

# Allianz Global Equity Unconstrained

## Quarterly 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 environmental and social characteristics.

### What Happened in Q1

Global equities delivered mixed returns over Q1 against a volatile economic and geopolitical backdrop. President Donald Trump's return to the White House and the swift implementation of his disruptive agenda dominated the headlines early in the quarter and reinforced economic uncertainty over the remainder. Continued conflict in Ukraine and Gaza, alongside escalating concerns surrounding Iran's nuclear programme, compounded global market jitters.

US stocks weakened, posting their worst quarter since 2022, amid growing fears of slowing momentum in the US economy given higher tariffs and federal job cuts. Artificial intelligence-related (AI-related) stocks, in particular, were hit after an emerging Chinese startup announced a low-cost AI model with performance comparable to leading Western models. More positively, European shares were bolstered by the German Parliament's approval in March of a landmark debt reform bill to fund defence and infrastructure spending. Chinese stocks also advanced, boosted by the success of the aforementioned Chinese AI startup and hopes of further stimulus from Beijing. At a sector level, Information Technology and Consumer Discretionary stocks were the weakest in the MSCI All Country World Index, while Energy names rose the most.

The quarter was dominated by heightened economic uncertainty and gloomy global growth forecasts, with central bank policymakers highlighting increased downside risks to growth due to the Trump administration's tariff policy. The US Federal Reserve (Fed) left rates on hold at 4.5%, while both the European Central Bank (ECB) and Bank of England (BoE) cut rates. Conversely, the Bank of Japan (BoJ) raised rates as it continued to normalise monetary policy.

The US dollar declined steadily over Q1 as fears grew that higher tariffs and federal job cuts could slow US economic growth. The retreat meant the dollar lost all the gains it made on hopes that Donald Trump's return to the White House

would lead to a pro-growth policy agenda. In contrast, both the euro and the Japanese yen appreciated, with the yen marginally edging ahead. The euro was boosted by optimism over improving growth prospects following Germany's decision to relax its debt brake, while the Japanese yen continued to benefit from expectations of further monetary tightening.

Brent crude oil prices breached USD 82 a barrel for the first time in almost six months in January, before moving lower over the remainder of the quarter. In March, Brent crude dipped below USD 70 to hit the lowest level since December 2021 amid fears that recently imposed US tariffs will diminish global energy demand as the world's oil producers increase output. Oil prices recovered a little into quarter end as prospects of a swift resolution to the war in Ukraine faded and after Trump threatened to impose tariffs on countries buying Venezuelan oil. Meanwhile, tariff-related tensions and market volatility drove safe-haven demand for gold to a series of all-time highs over the period, breaching USD 3,100 an ounce for the first time on record.

## Portfolio Review and Strategy

During Q1, the portfolio returned negatively.

### Contributors

Diversified software business Roper Technologies was the biggest positive contributor to returns in Q1. Roper is an acquisitive diversified technology group with a strategic focus on differentiated vertical niche software businesses with high recurring revenues, 60%+ gross margins and low capital intensity. The company is a quality, high-return business with sector-leading free cash flow generation and a proven strategy of active capital redeployment into return-accretive acquisitions, making it a compelling compounding story. Roper announced Q4 2024 results at the end of the January which showed a solid beat to consensus estimates and issued a better-than-expected organic growth guide for 2025 of 6-7%. The focus on more stable software segments and divestment from more cyclical industrial businesses over recent years should continue to support organic growth, and coupled with continued value accretive capital deployment, help the company to return to double digit earnings growth.

A US insurance broker also provided positive returns for the quarter. We believe that insurance brokers are superior businesses to the insurance carriers as they take no underwriting risk, no investment/credit risk, and have no exposure to natural catastrophes (which are rising in both frequency and severity due to climate change). This leads to lower volatility in year-to-year profitability. Customer loyalty for the brokers is high, with retention rates of 90%+, and both the property and casualty (P&C) brokerage and reinsurance brokerage markets are highly consolidated. Q4 results reported at the end of January showed healthy organic growth in both brokerage and risk management. Adjusted earnings per share (EPS) growth was strong, primarily due to expanding margins. Guidance was also positive with organic growth for brokerage to be in the 6-8% range for 2025. The defensive nature of the business has been particularly welcome in the later part of the quarter.

### Detractors

A software company was biggest detractor to performance in Q1. The company focuses on digital creative media design, with category leadership in software tools for graphical and visual artists, document management and digital signatures, and marketing management. It is expanding its digital marketing services incrementally by investing in new sectors like mobile, video, collaboration tools, and most recently, AI. Over 90% of its revenue comes from its subscription-based business model, predominantly driven by enterprise customers. In the most recent quarter, digital media net new annual recurring revenues (ARR) beat consensus by 6%, but still declined -4% year-on-year. Investors were disappointed

that the split between its creative design software and document management tool will no longer be disclosed, although welcome new transparency on subscription revenues by customer type. New AI standalone and add-on products are now a USD 125 million book of business, expected to double by year end. Recent price increases issues across their creative design offerings can offer additional support. Guidance for financial year (FY) 2025 was reaffirmed.

A medical device company also provided a headwind to portfolio performance. Best known for its clear aligners, the company provides a range of solutions for malocclusion or the misalignment of teeth. These include retainers, intraoral scanners and services for dentistry and computer-aided manufacturing software for dental laboratories and practitioners. The company announced Q4 results that were broadly in line with consensus but provided a weak outlook for 2025. The sluggish macro environment and generally cautious consumer has led to muted unit demand in the US and foreign exchange (FX) headwinds have offset a modest advance in volume growth in select international markets.

### Significant Transactions

There were a number of transactions during the quarter, as market volatility provided opportunity to initiate new positions.

In January, we initiated a position in a US-listed company that provides enterprise cloud computing solutions. Its integrated customer relationship management (CRM) platform helps the group to deliver a “single source of truth” connecting customer data across systems, applications and devices, enabling customers to sell, service, market and conduct commerce. The company operates in a large and growing total addressable market (TAM) which is highly fragmented, with it the dominant player with just 30% market share. We believe the company is likely to be one of the first beneficiaries of AI in the software industry. Its position as the “single source of truth” for its customers’ data positions the company well to deploy AI tools to enhance customer productivity. At its most recent results in February, the company reported it had 5,000 customers for its flagship AI product – an agentic AI platform. Revenue growth is strong and a new focus on profitability could see an expansion in margins and cash flow.

We also bought a Japanese-listed online wholesaler specialising in maintenance, repair and operations (MRO) materials. The company does not manufacture its own products, but sources them from various manufacturers, trading companies and original equipment manufacturers (OEMs). It operates a vast ecommerce platform offering a wide selection of MRO products, with national-brand products accounting for approximately 80% of sales. Private-brand products, produced by contracted OEMs and sold under the company’s brand, make up the remaining 20%. The company’s main market is Japan but it is expanding into established industrial markets such as South Korea and fast-growing emerging markets like India and Indonesia. Its huge customer base and inventory is complemented by mature and stable logistics infrastructure, a superior search engine developed in-house, and data-driven marketing to analyse consumer behaviour and optimise sales promotions. The company is a high-quality business having built wide moat disrupting the traditional store-based distribution model and has the capacity to continue to take share and strongly grow EPS.

A US supplier of electronic design automation (EDA) solutions to the global electronics market was also purchased at the beginning of March. The EDA industry is a duopoly between this and another provider, with these two players increasingly important for semiconductor planning, design and verification/testing, as well as for organising the use of semiconductors into broader technology systems. There are high barriers to entry due to the increasing complexity of semiconductors, high research and development costs and the company’s ability to provide full lifecycle design tools that the semiconductor designers rely on. Increased complexity and new entrants to the semiconductor market has also led to rapid growth, with EDA revenues less variable than semiconductor revenues or capital expenditure (capex) as customers are typically on multi-year contracts. It is a company that we have been following closely and the recent de-rating provided an attractive entry point.

The final new holding is a French-listed company that is a leading provider of electrical equipment, energy management solutions and factory automation systems. The company serves a range of end markets, including residential & commercial buildings (35% of sales), industrials (35%), data centres & networks (20%) and electrical infrastructure (10%). It has a balanced geographical exposure, generating 35% of its sales from North America, 29% in Asia Pacific, including 12% in China and 25% in Western Europe. The company benefits from increased focus on energy efficiency in buildings, rising investment in grid expansion/upgrades driven by electrification, growing demand for automation and digital solutions across industrial end-markets, and the ongoing data centre buildout driven by cloud and AI investments.

We sold our position in a Chinese technology conglomerate after the stock was added to the Chinese Military Companies (CMC) list by the US Department of Defence. The CMC list includes 134 companies that are deemed to have ties to the Chinese military and includes China's largest shipping company and a technology giant. The company maintains that its inclusion is erroneous, as it is neither a military company nor a supplier and assert that this listing has no immediate impact on their business operations but there is a significant overhang to the stock and a risk that the company is moved to the more restrictive CMIC list, where US investors would be forced to sell the stock.

A professional services company was also sold. Although generative AI deployments provide possible upside, the strong move by the stock in H2 2024 means that the valuation is high when compared to the growth profile of the company. We saw other companies better positioned to benefit from AI in the near term.

Two industrial companies (a compressor manufacturer and a supplier of fluid management products and packages) were sold to finance the new positions in the Japanese online wholesaler, the EDA supplier, and the provider of electrical equipment, energy management solutions and factory automation systems mentioned above. While still a fantastic business, we believe that the valuation for the compressor manufacturer is fully priced, and there are greater opportunities elsewhere. The supplier of fluid management products and packages remains an admired business but growth has been sluggish in recent years due to a lack of inorganic opportunities and we cannot see this changing in the near term.

## Market Outlook

The sweeping US tariffs announced by President Trump in early April mark a significant escalation in global trade tensions, likely introducing a material headwind to global growth and sentiment. Tariffs of this scale will pressure supply chains, raise costs, and likely prolong the current period of elevated market volatility. While the risk of recession has undoubtedly risen, particularly if retaliatory measures broaden, history shows that companies that are structurally well positioned can often adapt.

We have faced similar challenges before, albeit at lower intensity: during the US-China trade war of 2018-2019, global markets corrected sharply but had fully recovered by mid-2019. Companies with strong balance sheets, pricing power, and adaptability managed to outperform, and many diversified their production. Some firms even benefitted from reshoring and supply chain investment. While near-term pressure on consumer sentiment and corporate margins is likely, particularly in the US, historical precedent suggests that quality businesses with structural growth drivers tend to navigate these environments relatively well.

Importantly, recent comments from the US administration that tariffs may be wound back for countries offering a "phenomenal" deal, and that "the tariffs give us great power to negotiate", suggest that a path toward lower tariffs and reduced disruption of trade remains possible. If no further escalation occurs, the announced tariffs could represent the maximum impact, though significant supply chain adjustments will still be necessary. Non-tariff measures, however, will

complicate negotiations and prolong uncertainty, which markets tend to dislike. Although unlikely to offset the severity of these tariffs, greater international cooperation among allied countries and accelerated reshoring efforts could help create new demand drivers over time.

Against this backdrop, our high quality, structural growth strategy naturally promotes holdings that are fundamentally resilient, with continued earnings growth key to driving stock prices as tariffs evolve – and potentially dissolve. Many of our companies are leaders in essential industries, have pricing power, asset-light models, and/or domestic market exposure that help buffer against external shocks. Several are also aligned with long-term secular trends such as reshoring, energy transition, and automation, which are likely to be reinforced as global supply chains regionalise.

After three years of derating, valuations for most of our European companies have fallen to, or below, their 10-year historical averages, meaning much of the current uncertainty is already reflected in prices. Many of our global stocks have also seen valuations decline significantly.

While we intend to remain vigilant to downside risks, we are also focused on selectively adding to high-quality companies where short-term dislocations create long-term opportunities. We believe our disciplined approach and focus on quality businesses positions us well to navigate this period of heightened uncertainty.

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