

Allianz Global Sustainability

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets in accordance with environmental and social characteristics.

What Happened in October

Global equities moved higher in October as the US Federal Reserve (Fed) cut rates for the second sequential meeting since Trump took the presidency although it's the third since he was elected. Again, the longer end of the bond market didn't quite move as much in sympathy reminding us that there is fiscal fragility to be considered.

The earnings season is well underway, and it has become evident that the significant panic surrounding tariffs in April has been navigated better than expected. What is also true, however, is there is clear economic malaise in the US for the average or median company, and it really is only the names positively exposed to artificial intelligence (AI) that are doing well.

In fact, earnings guidance and results in the consumer space were poor and despite the shut down and lack of official data the sentiment regarding the economy and labour markets is clear.

Inflation data has, however, been more volatile and therefore the weaker guidance has come at a time when rate setters still have inflation fears and so this fragility endures in almost anything outside of the AI trade.

The Technology sector rose nearly 10% for the month. South Korea experienced a strong rally, driven by new partnerships with a US-based AI company and significant momentum from a South Korean manufacturing conglomerate and a memory semiconductor supplier. Taiwan also performed well, emerging as another clear beneficiary of these trends.

ALLIANZ GLOBAL SUSTAINABILITY: MONTHLY COMMENTARY

Europe and Latin America were weaker than the other markets quite simply as their indices are less heavily weighted towards AI. However, we would note the announcement of the partnership between Nvidia and a Finnish telecommunications, information technology, and consumer electronics company that took the shares up over 40%. If we needed a reminder of tech concentration, we certainly got one.

Japan moved forward by announcing that Takaichi would become prime minister and we continue to have interest in the region from a stock picking and allocation perspective.

Portfolio Review

Al exposure drove performance over October. The portfolio had 13 positions returning over 10% in the month (and only one that fell 10%) and interestingly only six of them are related to the AI rollout. We did have some good results in Health Care that supported performance in the month. This comes after the Trump administration began to make deals with the larger names. We expect more to come and this has a chance of boosting the sector's performance.

As you might expect, in a very speculative market, our biggest detractor was our slight underweight to semiconductors, but we do think the recent run in memory looks very fragile.

Significant transactions

We initiated a new position in a Canadian based, global engineering company, that is benefitting from many of the trends that are under significant stimulus today such as increased demand for data centres and power infrastructure. It is a very successful roll-up company with a well-liked management team that delivers consistently on their targets. We think the shares are much more attractively valued than the broader market and they will compound over time.

We did use the very strong run-up in Technology companies to trim a supplier of advanced materials and solutions to semiconductor and other high technology industries (memory exposure), and a provider of enterprise information technology management software (position size).

Market Outlook

The Fund has a slight overweight positioning in the AI winner group, with the remainder being relatively defensive, prioritising stable earnings and returns in the current environment of economic uncertainty.

We believe there will be a pause in the outperformance of the Magnificent 7*, and market returns will broaden in financial year (FY) 2026 and beyond, as valuations and earnings revisions become less compelling for that group. In fact, we can already see dispersion of returns between them beginning to emerge.

The Magnificent 7* companies are spending record levels of capital expenditure (capex) and will need to show a return on this spend shortly. They also running the risk that there simply isn't enough power to satisfy the expectations of the market, and this will be interesting during 2026. The recent narrative is that demand still outweighs supply, but this is coming to the point where more questions are being asked about sustaining this level of performance.

We continue to find attractive valuations and investment cases that will work well if the market rotates away from its narrow leadership.

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All data are sourced from Bloomberg and Allianz Global Investors as at 31 October 2025 unless otherwise stated. * Magnificent 7 refers to a group of US stocks which includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

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