

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 March

March was, in general, a disappointing month for global equities amid ongoing uncertainty regarding President Donald Trump's erratic trade policy. Stock markets weakened sharply at month end ahead of the president's self-dubbed "Liberation Day" of sweeping tariffs on 2 April. Continued conflict in Ukraine and Gaza, alongside escalating concerns surrounding Iran's nuclear programme, further compounded market jitters.

US stocks retreated as recession fears weighed on investor sentiment. European shares also moved lower as hopes for a ceasefire faltered in Ukraine and the region braced itself to be next in Trump's crosshairs, while Japanese stocks also stumbled. In contrast, emerging markets held up better. At a sector level, Information Technology, Consumer Discretionary and Communication Services stocks were the weakest in the MSCI All Country World Index, while Energy and Utilities were the only sectors to post positive returns.

Within Technology, the MSCI ACWI Information Technology Index declined 8.9% with all industries lower in light of the macroeconomic overhang. Communications equipment and software stocks were lower by mid-single-digits, while semiconductors were the worst performers, declining at double-digit levels. The ISE Cyber Security Index was lower by 6.4% for the month, led by a rebound in aerospace & defence and professional services stocks, while semiconductors were the largest laggard at the industry level. Shares of a provider of aerospace and defence systems rallied, thanks to a rebound in European and value-related stocks, while Cloudflare Inc., an infrastructure and security platform, detracted most from the benchmark results due to profit taking and a less certain near-term visibility in light of the macroeconomic landscape.

Performance Analysis

The Fund declined in March and trailed its broad-based MSCI ACWI Information Technology Index due to short-term stock selection. For the month, our underweight allocation to Semiconductors aided relative results as did our modest cash allocation. This was offset primarily by short-term stock selection in Software and Information Technology (IT) Services.

On a relative basis, our avoidance of a graphics processing unit manufacturer aided results given the stock's double-digit decline as did our active overweight allocations to cyber security pure plays Okta Inc. and Zscaler Inc. as both stocks were higher for the month.

Alternatively, our above-benchmark allocation to infrastructure software maker Cloudflare Inc, a below-benchmark allocation to an enterprise software, cloud storage and cyber security leader, and exposure to an intelligent security software solutions provider offset relative performance in March.

Market Outlook

Despite the market downturn experienced over the last several weeks, we remain positive on the cyber security sector due to strong demand, reasonable earnings estimates, and an intensifying cyber threat landscape. We expect recent volatility in technology and cyber security stocks, partly driven by uncertainty over Trump administration policies, to diminish as markets focus on actual policies and their growth impact. Although near-term uncertainty may preside, we maintain a positive mid-to-long-term outlook for equity markets, especially cyber security stocks, given their favourable 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, although recent volatility may result in lower levels of guidance in the near term. 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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All data are sourced from Bloomberg and Allianz Global Investors as of 31 March 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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