

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 July

Global equities rallied for the month of July, with the S&P 500 and the Nasdaq Composite pushing to new record highs. The backdrop was supported by a continued easing of tariffs and trade tensions. The US came to several trade agreements this month before the 1 August, end of the pause on reciprocal tariffs, including with the European Union (EU) and Japan. A resilient macro backdrop, positive artificial intelligence (AI) data centre investment trends, a pickup in capital markets activity and passage of the One Big Beautiful Bill Act were also constructive for investor sentiment.

The US economy grew by an annualised 3.0% during Q2, rebounding from a negative Q1 gross domestic product (GDP) print. Non-farm payrolls in June rose by a consensus-beating 147,000, modestly higher than May's upwardly revised figure of 144,000. On the monetary policy front, the US Federal Reserve (Fed) maintained its wait-and-see approach, holding the federal funds rate steady at 4.25–4.50% for the fifth consecutive meeting. Separately, the European Central Bank (ECB), Bank of Japan (BoJ), and People's Bank of China (PBoC) also kept key lending rates unchanged. Policymakers took a more measured approach because of ongoing uncertainty surrounding the effects of tariffs on their respective economies.

Oil prices rose modestly in July with Brent crude closing the month just below USD 72 per barrel as trade optimism spurred hopes of increased global demand. Meanwhile, gold prices remained elevated, although prices moved modestly lower to end the month around USD 3,300 per ounce as increased risk appetite undermined the precious metal's safe-haven appeal.

From a sector perspective, for the MSCI All Country World Index, the Information Technology and Energy sectors were the strongest performers as companies reported healthy earnings results. Consumer Staples was the largest underperformer, as many companies issued cautious commentary regarding the impact of tariffs. Health Care was another underperforming sector, as health insurers and providers were hit by high Affordable Care Act (ACA) and Medicaid costs.

Portfolio Review

During the period, the Fund outperformed on both a gross- and net-of-fees basis versus the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). From a sector perspective, Information Technology and Industrials were the largest contributors, while Communication Services and Consumer Discretionary were slightly offsetting. Artificial intelligence-related (AI-related) stocks extended their recovery that started in April, as trade conditions continue to improve. The AI infrastructure theme was the strongest performer on continued optimism surrounding the AI data centre buildout. AI applications outperformed the benchmark, helped by healthy earnings results from our mega-cap names. AI-enabled industries underperformed primarily because of stock selection headwinds in the Health Care and Communication Services sectors.

Contributors

The top contributor over the period was Celestica Inc., a leading electronics manufacturing services company. Shares were higher as the company delivered strong earnings and raised its 2025 outlook due to strength from its connectivity and cloud solutions segment. The company's hyperscaler customers are ramping up their AI infrastructure buildout, driving greater demand for Celestica's services. Demand for Celestica's advanced networking hardware, server rack and storage solutions should benefit from this multi-year investment cycle.

Another top contributor was Oracle Corp., which provides enterprise software and services that includes Oracle Cloud Infrastructure (OCI), a rapidly growing hyperscale platform designed to deliver cost-effective, high-performance AI solutions. Shares were higher after Oracle disclosed that the company signed a cloud contract that would add USD 30 billion annually starting in fiscal year 2028. This represents the largest cloud contract ever signed in the industry. We continue to believe Oracle is well positioned to capitalise on the healthy demand backdrop for AI workloads, as the OCI business has a rapidly growing pipeline of large deals. This includes the US Stargate initiative, a potential source for further upside.

Detractors

A cloud-based streaming music and entertainment platform was a detractor for the month. Although the company reported solid earnings results supported by strong user growth, shares underwent some profit taking after the company provided a Q3 outlook that was shy of elevated investor expectations. As a leading audio streaming platform with an extensive library, the company is well positioned to deliver attractive earnings growth through user growth, new product features, bundling of services and pricing improvements.

Another detractor on a relative basis was NVIDIA Corp. Although the stock was a meaningful position in the Fund, it was a relative underweight in the blended benchmark, which had an average weight of 12.6% during the quarter versus the Fund's average allocation of 8.0%. Shares were higher over the period as the AI data centre spending backdrop continues to strengthen, and NVIDIA continues to execute on the production ramp of the new Blackwell graphics processing unit (GPU) product. We still favour the company as one piece of a diversified exposure to the AI infrastructure opportunity.

New Buys and Sells

We re-initiated a position in a cloud communications platform that allows users to easily integrate messaging, voice, video, and authentication functionalities into applications. We believe the combination of new customers leaning on the company's AI capabilities, enhanced product capabilities, and a new management team with greater financial discipline should be constructive for shares.

We initiated a small position in the initial public offering (IPO) of a cloud-based collaborative design platform primarily used for user interface and user experience design, prototyping, and graphic design. The company integrates AI through its AI suite, a series of internally developed and third-party AI tools. We believe the company is well positioned to be a longer-term leader in its core markets.

We exited the remaining position in a software company that provides a comprehensive customer relationship management (CRM) platform, as we had some concern regarding the company's exposure to the small-medium business segment, which tends to be more economically sensitive. In particular, we had some concern that some of its customers may have been impacted by the changing tariff environment that could delay decisions on purchase commitments.

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 early April and we believe the outperformance 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 Q2 earnings results so far, management teams across AI-focused companies shared constructive updates on the progress of their AI initiatives and business trends, despite ongoing uncertainties around tariffs. The landscape continues to experience a boost from additional AI data centre announcements, strong demand for AI workloads from new reasoning AI models, and more supportive advanced semiconductor export policies.

A more constructive backdrop is developing as we see more framework trade deals and additional details on 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. Moreover, the passage of the One Big Beautiful Bill Act should support US domestic investments by enhancing tax incentives for research and development activities as well as capital expenditures. In longer term, this should be supportive for the ongoing innovation cycle for AI.

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’s 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’s 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 remain focused on identifying the companies that can best leverage AI to deliver the most shareholder value creation over the long term.

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

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