

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 March

Global equities were pressured across the globe in March, as the US-Israeli conflict with Iran escalated. The MSCI All Country World Index (ACWI) declined, with Asian countries underperforming given their greater dependence on energy imports, while the US proved more resilient. Oil and gas prices soared on supply disruption fears as Tehran placed a chokehold on exports through the Strait of Hormuz – a vital shipping lane handling around one fifth of the world's energy exports. Markets were caught between fears of a US ground operation and emerging reports that Trump may seek a diplomatic exit. Stock market losses were pared at month-end amid rising hopes of a potential de-escalation, as Iran signalled a willingness to end the conflict with security guarantees. From a sector perspective within the MSCI ACWI, the vast majority of sectors were broadly lower, with Materials and Industrials the weakest performers. Energy was the only sector to deliver positive absolute returns.

From a macroeconomic perspective, Q4 US gross domestic product (GDP) growth was downwardly revised from 1.4% to 0.7%. Non-farm payrolls data showed that the US economy lost 92,000 jobs in February, while the US unemployment rate crept back up to 4.4%. Headline inflation held steady at 2.4% on an annualised basis in February and increased to 0.3% from January's 0.2% on a month-over-month basis. On the monetary policy front, the US Federal Reserve (Fed) held the federal funds rate steady at a target range of 3.50%-3.75%, as widely anticipated, with Fed Chair Jerome Powell stating that it was too early to gauge the impact of rising energy inflation on the economy. Similarly, the Bank of England (BoE), European Central Bank (ECB), Bank of Japan (BoJ), and the People's Bank of China (PBoC) left rates unchanged.

Oil prices surged in March, with Brent crude breaching USD 112 a barrel, as the conflict in Iran continued and Middle Eastern oil producers cut supply due to the Strait of Hormuz closure. Oil prices subsequently eased amid rising hopes of a potential de-escalation in the Middle East, with Brent crude closing March below USD 105 a barrel. Meanwhile, gold prices declined in March, as investors favoured the safe-haven appeal of the US dollar over the precious metal. In addition, markets increasingly priced in the possibility of rate hikes, which put pressure on non-yielding assets such as gold, ending the month below USD 4,700 an ounce.

Portfolio Review

During the period, the Fund underperformed versus the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). Note the Fund's monthly performance (priced as of end of day, CET) does not reflect the positive market reaction to the latest Iran news that occurred in the final hours of trading on 31 March during US market hours, whereas the benchmark performance does. The commentary below reflects performance after aligning valuation cut-offs.

From a sector perspective, Industrials and Financials were the largest contributors, while Information Technology and Energy were offsetting. The artificial intelligence-enabled (AI-enabled) industries dimension was a key contributor helped by our Communication Services and Consumer Staples holdings. AI infrastructure slightly outperformed the benchmark, helped by our edge computing and optical networking names. On balance, AI applications underperformed amid continued negative investor sentiment. However, the impact on overall performance was limited due to the smaller allocation to this dimension.

Contributors

Ciena Corp. is a leading provider of optical networking systems, routing and switching solutions, and automation software. Shares were higher after the company delivered better-than-expected fiscal Q1 earnings results, helped by strong backlog growth and demand for optical networking solutions. Looking forward, the company is poised to benefit from strong optical networking spend associated with the AI infrastructure investment cycle, which we believe can drive upside revisions to the company's revenues and profits over the next year.

Flex Ltd. is a leading contract manufacturer, offering solutions that span from initial design to manufacturing through the life cycle of customer product. Shares were higher alongside other companies associated with data-centre hardware and power infrastructure. Looking forward, Flex remains a key provider of advanced manufacturing solutions and operates global supply chains across a diverse set of industries, including AI hyperscalers. Flex is involved in producing high-performance AI server racks as well as power solutions for AI data centres, positioning the company to capitalise on the AI infrastructure buildout.

Detractors

Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC) is the world's largest semiconductor foundry and a key enabler of AI, producing the leading-edge chips required for data centres. Shares declined alongside broader weakness in Taiwanese equities as Iran-related geopolitical turmoil heightened supply chain uncertainty. In longer term, the company continues to demonstrate a robust earnings growth trajectory, supported by its leadership in advanced node manufacturing and its expanding advanced packaging capacity, which together reinforce its pivotal role in enabling next generation AI models and driving the broad adoption of emerging AI technologies.

Eli Lilly and Co. is a leading pharmaceutical company, complemented by AI-driven drug discovery initiatives. Shares underperformed amid heightened concerns of greater competition in the obesity drug market. Looking forward, the company's growth prospects remain attractive driven by its robust drug pipeline and franchises, which include oncology, diabetes and central nervous systems. Eli Lilly's innovation in obesity treatments with promising oral treatments is another key growth driver to expand its addressable market.

New buys and sells

We initiated a position in Parker-Hannifin, a diversified industrial company focused on motion and control technologies. We believe the company is well positioned to benefit from the AI data centre buildout, while also being supported by longer-term secular trends in aerospace and electrification. In particular, Parker stands to benefit through its role as a critical hardware supplier for AI data centre environments, including advanced liquid cooling and thermal management solutions.

There were no complete sells made during the period.

Market Outlook

Despite recent volatility, we maintain a constructive longer-term outlook for equities. Recent developments regarding the ongoing conflict with Iran have resulted in somewhat greater clarity around the possibility of de-escalation. Notably, indications from Iran's president suggest a willingness to pursue an end to the conflict, contingent on the provision of security guarantees. However, it is important to note that uncertainty persists as to whether these signals will ultimately lead to a sustainable and successful de-escalation. We continue to maintain a balanced portfolio of companies benefitting from 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.

Over the intermediate term, an improved economic and earnings growth backdrop across more sectors should drive a broadening out effect in the equity market. Many major central banks have cut interest rates or signalled future cuts to keep financial conditions supportive of economic growth. In the US, the Trump administration's pro-business agenda also provides tailwinds through tax cuts, deregulation, domestic investments, and manufacturing reshoring. These efforts should help stimulate growth for both consumers and corporations across more areas of the economy as the conflict with Iran eases.

The topic of an AI bubble has been a key area of focus for the media and many investors. In our view, it is too early to draw a conclusion. We think it is important to highlight that current valuations and capital intensity are materially lower than the dotcom bubble. Also, the AI capital expenditure cycle is being funded by some of the biggest and most profitable companies in the world. There are likely pockets of speculation with some data centre projects and private companies, and we may see period of digestion at some point in a few years.

While the Technology sector may continue to perform well, we expect improved earnings growth from a wider set of companies across other sectors. This should lead to broader equity market participation, creating a healthier and more balanced environment compared to one dominated by a concentrated group of mega cap stocks. The Fund is designed to invest across a broad spectrum of technologies and industries embracing the disruptive power of AI. This includes sectors such as Financials, Health Care, Consumer, and Industrials that are beginning to see early benefits from AI. As earnings re-accelerate across more companies and sectors, we believe this creates compelling stock selection opportunities for our diversified AI investing approach.

From an innovation perspective, progress with AI development is accelerating as more powerful capabilities become readily available from this robust infrastructure buildout wave. We are beginning to enter the next wave, where AI pilots go into production. The advancements of AI-enhanced products or services can drive new levels of productivity, cost savings and revenue opportunities across industries. 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: The ongoing expansion of global AI data centres remains stronger than many investors appreciate, and concerns about capital spending are likely to persist as we climb the wall of worry. There are many bottlenecks to this new AI industrial revolution buildout, which continues to provide many compelling opportunities. Some key areas include accelerated computing chips, semiconductor manufacturing equipment, power production and power efficiency, and advanced networking.

AI applications: Over the next few years, AI applications and software will evolve from being helpful tools to a partner that acts on our behalf. We are moving away from the era of “static apps” toward a future of “collaborative autonomous agents” that can reliably act, remember context over time, and adapt to any situation. This new wave of intelligent applications should drive more automation, deliver significant efficiency gains, and open new monetisation opportunities. While the 2025 software spending environment has been mixed, we believe the backdrop could stabilise and improve in 2026.

AI-enabled industries: We are still in early stages of true AI adoption across industries. Innovative companies that have been early AI adopters are moving more pilot projects into production, accelerating financial and competitive benefits compared to their peers. We believe leading AI adopters in the Financial Services, Health Care, Industrials and Consumer sectors are beginning to see the early benefits of AI driving better financial results. These opportunities remain underappreciated by investors and represent an attractive area for alpha generation in our view.

The AI revolution is only beginning, and its trajectory promises to dramatically reshape the global economy. Recent advancements in AI demonstrated its potential, yet we are only in the early chapters of a much larger transformation that will gain momentum as innovation brings us closer to artificial general intelligence – potentially within the next decade. AI is rapidly redefining processes and competitive dynamics in every sector. In the next decade of AI, we believe more alpha generation may come from the companies that help enable AI transformation. The innovators in each industry will be ones that truly embrace AI to significantly boost productivity, reduce costs, and launch new products or services. 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 almost a decade ago, our focus remains on identifying the innovative companies best positioned to 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 March 2026 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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