Allianz Global Investors

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 August

Global equities were broadly higher in August, with the MSCI All Country World Index (ACWI), S&P 500 and Nasdaq notching another consecutive monthly gain while setting fresh all-time highs. The Russell 2000 small cap index also had its best month since November 2024. Despite some initial growth concerns from a weaker-than-expected July non-farm payrolls, markets were supported by healthy corporate earnings, dovish US Federal Reserve (Fed) commentary, consumer resilience and narrowing trade uncertainties. There was a rotation into cyclicals, value and small caps in August, as growth-oriented names underwent some profit taking. From a sector perspective, for the MSCI ACWI, the Materials and Health Care sectors were the strongest performers. Utilities was the only sector to generate a negative return over the month.

US economic data was generally solid. Gross domestic product (GDP) growth for Q2 was upwardly revised to 3.3% on an annualised basis, and the Federal Reserve Bank of Atlanta's GDPNow running estimate signalled further growth for the current quarter. However, non-farm payrolls rose by just 73,000 in July, below estimates of 110,000, while the figures for May and June were downwardly revised lower. July consumer price index (CPI) services prices saw some reacceleration, but goods inflation was cooler than feared and core personal consumption expenditure (PCE) was in line with consensus. In monetary policy news, central bankers globally are continuing with their wait-and-see approach to monetary easing. The Bank of England (BoE) implemented a 25-basis point (25-bps) cut, taking the base rate to 4.0%. At the annual Jackson Hole Economic Policy Symposium, Jerome Powell's commentary was more dovish than expected. While policy is in restrictive territory, Chair Powell said that the shifting balance of risks warrant adjusting policy stance.

Oil prices eased in August, closing the month around USD 68 per barrel. Fears of an oil glut caused the first monthly decline since April as higher production from Organization of the Petroleum Exporting Countries Plus (OPEC+) countries coincided with weaker-than-expected demand. Gold prices remained elevated, closing August above USD 3,450 given a growing political pressure from the Trump administration on monetary policy and central banks diversifying their reserves that includes gold.

Portfolio Review

During the period, the Fund underperformed 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, Communication Services and Information Technology were the largest detractors, while Financials were slightly offsetting. Although artificial intelligence (AI) related stocks mostly remained on their upward trajectory that started in April, the AI ecosystem lagged the broader equities this month as the market favoured value and cyclically oriented stocks. Among the three AI themes, AI applications were the weakest performer. More software companies are seeing some headwinds due to softer near-term demand trends, as customers evaluate new generative AI capabilities and potential transition from seat-based licensing to consumption-based pricing. AI infrastructure underperformed during the period, as our semiconductor holdings saw modest profit taking following a strong rally that began in April. Additionally, AI-enabled industries underwent a slight pullback primarily due to mixed earnings results from our Communication Services sector exposure.

Contributors

Microsoft Corp. is a leading software provider with a wide range of services that include operating systems, software applications, cloud computing, and security solutions. The underweight position represented a relative performance tailwind. Microsoft had an average 10.98% weight in the blended benchmark, while the Fund had an average exposure of 5.76%. Despite reporting strong earnings results supported by accelerating business trends, the stock experienced modest profit-taking following a strong rally in prior months.

Another contributor on a relative basis was Nvidia Corp. Although the stock was a meaningful position in the Fund, it was a relative underweight to the blended benchmark, which had an average weight of 13.16% versus the Fund's average allocation of 7.76%. Despite reporting solid earnings results, shares saw a modest pullback as the company's revenue guidance for Q3 was slightly below elevated investor expectations. Nvidia continues to execute on the production ramp of the new Blackwell graphics processing unit (GPU) product. We still favour the company as a core position within a diversified approach to the AI infrastructure opportunity.

Detractors

Our underweight position in technology hardware producer Apple Inc. was the top relative detractor due to its significant weighting in the custom benchmark. Apple had an average 10.07% weight in the benchmark, while the Fund had an average exposure of 3.91%. Shares were higher during the period as the company announced a USD 100 billion investment in the US for the production of critical components to avoid tariffs.

Another detractor was an AI-powered technology platform that helps manage digital advertising campaigns. Shares underperformed as earnings results indicated that the company is growing slower than larger competitors, which include an ecommerce giant and Meta. The unexpected CFO transition also weighed on investor sentiment.

New Buys and Sells

Among our new purchases include a biopharmaceutical company focused on innovative medicines and therapies. The company integrated AI extensively across its operations to accelerate innovation and efficiency, including applications in drug discovery, improving drug development timelines, clinical trial optimisation and personalised medicine.

We initiated a position in a home improvement retailer at this time as we believe the company's business should improve as interest rates start to come down and as it sees more incremental efficiency gains from its growing use of AI. This includes a suite of generative AI tools to improve customer experience, dynamic pricing optimisation, marketing campaigns, and supply chain management and inventory forecasting.

We exited the position in the previously mentioned AI-powered technology platform after mixed earnings and guidance given the potential risk of increased competition and unexpected departure of the CFO.

We sold an online travel booking service as we continue to have concerns regarding China's consumer economy, which has faced economic headwinds. Separately, an ecommerce company's announcements of more aggressively targeting the China travel booking market complicates the competitive environment.

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, 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 a continued narrowing of trade and tariff outcomes as well as additional details on Trump's tax cuts and pro-business agenda. We 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 any 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 remain 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 August 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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