

# 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 environmental and social characteristics.

### What Happened in February

Global equities delivered mixed returns over February. US equities were lower, as Trump administration policy uncertainty, conservative outlook from earnings, and softer economic data points weighed on investor sentiment. Chinese stocks outperformed, boosted by strength in Technology companies. European shares also advanced, underpinned by growing optimism over a potential end to the war in Ukraine.

February brought growing signs that the US economy was slowing, with inflation expectations higher. Retail sales, consumer sentiment and home sales slumped in January and early indications showed services activity in February contracting. While the US Federal Reserve (Fed) indicated it was in no rush to cut rates, the European Central Bank (ECB) is expected to continue to reduce borrowing costs. Conversely, accelerating Japanese inflation increased the likelihood of another rate hike from the Bank of Japan (BoJ).

Oil prices eased over February, with Brent crude closing the month back below USD 73 a barrel as slowing US growth and the threat of a global trade war dampened the demand outlook. Gold rallied further, touching a fresh record high of USD 2,950 an ounce, amid robust demand for safe-haven assets.

From a sector perspective for the MSCI All Country World Index, Consumer Staples was the best performing sector given its defensive characteristics. Real Estate was another outperformer amid lower interest rates. The Consumer Discretionary and Communication Services sectors were laggards over the month due to profit taking.

## Portfolio Review

During the period, the Fund underperformed versus the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). A broad pullback in higher growth-oriented stocks weighed on the artificial intelligence (AI) ecosystem. In addition to policy uncertainty and softer economic conditions, conservative guidance from earnings reports translated to a slower growth outlook. The backdrop caused investors to take a wait-and-see approach, prompting some profit taking and a rotation into defensively oriented industries that are generally not owned by the Fund.

From a sector perspective, Information Technology and Consumer Discretionary were the largest relative detractors. The Health Care sector was slightly offsetting. AI-enabled industries weighed on returns with a pullback from our automotive and power utility holdings. AI applications also underperformed the benchmark on mixed reactions following quarterly earnings. AI infrastructure pulled back on fears of a slower spending environment.

### Contributors

Eli Lilly is a leading innovative pharmaceutical company. Shares were higher after the company reported good earnings results and guidance. Also, the US Food and Drug Administration (FDA) announced a resolved shortage of semaglutide, reducing competition that should be constructive for Eli Lilly's GLP-1 opportunity. Looking forward, the company's growth prospects appear favourable, which should be driven by its robust drug pipeline and franchises, which includes oncology, diabetes and ventral nervous systems. Eli Lilly's innovation in obesity treatments is another key growth driver, that has a large addressable market with strong momentum.

Shares of a Chinese internet and ecommerce company were higher as the company's involvement with an AI system (developed by a computer and consumer electronics company) and collaboration with a Chinese AI start-up which launched an open-sourced AI model improved near-term outlook of its AI opportunities. Looking forward, the company is positioned to benefit from a recovery in gross merchandise value as macroeconomic conditions improves, greater penetration into lower-tier cities, and new monetisation opportunities on its platform.

### Detractors

Our position in electric vehicle (EV) producer Tesla, Inc. was the top relative detractor over the period. Shares pulled back during the month as new data indicated softer sales in Europe due in part to a transition of upcoming lower cost models. Looking forward, Tesla continues to have an ambitious innovation agenda, spanning EV, energy storage, autonomous driving and humanoid robots. We believe the company is making good progress on each of these agendas in ways that can unlock significant shareholder value in the future.

Our position in a provider of payments hardware and software solutions for merchants and consumers was another detractor over the period. Shares were lower on mixed earnings results, with a slowdown in the mobile payment app business that is expected to rebound towards the back half of the year. Looking forward, the company continues to have a unique growth opportunity, which is supported by its merchant ecosystem, consumer financial technology capabilities that includes the highly popular mobile payment app, and synergies from the acquisition of a buy now, pay later lender.

## New Buys and Sells

We initiated a position in a computer and consumer electronics company, as we believe it is poised to deliver a better AI experience throughout its product line-up and a compelling fall release of its new smartphone. We believe that shares may begin anticipating a strong smartphone cycle such that its shares can participate more with the growth of the AI market.

We exited a position in a computer, monitor and technology solutions company as competitive pressures have increased, such that long-run profit margins may be more muted despite being a beneficiary of the AI Infrastructure buildout.

We also sold our remaining position in a semiconductor manufacturer after the company reported disappointing results. It has been experiencing an inventory correction in many of its end markets, which could remain choppy and get further complicated by tariffs.

## Market Outlook

We maintain a positive outlook for equity markets in 2025, though markets may have periods of volatility due to concerns over stickier inflation, the implementation of Trump's tariff and fiscal policies, subdued global growth, and slower interest rate cuts. The Fed looks to be in a comfortable spot balancing inflation with economic stability and should continue its path towards rate cuts, albeit at a more gradual pace. An easier monetary policy backdrop should be constructive for pockets within the US economy to regain its footing and drive more broad-based growth.

On the changing policy landscape, we believe the upcoming Trump administration represents an evolution of policy, with a net positive effect on AI innovation. Trump recognises the US leads in AI and wants to maintain that leadership. A less regulated and business-friendly environment should be conducive for more technology investments and capital markets activity. However, companies heavily reliant on an overseas supply chain in some countries may face greater uncertainty. It remains to be seen how much tariffs and other restrictions could impact certain industries, but overall should be manageable. A wide range of capital is fuelling the cloud and AI investment backdrop, including venture capital, private equity, self-funding from larger technology companies and the start of an AI initial public offering (IPO) cycle.

Although volatility may continue as investors look to reduce risk in a period of uncertainty, we believe this is a normal and healthy event in bull markets. While the recent equity market pullback has been sharp, it is in line with previous drawdowns over the past few years. We continue to have a constructive outlook on the long-term fundamentals across the AI ecosystem. Moreover, high yield bond spreads have remained tight, signalling that the US economy remains in expansion territory. A large portion of investor concerns are macro related, and we will be paying attention to any policy responses that can help stabilise the economy and investor sentiment. Better clarity and certainty on the Trump administration's policies should help markets find better footing. As markets digests through these short-term risks, we believe this represents an opportunity to add to names that have overshot to the downside relative to their fundamental attributes and growth trajectory.

From an innovation perspective, progress with AI development is accelerating as more powerful capabilities becomes readily available from the robust "Phase 1" infrastructure buildout. We are beginning to enter "Phase 2" 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 3”. 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 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 28 February 2025 unless otherwise stated.

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which 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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