highly unpredictable and uncertain times, we see China equities – and A-shares in particular – providing both valuable portfolio diversification as well as idiosyncratic growth opportunities.

We have not changed portfolio positioning significantly in reaction to events in the Middle East but rather have made some changes at the margin. For example, we initiated a new position in the energy storage and renewables space. We also built exposure to a leading data centre operator that provides critical infrastructure supporting areas such as cloud computing and other AI workloads.

At the end of the month, the top portfolio allocations were to internet and ecommerce platforms, AI and advanced manufacturing/robotics. 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 Ping An Insurance, one of the largest insurance groups in China which is transforming its traditional model through investments in AI, big data and cloud services. At month-end, the allocation to China A-shares was around 42%.

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All data are sourced from Allianz Global Investors and Bloomberg, as at 31 March 2026 unless otherwise stated.

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