

Allianz Global Artificial Intelligence

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in the global equity markets with a focus on the evolution of artificial intelligence in accordance with the Sustainability Key Performance Indicator Strategy (Relative). In this context, the aim is to outperform the Sub-Fund's Sustainability KPI compared to Sub-Fund's benchmark to achieve the investment objective.

What Happened in November

US shares rallied strongly over November, spurred by Donald Trump's decisive victory in the presidential election, as it boosted hopes of tax cuts and looser regulations. The S&P 500 Index closed the month at a fresh high, although the Nasdaq failed to regain its post-election peak. Meanwhile, US smaller companies soared, with the Russell 2000 Index touching a record high for the first time in three years. However, threats of tariffs weighed on the performance of other markets, particularly in Europe, Japan and many emerging markets.

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.

Oil prices closed the month little changed, with Brent crude trading around USD 72 per barrel. Israel's ceasefire with Lebanon's Hezbollah allayed fears over potential supply disruptions in the Middle East. The Organisation of the Petroleum Exporting Countries plus (OPEC+) next meets in early December amid rumours that a planned production increase may be postponed given oversupply concerns in 2025. Gold eased from the record high hit at the end of October as the US dollar strengthened.

From a sector perspective for the MSCI All Country World Index, performance was led by Consumer Discretionary, followed by Financials. The Materials and Health Care sectors were the top laggards over the period.

Portfolio Review

During the period, the Fund outperformed the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). From a sector perspective, Information Technology and Consumer Discretionary were the largest relative contributors. The Health Care sector was the only detractor. Artificial intelligence (AI) applications was the strongest performer on better earnings results and early traction from new generative AI capabilities. AI-enabled industries reacted positively to the Trump election victory, in anticipation of a more business-friendly environment. AI infrastructure generated positive returns and performed in line with the blended benchmark.

Contributors

Our position in electric vehicle (EV) producer Tesla Inc. was the top contributor over the period. The stock rallied strongly following the US presidential election results. Given Elon Musk's support for the Trump presidential election bid, the company stands to benefit under a friendlier regulatory regime and from a pro-business agenda. Looking forward, Tesla has some of the most ambitious innovation agendas of any public company, spanning EV, energy transition, AI and advanced robotics. We believe the company is making good progress on each of these agendas in ways that can unlock significant shareholder value in the future.

Another contributor is an enterprise AI software provider. Its platform empowers organisations to develop and deploy enterprise-scale AI applications. Shares were higher as the company announced an expanded strategic partnership with a technology company to help accelerate enterprise AI adoption. The company is currently benefitting from the developments of large language models (LLMs) and generative AI. Bookings trends have been solid given new products and increased interest from various organisations to leverage AI technologies.

Detractors

Amongst the detractors is a Chinese internet and ecommerce company. Shares were lower alongside the rest of China equities, as threats of China tariffs from the Trump presidency weighed on the overall space. Looking forward, the company is positioned to benefit from a recovery in gross merchandise value as macroeconomic conditions improve, greater penetration into lower-tier cities and new monetisation opportunities on its platform.

Broadcom Inc. is an infrastructure software provider and a semiconductor designer with applications across a range of end-markets, which includes AI infrastructure as a key market. Broadcom co-designed specialised AI chips that include the TensorFlow Processing Unit (TPU) with a technology conglomerate and a custom accelerator chip with a social media company. During the period, the stock had sluggish performance, which was in line with the rest of the semiconductor space. Looking forward, the company is on track for meaningful acceleration in revenue and earnings growth driven by AI-related computing and networking programmes, software infrastructure, and a recovery in its non-AI-related semiconductor business.

New Buys and Sells

A new purchase is a software company that develops project management and software development tools which help teams work more effectively. The company employs AI-driven tools to automate tasks, summarise project updates and

break down complex work into actionable steps. It is also rolling out its AI agent platform, which could potentially catalyse more opportunities for its software to penetrate a broader user base and enable more automation.

We also initiated a position in a US utility company specialising in clean energy generation through its nuclear, wind and solar assets. It is positioning itself to meet the growing energy demands from AI and digital infrastructure. The company also uses AI to improve its operations in nuclear energy production, optimise reactor performance and predict equipment maintenance needs.

We exited the remaining position in a luxury goods company as it continues to face headwinds due to economic pressures impacting the high-end luxury category. We also sold a small position in a Chinese search engine provider as a part of our rebalancing of exposure to China-related equities. We had less confidence that the company's investment initiatives would yield near-term returns compared to the AI investments of other China-focused positions in the portfolio.

Market Outlook

We continue to have a constructive mid- to long-term outlook for equity markets given the earnings growth potential from continued AI innovation and adoption over the coming years. We recognise that short periods of volatility may occur, as markets digest changes in the timing of future rate cuts by the Fed and unexpected announcements from the upcoming Trump administration, especially around geopolitics and global supply chain. We continue to maintain a balanced portfolio positioning for the upcoming Trump presidency, which should be similar to his past administration. Overall corporate earnings have been relatively resilient year-to-date, although there have been pockets showing some softness given the lag effect of higher rates. As we have done in periods of volatility, we will opportunistically look to upgrade select names and add to our highest conviction ideas to better position the portfolio for improved performance.

Since inflation is now moving towards the Fed target of 2% and employment conditions have moderated, the central bank is now in a more comfortable spot to normalise policy. From the most recent Federal Open Market Committee (FOMC) meeting in November, Chair Jerome Powell highlighted that the central bank continues to pursue interest rate cuts as monetary policy is still restrictive. Minutes from the meeting indicated that the Fed recognises that inflation continues to ease towards the 2% target and the economy remains resilient and supports gradual rate cuts in the near future. An easier monetary backdrop should be constructive for the economy to regain its footing, but it may take time for effects to take hold.

As for what's next in the ongoing generative AI innovation wave, we expect the robust capital investments in "Phase 1" AI infrastructure to continue and the industry to enter the "Phase 2" AI applications wave that leverages this infrastructure to develop new generative AI capabilities in software to drive greater value and automation opportunities. We are also seeing early signs of "Phase 3" AI-enabled industries demonstrating effective use of generative AI. Many companies outside of the Technology sector are increasing investments in generative AI to train one's own industry-specific model on its proprietary data or knowledge to compete better and innovate in the future. A backdrop of emerging AI beneficiaries underappreciated for their potential creates a significant opportunity for alpha generation in the years ahead.

AI infrastructure: The developments around generative AI and large language models further demonstrate that the demand backdrop for AI infrastructure companies should remain strong given the computing requirements for training complex AI models and subsequent inference needed for edge intelligence. More companies are now motivated to build out their own domain-specific generative AI capabilities through continuous training and refinement. As these launch for broad-based use, demand should also expand to networking and storage infrastructure to support the explosive growth

in new AI workloads. Investment also appears to be expanding to smaller cloud providers, governments and corporations in more countries around the world, which should be supportive of the ongoing build-out of critical AI infrastructure in the coming years.

AI applications: A new wave of AI applications is emerging that infuse generative AI capabilities into their software to drive greater value and create more monetisation opportunities. Generative AI appears to be evolving into its next phase with the emergence of AI agents. These applications are customisable and run 24/7, and can mimic human decision-making capabilities. This can take a lot of costs out of businesses and dramatically improve productivity. As these AI agents roll out for broader distribution, AI applications companies can open up many new monetisation opportunities and create value for users.

AI-enabled industries: AI is helping to reinvent digital transformation, introducing new generative AI possibilities that can significantly boost productivity and reduce costs. As more processes go digital, the opportunity for AI to react to new information or unexpected changes can revolutionise every industry. Many companies in AI-enabled industries are increasing investments in generative AI to train one's own industry-specific model on its proprietary content or knowledge to compete better and innovate in the future. We are witnessing an increasing number of companies across Automotive, Consumer, Health Care and Finance sectors leveraging proprietary datasets that could yield differentiated AI models and applications that are difficult to replicate and can handle tasks better than general purpose AI. We believe this is just the tip of the iceberg as companies become more comfortable with AI's potential to drive greater efficiencies and automation across every part of their business.

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advances in – and the deployment of – AI. We believe these changes will drive meaningful growth for companies that can take advantage and drive disruption within their respective industries. Our view is that the compounding effect from AI disruption will create massive opportunities for innovative companies across every sector. Stockpicking will be essential to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change. As we have done since the launch of the Fund, we remain focused on identifying the companies that leverage AI to deliver the most shareholder value creation over the long term. Compared to the technology innovation ahead of us, humanity is still on day one of our journey through the AI revolution.

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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").

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