

Allianz Global Equity Unconstrained

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets to achieve a concentrated equity portfolio with a focus on stock selection 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 November

Global equities closed November with mixed returns. US stocks rallied strongly as Donald Trump's landslide victory in the US presidential election boosted hopes of tax cuts and looser regulations. However, threats of tariffs weighed on the performance of other markets, particularly in Europe, Japan and many emerging markets. At a sector level, Consumer Discretionary and Financials stocks rallied the most, while Materials and Health Care were the weakest sectors in the MSCI All Countries World Index.

The US Federal Reserve (Fed) cut rates by 25 basis points (bps), slowing the pace of its easing after September's 50-bps reduction. Minutes of the meeting revealed that policymakers are considering scaling back future rate cuts if inflation fails to be tamed. While jobs growth was far weaker than expected in October, elsewhere the US economy appears solid. In contrast, the growth outlook darkened in Europe, ramping up pressure on the European Central Bank (ECB) to cut rates further. Meanwhile, speculation grew that the Bank of Japan (BoJ) may raise rates again before year-end.

The US dollar surged on concerns that Donald Trump's promises to raise tariffs would increase inflation and reduce scope for Fed to cut rates. The Dollar Index, a measure of the currency's strength against its major trading partners, hit a 2-year high. While the Japanese yen initially weakened against the dollar, it closed the month on a strong note, buoyed by speculation that BoJ may raise rates in December. In contrast, European currencies weakened, particularly the euro, as hopes grew that ECB may cut rates by 50 bps at its December meeting.

Oil prices closed the month little changed, with Brent crude trading around USD 72 a barrel. Israel's ceasefire with Lebanon's Hezbollah allayed fears over potential supply disruptions in the Middle East. The Organisation of the Petroleum Exporting Countries plus (OPEC+) next meets in early December amid rumours that a planned production increase may be postponed given oversupply concerns in 2025. Gold eased from the record high hit at the end of October as the US dollar strengthened.

Portfolio Review and Strategy

During November, the portfolio returned positively.

Contributors

Corpay was again the biggest contributor to performance over the month. The company is a leading provider of payment solutions and services that help businesses manage, control and simplify their payment expenses. Its core offerings include fleet vehicle payment processing services for commercial and government fleets, corporate payments transaction services for small-to-mid sized businesses, toll and in-vehicle electronic payment processing under the Sem Parar brand in Brazil, and corporate lodging discount cards. After pre-announcing solid Q3 results towards the end of October, the earnings release provided greater details and an enhanced outlook for 2025. Corporate payments continue to show good organic growth, comfortably offsetting softness in the North American fleet segment and lodging. Management has guided for an acceleration across all segments of the company in Q4 and double-digit organic growth in financial year (FY) 2025. Recent acquisitions of an accounts payables automation solutions provider and a cross-border and treasury management solutions company are also forecasted to be accretive to growth in FY 2025.

A provider of online vehicle auctions and salvage services accelerated strongly in the second half of the month as it reported Q1 2025 earnings. Revenues grew by 12% year-on-year, 4% above consensus, driven by growth in total loss frequency (the percentage of vehicles in an accident deemed a total loss) and market share gains. Global service revenue grew 15% in Q1, primarily due to increased volumes. US service revenue grew by about 13% for the quarter, which included 2% attributable to Florida hurricanes Helene and Milton whilst international service revenue grew by about 30%. Average selling price also showed signs of stabilisation, with only a small decline year-on-year. Their expansion into heavy equipment auctions, particularly through the acquisition of a farm, machinery and heavy equipment auction platform late last year, has also been a contributor to its positive stock performance with double-digit growth in this space. The company's shift to a consignment-based approach in some regions like Germany could potentially offer higher margins.

Detractors

A microcontroller manufacturer had the biggest negative effect on performance in November. The company is a global leader in providing smart, connected, and secure embedded control solutions. It offers a broad product portfolio, including microcontrollers and analog devices, designed to serve a wide range of applications across various markets such as industrial, automotive, consumer, aerospace computing. The company reported in-line results but provided disappointing guidance as the industry's cyclical recovery elongates. Demand from autos and broad-based industrials remains soft and both customers and distributors are destocking inventories. Our view is that the company is a well-positioned growth cyclical company in microcontrollers and benefits from long-term mega trends. It has a strong moat in an oligopolistic market and will come out of the current downcycle. It has also been announced that the current chairman of the board will return to the helm as interim CEO, replacing the current CEO who will retire. We have increased confidence in the company's ability to manage the cycle better than peers, with the new CEO having led the

company for more than 30 years and he has extensive experience in managing this cyclical growth business. The company has also built a strong platform in recent years via acquisitions.

A leader in the manufacturing and provision of services to the science industry also detracted to performance. The company is among a number of laboratory-oriented names that are still normalising post-pandemic, working through inventory build-up, and navigating a general slump due to reduced funding in the biotech space. Weaker demand from China has also provided a drag to revenues. Despite these headwinds, the company posted solid Q3 results last month, outperforming their addressed markets and reiterating full-year guidance. Revenues were in line, while earnings per share (EPS) beat expectations and management is confident about returning to growth in Q4. China and capital equipment spend remain muted, but pharma and biotech are slowly improving. The company is positioned to grow around 5% in 2025 in addition to expanding margins and is poised to benefit from some of the most important structural trends in Health Care.

Significant Transactions

There were a number of trades in November, with three positions exited and three new companies added.

We started a position in a UK-listed hotel group. The company is one of the world's leading hotel groups, with 19 hotel brands, one of the industry's largest loyalty programmes and over 6,300 hotels in more than 100 countries. The US is the largest market, accounting for 40% of revenues with the UK the next largest at 5%. Most of the hotels are franchises, which it manages on behalf of third-party hotel owners, thus having low capital requirements and receiving reliable long-term cash flow streams. The costs of adding new hotels to the hotel system are low, contracts with the owners are long term (generally 25 years), and margins are high, with the company taking a percentage of hotel revenues as a fee. Hotels and travel are a growth industry, with room nights growing consistently in most regions across time. The company has a large pipeline of new hotels to add to its existing system, equivalent to 30% of existing rooms with associated incremental fees of USD 500, with these fees coming at very high incremental margins. Its share of all new hotels under construction globally is about 10% versus 2.5% share of existing rooms. Almost all new hotels are branded and are generally affiliated to one of the big groups.

Another UK-listed business was also added to the portfolio in the month. It is the world's leading contract food services supplier, with operations in 40 countries. The company provides services through its five sectors: business and industry, health care and seniors living, education, sports and leisure, vending and refreshment, offshore and remote. It is a highly defensive business, with strong customer retention (approximately 95%), a track record of resilient growth (organic growth troughed at 0% in FY 2009, and averaged at about 5% in 2010-19), and high cash flow return on investment (CFROI) through a range of market environments (20-25% pre-COVID, including during global financial crisis). The company is the best-in-class operator, with superior organic growth and highest margins. Its advantage is both structural (a group purchasing organisation, focus on higher margin food rather than lower margin facilities management) and operational (execution, discipline, know-how, go-to-market, etc.). Ongoing organic revenue growth is likely to be 6-8%, much higher than the historical 4-6% range, due to higher net new business growth (4-5% in the medium term, versus circa 3% pre-COVID), as customer retention improves relative to pre-COVID levels (particularly in Europe) and new business outsourcing is accelerated by labour market tightness, high (and volatile) inflation and rising regulation. Since the start of 2011, the company has returned more than its market cap to shareholders through dividends and buybacks.

We also initiated a position in a US provider of semiconductor manufacturing equipment. The company is the leading player in the global wafer fabrication equipment (WFE) market with a 20% market share. Its comprehensive product portfolio spans semiconductor systems, applied global services, and display technologies, enabling it to address complex manufacturing needs across various customer segments. The company has significant market share in its most important markets, with 70% of revenues coming from products that hold 50%+ market share. It is exposed to various

structural growth trends such as artificial intelligence (AI), high performance computing, the Internet of Things (IoT) and the increasing demand for advanced chips. Historically, the company has demonstrated strong cash flow generation, enabling it to invest in growth or return cash to shareholders.

We sold a supplier of advanced materials and solutions to semiconductor and other high technology industries to fund the position in the aforementioned semiconductor manufacturing equipment provider. We still like the company, but believe that the latter offers greater growth potential due to its larger share in leading edge semiconductors. Cash flow return on investment is also higher for the latter, the balance sheet is stronger, and valuation is lower.

In the case of a luxury goods group, we generally like the business and its staples-like attributes, and we might revisit the case in the future. However, the company is currently experiencing a challenging environment and in the context of a concentrated, global circa 30 stock portfolio – we believe there are currently better alternatives available.

We also sold a multinational packaged food company. We no longer see a strong investment case for a company we have owned since the inception of the Fund. Growth is rather muted (despite the portfolio changes we have seen in recent years) and there is a lack of catalysts to change the current malaise. Due to higher leverage, incremental share buybacks may be at lower levels than in recent history.

Market Outlook

Following the clear results of the US election, where Donald Trump eased to a clean sweep of the Senate and the House of Representatives, the outlook for risk assets such as equities has become more favourable as the market anticipates the proclaimed “pro-growth policies” of the administration in waiting. Although economic resilience can be observed in most developed countries, the proposed lavish spending and deregulation could boost the US economy – at least in the short term – further widening the growth gap between developed market economies. The mooted tariffs for trading partners of the US could also dampen the growth outlook for these regions, especially within emerging markets.

It remains to be seen if the rhetoric of an election campaign feeds through to legislation, but the impact of policies will undoubtedly be felt throughout the world. Fiscal largesse – together with higher tariffs, tougher immigration policy and looser regulations – tends to be inflationary. In response, the Fed may moderate its easing cycle, potentially supporting the dollar. Mr Trump has also pledged to impose a 20% blanket levy on all US imports, plus a 60-100% tax on Chinese products. The assumption is that this is a negotiation tactic for better deals on US exports, and that the levels suggested will not be reached, but any tariff hikes that do materialise will likely trigger retaliation by other economies. We foresee more regional nearshoring and onshoring as companies diversify their manufacturing bases and supply chains – a move that could strain balance sheets. Higher tariffs could hit European and emerging market stocks, particularly those reliant on the US market, such as makers of luxury goods, cars, aircraft producers and steel companies. Navigating potentially wide disparities in performance between winners and losers within sectors and themes and between regions will require active investment management.

Outside the US, China recently announced a new USD 1.4 trillion stimulus package designed to help restructure local government debt and support the economy’s move away from reliance on the property sector. The size of the stimulus disappointed some observers. However, the move is certainly a step in the right direction and more actions from the central government are anticipated as the direction of the new administration in Washington becomes clearer. Recent data in China points to a stabilisation of the macroeconomic environment, and even a rebound in the case of the Financial sector. And while a good deal of investor scepticism about China remains, recent initiatives show regulators are actively easing fiscal and monetary policy and seeking to boost asset prices – a very different stance to just a few months ago.

Considering our portfolio, we believe when the current cyclical effects recede (in industries such as medtech, construction, semiconductors, and the consumer space), our stocks that are currently weaker can recover quickly. In the US, market deregulation could see a broadening of stock performance away from just the mega caps, with pockets of high valuations retracting, and increasing AI adoption creating broader opportunities within the Technology sector. Lower rates and a more buoyant economy should bring support to our Consumer names and overall, accelerate growth above value once again. We remain optimistic about the year ahead.

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