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 May

Global equities were higher in the month of May, continuing its recovery that started earlier in April. The technology-heavy Nasdaq Composite Index led major indices, notching the best May month returns since 1997. The de-escalation of trade tensions between the US and China was a key upside catalyst. The US coming to a trade agreement with the UK was also constructive for risk assets. The rally was further supported by better-than-feared corporate earnings amid tariff headwinds, artificial intelligence (AI) tailwinds from strong Nvidia results and Middle East deals, and an uptick in mergers and acquisitions (M&A) and initial public offering (IPO) activity. Although credit rating agency Moody's downgraded the US government's credit rating due to the fiscal deficit, equity markets were mostly unaffected.

The US Federal Reserve (Fed) kept rates on hold at its monetary policy meeting, with officials citing economic uncertainty and inflationary risks. Meanwhile, the Bank of England (BoE) and the People's Bank of China (PBoC) cut rates. US recessionary fears eased, with the Fed Bank of Atlanta's GDPNow running estimate indicating growth of 3.8% for the current quarter. The flash S&P Global US composite purchasing managers' Index rose from a final reading of 50.6 in April to 52.1 in May, reflecting improvements in both services and manufacturing activity.

Oil prices fluctuated in May, ending the month around USD 63 a barrel. Brent crude initially moved lower on expectations of accelerated output increases by the Organisation of the Petroleum Exporting Countries Plus (OPEC+) before strengthening on expectations of increased global energy demand as trade war tensions eased. The fifth round of US-Iran nuclear talks ended inconclusively, with oil prices rising in anticipation that U.S. sanctions on Iranian oil exports will remain firmly in place, and later amid reports that Israel was planning a series of air strikes on Iranian nuclear facilities. Meanwhile, gold prices eased from April's record highs, but remained elevated, ending the month just above USD 3,300 – an increase of around 30% since this time last year.

From a sector perspective, for the MSCI All Country World Index, the Information Technology sector was the strongest performer amid positive earnings results. The Industrials sector was another outperformer. Real Estate and Health Care were laggards during the month, with Health Care being in the only sector with negative returns.

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 Utilities were the largest contributors, while Health Care and Industrials were slightly offsetting. AI-related stocks continued their recovery that started in April as trade tensions eased. The AI infrastructure theme was the strongest performer, helped by positive earnings results and new AI data centre announcements. Although AI applications and AI-enabled industries generated positive absolute returns, the two themes slightly underperformed the benchmark as a few companies reported earnings that missed investor expectations.

Contributors

Constellation Energy Corp. was among the top contributors for the period. The company is a leading American energy company specialising in clean energy generation, primarily through its nuclear, wind and solar assets. Shares were higher as management expressed optimism on nearing long-term nuclear power deals with more hyperscalers that do not need regulatory clarity. The demand for data centre power is expected to drive significant growth in energy consumption. The rise in AI-driven electricity demand could lead to substantial power contracts with data centre operators over the coming years.

Our underweight position in a technology hardware producer was among the top contributors due to its significant weighting in the custom benchmark. The company had an average 10.67% weight in the benchmark, while the Fund had an average exposure of 2.49%. Shares were lower during the period over risk of higher tariffs in China where it produces a significant percentage of its smartphones and a court ruling that could allow developers to direct users to alternative payment options on its app store.

Detractors

Although it reported solid quarterly results, shares of a leading innovative pharmaceutical company underwent profit taking following earnings after a pharmacy benefit manager and a pharmaceutical company announced a partnership that made the latter's glucagon-like peptide-1 (GLP-1) drug a preferred medication on the former's standard formularies. Looking forward, the company's growth prospects appear attractive, which should be driven by its robust drug pipeline and franchises, which include oncology, diabetes and ventral nervous systems. The company's innovation in obesity treatments is another key growth driver, that has a large addressable market with strong momentum.

Microsoft Corp. is a software provider with a wide range of services that include operating systems, software applications, cloud computing and security solutions. While shares outperformed on better-than-feared earnings driven by Azure growth acceleration, the underweight position represented a relative performance headwind. Microsoft had an average 10.93% weight in the blended benchmark, while the Fund had an average exposure of 5.16%.

New Buys and Sells

The Walt Disney Co. is a global entertainment and media conglomerate. We initiated the position as shares are trading at an attractive relative valuation to its history, and as more parts of the company's business are trending positively. Further, the company is actively using AI across its key business to support business momentum. This includes content creation in its studios, more efficient operations and better visitor immersion in its parks and resorts segment, optimised advertising in Disney's media network segment and viewer experience in the direct-to-consumer streaming businesses.

We purchased a technology platform that connects customers with local restaurants, grocery stores and retailers for on-demand delivery. The use of AI is critical for the company to operate efficiently, maintain high customer satisfaction and execute on scalability across its marketplace. Through a superior AI-enhanced technology platform, the company has built a category defining brand identity as it continues to gain market share and has built a business that could be more resilient through uncertain economic times. Further, we believe the company is reflecting greater financial discipline as it has become profitable.

We exited the remaining position in a Chinese ecommerce company as it has chosen to invest aggressively in food delivery, which is a competitive market with it being a late entrant. The level of investment in food delivery is expected to be greater than we expected, resulting in a negative earnings revision. Given these considerations, we chose to exit the position and redeploy the proceeds into other names.

We exited the remaining position in a an American software technology, design and consulting services provider as there is news suggesting that the Trump administration has asked electronic design automation (EDA) companies to stop providing their technologies to Chinese companies. China has been about 12–13% of the company's revenues and has been growing rapidly. We previously trimmed the position as shares had appreciated and chose to exit the remaining position as we believe this China development could be an overhang.

Market Outlook

We continue to maintain a positive long-term outlook for equities, but markets may undergo short periods of volatility. A more complicated policy backdrop can contribute to potential risks of inflation and slower economic growth. For now, equity markets have been on a recovery path since 9 April, when President Trump announced a 90-day pause on higher reciprocal tariffs. We believe the recovery of AI-related stocks could continue with a more benign policy environment and re-acceleration in earnings.

The outlook across the AI ecosystem remains healthy. From Q1 earnings results, management across AI-related companies generally had constructive commentaries on business trends and progress with AI projects. The landscape also got a boost from new AI data centre announcements, strong demand for AI workloads from new reasoning AI models, and more supportive advanced semiconductor export policies.

As we get more clarity on policy in the coming months, a more constructive backdrop may develop as we see some framework trade deals and look towards Trump's tax cuts and pro-business agenda. We continue to believe the Trump administration wants the US to maintain its leadership in innovation and is focused on bringing more manufacturing back onshore. Several announcements have been made to further onshore the technology supply chain to the US. More announcements should be constructive for the innovation ecosystem.

We continue to maintain a balanced portfolio of companies benefitting from AI innovation and favour companies that are better positioned to navigate through a more complicated environment. There may be opportunities to upgrade select names and add to high conviction ideas amid the market volatility to better position the portfolio for improved performance.

From an innovation perspective, progress with AI development is accelerating as more powerful capabilities becomes readily available from the robust "phase one" infrastructure buildout. We are beginning to enter "phase two" where new generative AI use cases and application adoption drive significant benefits over the coming years. Our analysis suggests that investments in AI could lower the marginal costs of operations, much like the information technology (IT) revolution did. Furthermore, the advanced features of AI-enhanced products or services can drive new levels of productivity, cost savings and revenue opportunities across industries in "phase three". Given the transformative potential of AI investments, we believe profit margins may not simply hold steady but could in fact grow, supporting valuations for innovative companies that are investing now to disrupt the status quo.

AI infrastructure: Spending on AI infrastructure should continue to be robust over the next several years as more powerful AI data centres are built around the globe. Nvidia's upcoming Blackwell AI chips provide up to a 30 times performance increase compared to the previous generation and more hyperscalers are designing custom AI chips to meet their unique specific needs. This is driving demand for new data centre architectures that can handle the higher power, cooling, space and networking requirements. Overall demand for generative AI training remains durable as more companies across the ecosystem are rushing to build better foundational models or fine-tune other models. Growth in AI inference systems is also expanding to process and respond to new data in real-time and support applications that require low latency and high reliability at the edge of the network. Newer reasoning engines require more "think time" to yield better results, driving additional workload demand.

AI applications: Generative AI applications are evolving into their next phase with the emergence of AI agents. Unlike AI copilots designed to answer a single question, AI agents have decision engines that allow them to operate autonomously and complete complex tasks. AI agents can be easily customised to handle repetitive tasks and have human-like decision making capabilities to adapt to different situations. This can create a new level of automation and dramatically cut costs and improve productivity. We believe there will be an upcoming surge of new generative AI infused applications across many areas of consumer and enterprise workflows over the next several years, driving more investment opportunities.

AI-enabled industries: AI continues to open up new possibilities to drive true industry transformation across 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. In Health Care, the application of AI could dramatically speed up the time for drug discovery, accelerate clinical trials and dramatically improve efficacy of medical devices. Within Financial Services, there are companies with significant volumes of data related to transactions, customer interactions and research. This allows for the creation of AI solutions to enhance operational efficiency, improve fraud detection and personalise client service. There are similar opportunities within Automotive, Consumer, Industrials, Energy and even Mining. We think this is only the beginning as innovative companies embrace AI to enhance efficiency, lower costs, launch new products, take market share and drive higher levels of profitability.

We are still in the early innings of the AI era. Despite significant advancements, there is a lot more potential to be unlocked in the future. The industry is rapidly evolving, with major investments and innovations continuing to drive progress towards artificial general intelligence, possibly within the next decade. AI is becoming more integrated into various fields, from finance to health care to humanoid robotics. It is an exciting time, and we are likely to see even more transformative changes in the coming years.

Our view remains that the compounding effect from AI disruption will create opportunities for innovative companies across every sector. We believe that stockpicking will be essential to capturing the benefits of this opportunity, as today's

AI winners may change in the future in an environment characterised by rapid change and disruption. We remained focused on identifying the companies that can best leverage AI to deliver the most shareholder value creation over the long term.

All data are sourced from Bloomberg and Allianz Global Investors as of 31 May 2025 unless otherwise stated.

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