

# Allianz Global Hi-Tech Growth

## Quarterly commentary

### Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets with a focus on the information technology sector or on an industry which forms part of this sector.

### What Happened in Q3

Global equities were defined by several major developments during the quarter. The first was a sharp sell-off in early August as weaker-than-expected US jobs data sparked recessionary fears. This was followed by a swift rebound, with many markets finishing the quarter at and near record highs, as the US Federal Reserve's (Fed's) decision to start cutting rates increased hopes of a soft landing. At the end of the quarter, China's announcement of the biggest stimulus measures since the pandemic further boosted shares. The quarter was also notable for a rotation out of highly valued growth stocks, particularly in the Information Technology and Communication Services sectors, into sectors seen to be bond proxies, such as Utilities and Real Estate.

Inflation continued to slow, falling to 2.50% in the US and 2.20% in the eurozone in August. Concerns over the health of the labour market finally persuaded the Fed to start cutting rates in September. The Fed's larger-than-usual 50-basis point (50-bps) cut was accompanied by forecasts of further cuts this year and in 2025. In the same month, the European Central Bank (ECB) also reduced borrowing costs, marking its second cut this year, while the Bank of England (BoE) started its easing programme in August but kept rates on hold in September. In contrast, the Bank of Japan (BoJ) raised rates to 0.25%, indicating it was confident that inflation was sustainably above 2%. Meanwhile, the People's Bank of China (PBoC) cut rates as growth remained subdued and the Chinese authorities announced the biggest monetary stimulus since the pandemic.

The US dollar weakened as signs of slowing US economic activity led to growing speculation that the Fed may cut rates more than once in 2024. Oil prices, which started the period just under USD 90 per barrel (Brent crude), trended lower, briefly moving back below USD 70 per barrel in early September. While heightened tensions in the Middle East and production cuts from the Organisation of the Petroleum Exporting Countries Plus (OPEC+) helped support prices, this was offset by abundant supply and fears that a slowdown in global growth could depress demand. In contrast, gold,

which is often seen to be a safe haven in times of uncertainty, rallied, with the precious metal breaching USD 2,600 an ounce for the first time on record.

### Portfolio Review

The Fund trailed the return of the MSCI World Information Technology Index for the quarter due to short-term stock selection, which countered sector allocation tailwinds in non-technology segments of the market. Specifically, results were aided by exposure to Industrials, Health Care, Utilities and Consumer Discretionary. Meanwhile, stock selection within Technology detracted from performance, including more conservative stock selection in semiconductors, technology hardware and information technology (IT) services, followed by exposure to the Financials sector.

On a single stock basis, our exposure to Fortinet Inc., a maker of network appliances and software solutions that integrate multiple areas of security, contributed to performance following better-than-expected results pointing to a sequential acceleration in both its product and services segment sales. Overall, investors have been sceptical of the company's ability to deliver results, with this robust earnings announcement translating to a rebound in sentiment during the quarter. Our below-benchmark allocation to enterprise software, cloud and cyber security giant Microsoft Corp. contributed to performance, given the stock's significant benchmark weight and quarterly decline. Our active position in an infrastructure software platform also contributed positively to performance, given the company's attractive growth versus valuation profile and potential to build momentum following recent earnings results.

Conversely, a semiconductor design and architecture licensing provider underperformed following its quarterly earnings that fuelled concerns that the near-term outlook for its royalties business on destocking and cyclical headwinds impacting the company's embedded and internet of things (IoT) customers. We reduced our exposure in the stock during the quarter in an effort to reduce the overall risk in the portfolio. Our below-benchmark allocation to smartphone, personal computer and related-products giant Apple Inc. offset results, given the stock's significant index weight and double-digit quarterly advance as investors gravitated towards the stock due to its leadership position, attractive fundamental factors and improving sentiment around artificial intelligence-related (AI-related) product rollouts. Our position in Microchip Technology Inc., a leading provider of smart, connected and secure embedded control solutions, detracted from quarterly results as in-line forward guidance came in below street expectations. We trimmed our position in the stock in favour of companies with better near-term catalysts.

### Market Outlook

The near-term outlook for Technology and related sectors has improved in light of the Fed rate cuts, which is likely to have an incrementally positive impact on market sentiment. Our expectation is that mergers and acquisitions (M&A) activity may rise as capital markets continue to show signs of strength. Investors are paying attention to a closer race in the upcoming US elections which may also add to volatility, especially around geopolitics and global supply chain. Amid any potential volatility, we are opportunistically looking to upgrade select names and add to our highest conviction ideas to better position the portfolio for improved performance.

We anticipate a potential broadening of performance across industries and market caps, consistent with a more normalised environment. Global economic conditions remain healthy, as labour markets, corporate earnings and consumer spending have been resilient. Valuations continue to be reasonable and we believe there is the potential for upward revenue and earnings estimates should we see a better spending environment, but continue to make sure that we have exposures in subsectors which will receive budgetary allocations. Uncertainty in terms of geopolitical tensions, the US presidential elections and the timing and the level of Fed and other central bank interest rate cuts may translate to periods of rising volatility in the coming months.

In our view, Information Technology and related sectors continue to benefit from tailwinds which should continue to drive attractive long-term appreciation. Many businesses are struggling to find workers to meet customer demand and need technology solutions to improve productivity of limited staff. As companies need to reduce costs and improve productivity, we expect to see accelerating demand for innovative and more productive solutions such as cloud, software-as-a-service, AI, cyber security, etc. We are in a period of rapid change, where the importance of technology is key to the prosperity of most industries. This environment is likely to provide attractive growth opportunities in many technology stocks over the next several years. The incorporation of Health Care, Communication Services with select Industrials and consumer-related exposure is intended to provide both diversification and alpha potential over time.

We continue to believe technology leaders spanning multiple sectors from Technology to Health Care to Consumer Discretionary can provide some of the best absolute and relative return opportunities in the equity markets over time.

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All data are sourced from Bloomberg and Allianz Global Investors as at 30 September 2024 unless otherwise stated.

Allianz Global Investors and Voya Investment Management have entered into a long-term strategic partnership, and as such, as of 25 July 2022, 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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