

Allianz Europe

Equity Growth Select

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in European equity markets with a focus on growth stocks of large market capitalisation companies in accordance with environmental and social characteristics.

What Happened in April

European equities closed April broadly flat against a volatile backdrop of escalating trade war tensions. Stocks sold off early in the month amid heightened economic uncertainty following President Donald Trump's "Liberation Day" of sweeping tariffs, but later recovered after the US president's U-turn effectively paused most tariffs for 90 days. At a sector level, Energy was the weakest sector by far, dragged lower by falling oil prices, while Real Estate and Utilities were the best-performing sectors in April.

The eurozone economy expanded 0.4% in Q1. The stronger-than-expected growth rate was driven by easing inflation, lower borrowing costs, renewed optimism following Germany's agreement to relax its debt brake and expectations of increased defence spending in the coming months. However, data for April reflected the threat of higher tariffs, with the flash estimate of the HCOB eurozone composite managers' index only just managing to stay in expansion territory. The European Central Bank (ECB) cut its key interest rate by 25 basis points (bps) to 2.25%, as widely anticipated, with policymakers citing the deteriorating growth outlook due to rising trade tensions. Inflation in the eurozone eased to 2.2% in March, down from 2.3% in February.

German equities advanced in April and outperformed the broader European market, despite the volatile backdrop of tariff-driven turbulence. Germany's economy grew 0.2 % over Q1 as easing inflation and lower borrowing costs boosted domestic demand, with sentiment also lifted by the formation of a stable coalition government. However, the uncertain tariff environment meant Germany's ZEW Indicator of Economic Sentiment plunged to -14.0 points in April, down from 51.6 points in March, its sharpest decline since the Russian invasion of Ukraine in 2022.

UK equities slid in April amid continued tariff-related uncertainty. The UK economy unexpectedly grew by 0.5% in February, well ahead of consensus estimates. However, April's flash S&P UK composite purchasing managers' index (PMI) slumped to its lowest level since 2023, with the services sector contracting for the first time in 17 months. Annual headline inflation surprised to the downside, easing slightly from 2.8% in February to 2.6% in March. Markets are currently pricing in a high likelihood of a 25-bps rate cut at the Bank of England's (BoE's) May meeting.

Performance Review

The Fund returned negatively in April, lagging the benchmark and broader MSCI Europe. Market sentiment remained weighed down by global concerns, including weaker Chinese macro data and renewed volatility linked to the ongoing US tariff uncertainty. This prompted a risk-off rotation into traditionally defensive sectors such as Real Estate, Utilities, and Consumer Staples, where the portfolio has limited or no exposure, given the structurally low or unsustainable growth in these spaces. Analysts have revised down their full-year earnings per share (EPS) growth expectations for Europe, from over 6% to below 4%. This cautious outlook contrasts with a broadly constructive Q1 earnings season for our holdings, many of which reported robust results and minimal tariff-related risks in their financial year (FY) 2025 guidance.

Eurozone macroeconomic data also surprised to the upside and following the US, equities finished the month strongly. Valuations across the portfolio remain attractive, with holdings trading at or below their 10-year historical averages, while semiconductor momentum is building for H2. Considering the relatively higher resilience of our high quality, structural growth holdings, the backdrop may yet turn supportive for our style and positioning.

The top active contributor was global beauty leader L'Oréal, where Q1 results beat consensus across all divisions, despite perceived headwinds. The top active detractor was alternatives asset manager Partners Group, given slow fundraising and a weaker exit environment. We continue to monitor tariff-related risks closely, making numerous trades in April to slightly raise the defensive profile of the portfolio.

Top contributors

L'Oréal gained nearly 13%, rebounding after pressure since mid-2024 when the CEO acknowledged a softening of the global beauty market, driven largely by China. Q1 sales grew 3.5% on a like-for-like basis, though results are skewed by stock building ahead of a systems, applications, and products in data processing (SAP) rollout in China, mirroring similar activity in the US last year, creating odd comparatives. That said, results beat consensus across all divisions and L'Oréal outpaced global beauty market growth of 2%, taking share. Fragrance was the star category posting mid-teens growth, followed by high single-digit gains in Haircare. Makeup and Skincare lagged. China remains a major opportunity, with only 100 million of 400 million potential customers reached, and presence in just 150 of 600 key cities.

A provider of laboratory testing services staged a major comeback in April, rallying nearly 20% after posting a stronger-than-expected Q1 update that marked a notable pivot point with rising revenue growth. Some macro uncertainty remains, particularly around biopharma demand in H2, but with weak comparatives the company now looks able to meet or exceed its mid-single-digit organic growth target for the year. In addition to resilient end markets and limited tariff exposure, thanks to its localised testing model, investor sentiment was further supported by a new share buyback of up to 4.5% of capital. The shareholder meeting late this month concluded prior short-seller allegations, approving the incorporation of all related-party real estate into the company's assets.

A building information modelling (BIM) software company is another high performing stock, rising over 24% this year. Stellar Q1 results included 26% revenue growth, supported by their USD 770 million acquisition of a subscription tool

that enhances field worker collaboration in mid-2024. EBITDA was up 18%, despite being negatively impacted by a one-off item. Excluding this one-off item, EBITDA was up 30%. Recurring revenues now make up 92% of total. The strongest growth has developed in the Build segment, where its construction collaboration software reigns as a blockbuster product. Full-year guidance was unchanged, with management maintaining a target of 17-19% revenue growth and an EBITDA margin of around 31%, which now appears conservative. The company is expanding internationally, with India being a vast new opportunity.

Top detractors

Partners Group disappointed with a double miss on H2 assets under management (AUM) and a softer 2025 outlook, in their results posted mid-January, reflecting continued fundraising challenges in a weak exit environment. In its capital markets day during March, management outlined a 10-year AUM compound annual growth rate (CAGR) target of 13%. A further update in April noted minimal tariff exposure across their portfolio of 75+ direct assets. We remain focused on their structural growth opportunity in private wealth, where AUM stands at circa USD 50 billion with 10% market share. In partnership with a leading asset manager, management expects this to triple over the next 5-10 years, supported by a projected rise in private market AUM from USD 500 billion to USD 10 trillion and increased reach to 84,000 wealth managers.

An engineered polymer solutions provider continues to execute well in a slower market. Q1 organic sales growth matched market expectations, while margins even slightly expanded despite ongoing input cost pressures. Management reaffirmed their focus on high-performance engineered applications, particularly in Health Care and Aerospace, where long-term secular demand remains strong. The integration of a rubber manufacturing company is progressing well, enhancing their US footprint. The company's strong balance sheet provides for more bolt-on acquisitions ahead. The CEO commented that the direct effects of tariffs will have a limited impact on the group given their local-for-local production model. In shorter term, we reduced our position along with other Industrials.

Dassault Systèmes' stock declined circa 6% after Q1 revenue and earnings before interest and taxes (EBIT) missed consensus by -1.5% and -2% respectively, with a disappointing guidance for Q2, implying a significant acceleration in growth in H2 to meet their guidance. In addition, management team also slightly adjusted the margin guidance for 2025 downwards. We met with the CFO in February, in an overall confident meeting. The company expressed confidence in their acceleration of topline growth, and they felt recent deals with two carmakers were valuable, also in attracting suppliers. Its clinical trial software business that held the business back last year is set to deliver 5% growth in 2025 before double-digit in 2026, assuming a recovery in the contract research organisation (CRO) business. Management sees its acceleration in artificial intelligence (AI) as a highly significant step, comparable with that of 3DEXperience in 2012. At 26x price-to-earnings (P/E) ratio for 2026, it continues to trade at a discount to its own history.

Purchases

Purchases include a German financial exchanges operator which offers post-trade services, data analytics, and index solutions. The company benefits from structural growth drivers such as increasing demand for market data, analytics, and higher volatility. With over 60% recurring revenue, limited exposure to trade tariffs, and positive sensitivity to rising interest rates, the business offers diversified, capital-light growth with strong margins and high returns on invested capital.

We bought a global leader in energy management and industrial automation, offering software, services, and connected solutions. The business is well-positioned for long-term trends such as electrification, energy efficiency, and digitalisation. Its platform and strength in high-growth areas like data centres drive recurring revenues. Organic growth in the mid-single digits is supported by operational excellence, disciplined mergers and acquisitions (M&A), and margin

expansion. Strong cash conversion and high cash flow return on investment (CFROI) underpin its long-term quality and compounding potential.

We also purchased a global information services company focused on professional customers in legal, tax, health care, and regulatory compliance markets. The company benefits from structural growth drivers such as increasing regulatory complexity, digitalisation of professional workflows, and the rising demand for expert decision-support tools. Its competitive advantages lie in deep domain expertise, high switching costs, and a portfolio of mission-critical, data-driven software solutions. With around 80% recurring revenue, robust cash flow, and consistent margin expansion, it is a high-quality, capital-light compounder. A recent correction created an attractive entry point.

Sales

We sold a provider of sensor, software, and autonomous solutions for various industries. The company lacks transparency, and past governance concerns surrounding the former CEO (now chairman) persist. Organic growth has historically been modest and dependent on acquisitions. Potential plans to spin off software assets via a US initial public offering (IPO) would reduce the attractiveness of the portfolio, as the software is the most appealing component. We have exited the position to reallocate capital to higher-conviction opportunities.

Market Outlook

Amongst all the noise of tariffs and threats of a pending recession, the half of European companies that have reported their earnings have done so significantly ahead of expectations, averaging earnings growth of 3.8% so far versus estimates of a 1.4% decline. Sales growth is also ahead of estimates overall. At the time of writing, stocks were recovering well and the Stoxx 600 Europe index had returned to its pre-Liberation Day levels. While style factors remain volatile, quality companies with pricing power and operational flexibility are beginning to distinguish themselves, even in sectors under broader macro pressure.

Taking a broader global perspective, China continues to be a drag, and the US economy unexpectedly shrank in Q1, with gross domestic product (GDP) falling 0.3% on an annualised basis as companies accelerated imports ahead of threatened tariff hikes. Nevertheless, corporate earnings in the US remain broadly resilient too, with many global champions delivering stable or growing cash flows and maintaining strong balance sheets. There is a growing divergence between companies with global scale and adaptability – and those more vulnerable to inflation volatility, regulatory shifts, or capital intensity.

In response to the evolving tariff landscape, our high quality holdings have taken a range of proactive measures and very few have proactively downgraded guidance. Several intend to diversify their manufacturing footprints: The aforementioned sportswear company for example, has reduced exports from China to the US to just 3%. Others are optimising cost structures through targeted headcount reductions, as seen at L'Oréal and a luxury goods company. Companies with pricing power, where we have many examples including the mentioned luxury goods company and Assa Abloy, are selectively raising prices to protect margins. An ecommerce giant has negotiated supplier price reductions on China-sourced goods, while firms like a manufacturer of air compressors, expanders and air treatment systems that are used in a wide variety of industries, and a graphics processing unit manufacturer are expanding US operations to support onshoring efforts. Some portfolio names, particularly in software and semiconductors, or those that have already enabled US production like a chocolate company, will see no direct impact. A few leaders such as a life science and clinical research company are signalling opportunities to gain market share.

We believe this backdrop reinforces the importance of a consistent focus on global quality growth equities. Our companies are typically capital light, cash generative, and positioned in structurally growing end markets, and are therefore well placed to navigate the current noise and emerge stronger on the other side. With valuations for many quality growth names now sitting at or below long-term averages, and some sectors like semiconductors poised for recovery, the medium-term outlook is increasingly constructive for disciplined investors.

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