

Allianz

Cyber Security

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in the global equity markets with a focus on companies whose business will benefit from or is currently related to cyber security.

What Happened in April

Global equities had another volatile month in April. Stocks initially plummeted amid fears that the global response to President Donald Trump's "Liberation Day" tariff offensive would plunge the global economy into recession, but recovered most of their earlier losses when the president announced an abrupt U-turn to provide scope for trade negotiations. Trump's subsequent attack on US Federal Reserve (Fed) Chair Jerome Powell for not cutting interest rates heightened concerns over the central bank's independence and prompted a renewed sell-off, although easing tariff tensions and optimism around Q1 corporate earnings releases brought some welcome respite near month-end. At a sector level, Energy was the weakest sector in the MSCI All Country World Index, dragged lower on falling oil prices. Meanwhile, Consumer Staples and Utilities delivered positive returns as investors rotated into defensive names. Information Technology and Communication Services stocks also staged a partial comeback near month-end on optimism around corporate earnings releases.

Within Technology, the MSCI ACWI Information Technology Index advanced 2.0%, led outsized gains in software stocks, followed by more modest advances in electronic equipment and semiconductor industries, with technology hardware and communications equipment industries posting losses for the month. The ISE Cyber Security Index was higher by 3.5% for the month, led by double-digit gains in semiconductor and professional services industries, while interactive media & services was down considerably followed by a modest decline in communications equipment. The top contributor to performance was cyber security pure play CrowdStrike Holdings, Inc., which advanced double-digits amid favourable stock-specific and industry tailwinds, while shares of a digital media company declined following concerns of moderating growth which led to sell-side analyst downgrades.

Performance Analysis

The Fund advanced in April and outperformed its broad-based MSCI ACWI Information Technology Index by a healthy margin on a net of fee basis, thanks to bottom-up stockpicking and industry allocation tailwinds. For the month, an overweight allocation and favourable stockpicking in the software industry led gains to the upside, followed by the avoidance of technology hardware and bottom-up selections in information technology services. Meanwhile, an active overweight allocation to communications equipment and exposure to broadline retail offset performance only slightly for the period.

On a relative basis, our active overweight allocations to cyber security leaders CrowdStrike Holdings, Inc. and Zscaler, Inc. contributed to results as did our avoidance of a smartphone and personal computer producer.

Conversely, a below-benchmark allocation to an enterprise software, cloud storage and cyber security leader offset relative results as did our active position in a security software solutions provider, and an above benchmark allocation to a communications equipment maker.

Contributors

Our top absolute contributor for the month was CrowdStrike Holdings, Inc. Shares of the cyber security endpoint and response detection leader advanced, thanks to a turnaround in investor sentiment combined with bullish execution and earnings expectations. The stock was the largest holding in the portfolio at the end of the month due to its strong leadership position, comprehensive cyber security offering, increasingly led by AI-powered solutions, and history of innovation.

Shares of a provider of big data analytics and security solutions rebounded following improved investor sentiment, momentum from recent earnings results, and expectations that trade and tariff impacts on the company were alleviating. We continue to hold the stock given its potential for outsized revenue growth, the company's leading AI offering and scalability of their software-as-a-service platform.

Our exposure to Broadcom Inc., a provider of semiconductor and security solutions, was higher amid news of a stock repurchase plan and robust outlook from company management, combined with the overall breadth of the company's hardware and software platform. We continue to hold shares given its strong management team, diversified business model and the stock's attractive growth versus valuation mix.

Positions in security, threat protection and networking solutions leader Zscaler, Inc., and a network security appliances, software, and subscription services provider Fortinet Inc. also contributed to absolute performance for the month.

Detractors

Our largest absolute detractor was the afore-mentioned a security software solutions provider. Shares were pressured following a weaker-than-expected guidance as the company continues to be compressed by uncertainty over tariffs, which could have an incrementally negative impact on their automobile-related segment, as well as expectations of a moderation in their cyber security segment. We continue to hold the stock amid expectations of a medium-term improvement in sales and earnings prospects, combined with an attractive valuation level relative to peers.

Our position in the previously mentioned communications equipment maker was lower amid concerns of global market turbulence due to trade policies, which had a greater effect on the company given its large multinational footprint and

exposure outside of the US. We believe the sell-off was overdone and continue to hold the stock given its stable cash flow generation, resilient customer base and broad-based exposure to AI infrastructure and security-based solutions.

Shares of a provider of software and hardware products, including network, gateway security, data and endpoint security solutions declined following earnings results which only slightly topped expectations. The company had been an incremental beneficiary of the market uncertainty, thanks to an attractive growth versus valuation mix and product cycle tailwind, with investors choosing to take profits following gains in the prior five months. We view the modest decline as simply the case of the stock getting ahead of itself and continue to view the company as a decent medium-term performer, with an attractive valuation level and diversification potential which can benefit the portfolio.

Our exposure to an information technology services and security provider, and a semiconductor manufacturer also offset absolute results for the month.

Purchases and sales

Turnover in April was undertaken at a much lower-than-normal level given uncertainty over near-term market outlook in light of a clouded tariff and trade impact, as well as waiting for upcoming earnings results which are likely to have a greater influence on company-specific opportunities. There were no new buys or new sales in the portfolio during the month.

We made the decision to incrementally increase our exposure to Okta, Inc., a leading independent identity management platform, given expectations of higher innovation and strategic expansion, particularly as the company appears to be gaining greater traction.

We also incrementally increased our exposure to the enterprise software, cloud storage and cyber security leader mentioned earlier, given the dual benefit of its durable business model which helps lower risk in the portfolio combined with above-consensus earnings potential.

Alternatively, we trimmed our exposure to the aforementioned information technology services and security provider following expectations of slower-than-expected growth given the impact from tariffs and higher level of macroeconomic uncertainty, as well as semiconductor and security solutions provider Broadcom, Inc. in an effort to incrementally reduce risk in the portfolio.

Market Outlook

We believe the current risk/reward profile for cyber security is increasingly compelling and expect favourable performance throughout the year compared to the broader technology market, given the combination of durability of the theme and its stable growth characteristics alongside an attractive valuation level, which is increasingly scarce within the sector.

Over the last several months, software and information technology services have outperformed other technology industry peers, driven by a combination of cyber security and infrastructure-related software. Interestingly, recent fears of a software spending slowdown never materialised, yet valuation metrics were generally compressed heading into the start of the year.

Equally important is the role cyber security plays as the incessant march towards AI continues. As enterprises invest in enhancing AI capabilities, we expect this spending to benefit cyber security over the medium to long term. As a result,

areas like data security are expected to see above average and sustainable long-term growth due to its critical importance. Although near-term uncertainty may preside, we maintain a positive mid-to-long-term outlook for equity markets, especially cyber security stocks, given their attractive risk-reward profile combined with the expectation that cyber security solutions appears robust, and market leaders who execute well are likely to be rewarded.

Investors are likely to continue to closely monitor interest rate levels, with future cuts forecasted, which are likely to benefit cyber security companies incrementally. Corporate earnings have been relatively resilient, and valuations appear reasonable given the secular growth potential of the asset class. Our expectation is that merger and acquisition activity may continue to rise as capital markets show signs of strength, with a broad cross-section of acquirers for cyber assets given their durability and strategic positioning. Amid the volatility, we are opportunistically looking to upgrade select names and add to our highest conviction ideas to better position the portfolio for improved performance.

Despite short-term periods of higher volatility among technology stocks, earnings growth ultimately drives stock prices over the long term, and in our view, we are still early in the spending trend supporting this dynamic segment. We are excited about the investment opportunities presented, and believe our research-driven, bottom-up process is the most effective means to capture the value generated by this theme.

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sg.allianzgi.com

+65 6438 0828

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

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

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