

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 November

Global equities closed November with mixed returns. US stocks rallied strongly as Donald Trump's landslide victory in the US presidential election boosted hopes of tax cuts and looser regulations. However, threats of tariffs weighed on the performance of other markets, particularly in Europe, Japan and many emerging markets. At a sector level, Consumer Discretionary and Financials stocks rallied the most, while Materials and Health Care were the weakest sectors in the MSCI All Countries World Index.

The US Federal Reserve (Fed) cut rates by 25 basis points (bps), slowing the pace of its easing after September's 50-bps reduction. Minutes of the meeting revealed that policymakers are considering scaling back future rate cuts if inflation fails to be tamed. While jobs growth was far weaker than expected in October, elsewhere the US economy appears solid. In contrast, the growth outlook darkened in Europe, ramping up pressure on the European Central Bank (ECB) to cut rates further. Meanwhile, speculation grew that the Bank of Japan (BoJ) may raise rates again before year-end.

Within Technology, the MSCI ACWI Information Technology Index advanced 4.3% for the month, led by outsized gains in information technology (IT) services, software and communications equipment industries, while semiconductors were flat for the month and electronic equipment instruments declined modestly. The ISE Cyber Security Index rallied 8.9% for the month, thanks to double-digit gains in interactive media, software and IT services. A security risk and compliance management solutions provider was the top contributor, while an infrastructure software maker detracted the most from benchmark results in November.

Performance Analysis

The Fund posted an advance in November, meaningfully outperforming the broad-based MSCI ACWI Information Technology Index, thanks to bottom-up stock selection and industry allocation tailwinds. Results were led by above-benchmark positions in software and IT services, combined with positive stockpicking in both industries, as well as a below-benchmark weight in semiconductors. Meanwhile, exposure to interactive media & services detracted only slightly for the month.

On a relative basis, our active allocation to a big data, analytics and security provider contributed to results, as did our above-benchmark allocations to cyber security pure plays Fortinet Inc. and CrowdStrike Holdings Inc.

Conversely, our avoidance of a smartphone and personal computer giant, an ecommerce platform, and an app developer and gaming-focused company offset results relative to the broad-based technology benchmark.

Contributors

The aforementioned big data, analytics and security provider – a global leader in the field of data analytics with a range of products and services – rallied following earnings results, which cited bullish guidance and expectations of higher margins. A standout was its US government and commercial segments, as its recent alliances with large defence technology providers aided large contract wins in the US amid heightened geopolitical tensions. We trimmed the shares slightly in an effort to lock in profits and lower risk, and continue to hold the stock given the incremental shift in IT spending towards artificial intelligence (AI) aimed at improving data visualisation, and piloting its AI platform product for better analytics is likely to drive secular growth in the future.

Shares of Fortinet Inc., a provider of network security appliances, software and subscription services, rallied due in part to earnings results, thanks to billings, revenue and margin improvements, as well as expectations of a hardware refresh cycle in the coming months.

Similarly, CrowdStrike Holdings Inc., a leader in cloud-based security solutions which build around its endpoint detection and response platform, were higher as management reiterated guidance for the back half of next year, which is likely to counterbalance near-term results as visibility remains slightly lower than typical, due to the recent global outage and corresponding customer sales cycle.

Our exposure to identity management platform CyberArk Software Ltd. and global content delivery network provider Cloudflare Inc. also contributed to absolute performance results during the month.

Detractors

Shares of Broadcom Inc., a designer, developer and supplier of analog and digital connectivity and cyber security solutions, were lower due to the recent headwinds in semiconductor stocks. While there was little in the way of new news, sell-side analysts became increasingly leery of a near-term re-rating in light of the industry rotation. We made the decision to trim our exposure to the stock in an effort to tilt the portfolio towards companies with better near-term catalysts.

The previously mentioned infrastructure software maker - a platform offering solutions for securing and delivering content and business applications over the internet - offset absolute performance for the month as shares were lower despite strong earnings results, as investors were fixed on lower-than-anticipated guidance for the remaining of the

year, citing more subdued traffic growth for the company's delivery business, which clouded gains on their security and compute business. We trimmed our exposure slightly and continue to hold the stock given its long-term growth tailwinds.

A producer of semiconductor products and devices was lower due primarily to the recent headwinds within the industry, which has notably been trailing software and IT services stocks over recent months. We continue to hold the stock, although at a modest weight given lower level of cyber security materiality, as well as its leadership position and attractive growth versus valuation mix relative to peers.

Our absolute exposure to an infrastructure security solutions provider and a web-based search, advertisement and security company also detracted from absolute performance for the month.

Purchases and Sales

Turnover in November was undertaken at a measured pace and reflective of changes post the US presidential election and earnings results, incrementally adjusting the portfolio based upon bottom-up fundamental factors.

We newly purchased shares of a business intelligence software and related services provider, in an effort to moderate benchmark-relative risk as the company continues to advance, thanks in part to their exposure to cryptocurrencies.

We bought a designer and developer of an enterprise software platform for project management, collaboration and support services, as the company is expected to continue benefitting from product upgrades and migrations to their cloud offerings.

We also added to several existing positions, namely a technology services provider, a provider of integrated internet traffic management and security solutions, and two infrastructure software providers, based upon their cyber security exposures and bottom-up fundamental factors.

There were no new sells for the month.

We incrementally trimmed exposures to the aforementioned big data, analytics and security provider to lock in gains based upon the strong advance in the company's share price over the last several months. We also reduced our stake in Broadcom Inc. in an effort to further trim our exposure to semiconductors. We incrementally reduced our weight in cyber security platform Palo Alto Networks Inc. to diversify into other positions, and the company remains our largest holding in the portfolio due to their strong leadership position and high level of materiality. Lastly, we reduced our active weights in two software makers given our lower conviction in the near-term prospects of both companies relative to other positions in the portfolio.

Market Outlook

The outlook for cyber security-related companies continue to look incrementally more positive as investors are rewarding software and IT services companies following clarity around the US presidential election, combined with strong bottom-up fundamental factors and seasonality tailwinds of the industry, which we view may continue to improve through the end of the year and early 2025 in particular.

Investors are paying close attention to the potential for slower US economic growth given later timing of interest rate cuts and recent softer employment numbers and consumer spending trends. Unexpected announcements from the upcoming Trump administration may add to volatility, especially around geopolitics and global supply chain. However,

overall corporate earnings have been relatively resilient, as most companies reported better-than-expected earnings and revenues for the quarter. Our expectation is that mergers and acquisitions (M&A) activity may continue to rise as capital markets continue to show signs of strength, and there is potentially a broad cross-section of acquirers for cyber assets given their durability and strategic positioning. Additionally, valuations remain attractive with cyber companies broadly trading at pre-COVID levels on an enterprise value to sales ratio and cyber remains one of the more insulated areas within Technology which is less likely to be impacted by any boom and bust spending which has been impacting AI-related opportunities in recent months. 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. We continue to have a constructive mid- to long-term outlook for equity markets, particularly cyber security stocks given their secular growth expectations.

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.

Connect with Us

sg.allianzgi.com

+65 6438 0828

Search more

 [Allianz Global Investors](#)



Like us on Facebook [Allianz Global Investors Singapore](#)



Connect on LinkedIn [Allianz Global Investors](#)



Subscribe to YouTube channel [Allianz Global Investors](#)

All data are sourced from Bloomberg and Allianz Global Investors as of 30 November 2024 unless otherwise stated.

Allianz Global Investors and Voya Investment Management have entered into a long-term strategic partnership, and as such, as of 25 July 2022, 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").

The information presented here is intended for general circulation and does not constitute a recommendation to anyone; it also has not taken into account the specific investment objectives, financial situation or particular needs of any particular person. Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this publication but should seek independent professional advice. However, if you choose not to seek professional advice, you should consider the suitability of the product for yourself. Past performance of the fund manager(s) and the fund is not indicative of future performance. Prices of units in the Fund and the income from them, if any, may fall as well as rise and cannot be guaranteed. Distribution payments of the Fund, where applicable, may at the sole discretion of the Manager, be made out of either income and/or net capital gains or capital of the Fund. As a result of the payment, the Fund's net asset value is expected to be immediately reduced. The dividend yields and payouts are not guaranteed and might change depending on the market conditions or at the Manager's discretion; past payout yields and payments do not represent future payout yields and payments. Investment involves risks including the possible loss of principal amount invested and risks associated with investment in emerging and less developed markets. The Fund may invest in financial derivative instruments and/or structured products and be subject to various risks (including counterparty, liquidity, credit and market risks etc.). Past performance, or any prediction, projection or forecast, is not indicative of future performance. Investors should read the Prospectus obtainable from Allianz Global Investors Singapore Limited or any of its appointed distributors for further details including the risk factors, before investing. The duplication, publication, extraction, or transmission of the contents, irrespective of the form is not permitted, except for the case of explicit permission by Allianz Global Investors. This publication has not been reviewed by the Monetary Authority of Singapore (MAS). MAS authorization/recognition is not a recommendation or endorsement. The issuer of this publication is Allianz Global Investors Singapore Limited (79 Robinson Road, #09-03, Singapore 068897, Company Registration No. 199907169Z).