

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 in accordance with environmental and social characteristics.

What Happened in February

February was a turbulent month for global equity markets, with the MSCI All Country World Index (ACWI) posting a modest gain. Stocks rallied after the US Supreme Court overturned the Trump administration's emergency tariffs. The evolving situation in the Middle East also buffeted sentiment, culminating in joint US-Israeli attacks against Iran and reports that Supreme Leader Ayatollah Ali Khamenei had been killed. Tehran unleashed deadly retaliatory strikes against Israel and US allies across the region, while Russia's bombardment of Ukraine and its power grid continued, even as the second round of US-brokered peace talks took place in Abu Dhabi. Materials and Utilities were the strongest sectors, while Communication Services, Consumer Discretionary and Information Technology stocks declined.

Within Technology, the MSCI ACWI Information Technology Index declined 1.0%. There was a significant market rotation which saw capital concentrate in artificial intelligence (AI) driven hardware and semiconductors while software and cyber security equities faced a "proof-of-value" phase and valuation pressures. Results were led by double-digit gains in electronic equipment, followed by more modest advances in technology hardware and communications equipment industries were offset by meaningful headwinds in information technology (IT) services and software stocks given the wide divergence between hardware and software segments of the market.

The ISE Cyber Security UCITs Index was lower by 4.4% in February as stock-specific gains in IT services and a more muted advance in communications equipment was counterbalanced by double-digit declines in interactive media & services and software stocks. The top contributor to performance was infrastructure services provider Fastly, Inc., which rallied

triple digits thanks to expectations of outsized demand for AI-related web traffic, while Qualys Inc., a provider of cloud-based security, compliance, and IT solutions, was lower due to increased competitive pressures.

Performance Analysis

The Fund posted a high-single-digit decline in February, trailing the return of the ISE Cyber Security UCITs Index due to short-term stock selection and benchmark concentration in smaller cap and more value-oriented segments of the market. Results were aided by bottom-up gains in interactive media & services and professional services industries. This was offset primarily by relative underperformance in IT services and software industries.

On a relative basis, our below-benchmark weights in infrastructure software providers Qualys, Inc. and Trend Micro Incorporated aided results as did the avoidance of legacy anti-virus software maker Ziff Davis, Inc.

Alternatively, an active underweight allocation to small-cap software company Fastly, Inc. offset results given the stock's material weight in the benchmark combined with a triple-digit monthly gain. An active overweight allocation to cyber security pure play Zscaler Inc and the avoidance of application software maker Mitek Systems Inc offset relative returns more modestly.

Contributors

Our top absolute contributor for the month was Fastly, Inc. The company, which accelerates and secures web-scale applications via built-in web application firewall and distributed denial of service (DDoS) protection, saw shares advance significantly after reporting strong earnings beats and raising its annual outlook, driven by accelerated security and network services demand, increasingly from agentic traffic, bot management opportunities, and AI workloads. We continue to own the stock given its attractive alpha versus risk profile.

Cisco Systems, Inc., a leading provider of enterprise networking, security, and data centre infrastructure, moved higher as investors reacted to sustained demand for networking gear and solid revenue beats that bolstered growth visibility. We increased our stake in the company during the month and it was the top position at the end of February thanks to its attractive growth versus valuation profile.

Our exposure to KLA Corporation, a leading semiconductor process-control and yield-management equipment supplier, also positively impacted absolute performance during the month thanks to tailwinds related to AI infrastructure buildout and the company's specialised machines and software that inspect and measure chips during manufacturing.

An off-benchmark allocation to CACI International Inc, a provider of cyber security, intelligence, and IT modernisation services primarily to US defence and intelligence agencies contributed to results amid strong federal spending visibility and contract momentum tied to national security and cyber programmes.

Our position in Akamai Technologies, Inc., a deliverer of cloud security, web application protection, and distributed network services that protect internet traffic and enterprise applications, advanced as investors responded positively to accelerating growth in its security segment and improving profitability outlook.

Detractors

Our largest absolute detractor was cloud-native endpoint and broader cyber security platform leader CrowdStrike Holdings, Inc. Shares were lower as part of a broader selloff in cyber security and tech stocks tied to fears of AI displacing traditional security value propositions and pressure on higher-valuation growth names. We incrementally trimmed our position in the stock amid expectations of near-term market uncertainty.

Similarly, shares of Palo Alto Networks, Inc., a leading enterprise cyber security platform, declined amid a rotation away from software as investors were increasingly cautious about valuation and anticipated growth expectations.

Zscaler, Inc., a cloud cyber security company focused on zero-trust networking and secure access services, saw its shares decline accelerate after reporting earnings, as investors became less certain over growth durability metrics combined with broad software market weakness. We reduced our position in the stock in favour of companies with better near-term catalysts.

Our positions in data security and analytics software provider Varonis Systems, Inc., and cloud-native monitoring, observability, and analytics platform Datadog, Inc. also offset results in February amid the overall weakness in software-related segments of the market.

Purchases and sales

Turnover in February was undertaken at a regular cadence to incrementally improve the near-term risk versus reward profile of the Fund.

We bought shares of Ciena Corporation, a designer and supplier of optical networking systems and software that enable high-capacity fibre-optic communications for carriers and large enterprises, as well as KLA Corporation, a provider of advanced semiconductor solutions used to inspect and optimise chip manufacturing, to diversify the portfolio and provide greater exposure into hardware-related segments of the market.

We added to our existing positions in CACI International Inc and Kratos Defense & Security Solutions, Inc to increase exposure to cyber defence-related names, which provide durable demand drivers and exposure outside of traditional software.

Our weight in ASML Holding NV notched higher as we continue to build out the position which was newly added last month and we also added to Cisco Systems, Inc. as previously noted.

There were no new sales in the portfolio during the month. We made multiple trims to existing positions in the portfolio to incrementally tilt away from software and IT services segments of the market, which have a higher level of near-term risk and uncertainty, and to fund increased exposure in hardware-related stocks. Among these trades were trimming our positions in systems software providers Zscaler, Inc., CrowdStrike Holdings, Inc., Varonis Systems, Inc., Check Point Software Technologies Ltd., and Microsoft Corporation as well as application software makers Datadog, Inc., and SailPoint, Inc. We also reduced our position sizes in IT services providers Okta, Inc., MongoDB, Inc. and Snowflake, Inc. and trimmed search engine and security giant Alphabet, Inc. to adjust the overall risk level of the portfolio.

Market Outlook

Cyber security equities faced pressures again in February, largely reflecting a broader rotation within Technology rather than any weakening in underlying demand. Capital continued to concentrate in semiconductor led AI infrastructure, benefitting hardware and data centre components, while software, including cyber security, has entered a “proof of value” phase. We view this divergence as a timing and positioning dynamic, not a fundamental one, as cyber security remains a non-discretionary enterprise priority, and notably the headwinds faced by software in February were increasingly alleviated with software outperforming semiconductors by near historical levels in the final trading days of the month.

Escalating geopolitical tensions, including the conflict in Iran, and highly visible cyber operations tied to global conflicts reinforced that cyber security is no longer a cyclical IT expense but core operational and geopolitical risk management. Against this backdrop, current weakness appears to be creating a more attractive long-term setup, as spending priorities increasingly shift towards resilience, zero trust architectures, and AI-driven defence, areas where leading cyber security platforms are well positioned to benefit as the cycle normalises. We remain optimistic that the asset class will regain its footing once sentiment improves and believe the underlying demand for AI will naturally transition to growth in cyber security, particularly as most vendors are now on second- or third-generation AI-enabled products, which is aligning with increasing enterprise adoption and reinforcing durable demand, particularly across data security and identity, areas that performed well and remain key priorities into next year. Recent absolute and relative pullbacks have improved the sector’s risk/reward profile, creating a potentially attractive opportunity for clients with a longer-term investment horizon. Fundamentally, the majority of cyber holdings remain well positioned, with earnings trends broadly supportive and visibility into continued growth. Looking ahead, a healthier initial public offering (IPO) pipeline and increased mergers and acquisitions (M&A) potential should further underpin industry momentum. Importantly, the group is trading at a discount to its 5-year historical valuation range despite a growing set of secular growth drivers, which we believe enhances upside potential. Overall, while uncertainty persists, secular demand remains intact and well-executing market leaders are likely to be rewarded.

Investors are likely to continue to monitor interest rate levels, with future cuts forecasted, which are likely to benefit cyber security companies incrementally. Our expectation is that M&A 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 28 February 2026 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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