

# Allianz Global Sustainability

## Monthly commentary

### Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets of developed countries in accordance with the Sustainable and Responsible Investment Strategy (SRI Strategy). The Investment Manager may engage in foreign currency overlay and thus assume separate foreign currency risks with regard to currencies of OECD member states, even if the Sub-Fund does not include any assets denominated in these respective currencies.

### What Happened in October

Despite wide-ranging fears that October could turn out volatile in the run-up to the US election, global equities mostly kept pushing higher in an orderly fashion, until the last day of the month when all gains were given up driven by a sell-off in Technology heavyweights, especially from a social media company and Microsoft, as the stocks dropped following reporting softer results than market expectations.

At a sector level, Health Care, Materials, Consumer Staples and Real Estate fell the most, while Financials, Communication Services and Energy moved higher.

The flickers of volatility did not exclude rates and currencies as the big story of the month was the sell-off in global bonds and the consequent sharp rise in US yields as polls pointed to a Donald Trump win in November's presidential election. The former president has promised to hike import tariffs substantially, while tax cuts are likely to further swell the fiscal deficit, cautioning investors as the yield on the 10-year US Treasury bond rose 50 basis points (bps) over the month to close just below a 4-month high of 4.3%.

The US dollar strengthened as investors moderated their forecasts for the pace of rate cuts by the US Federal Reserve (Fed). While the euro fell against the dollar, it rose against the Japanese yen. In a surprise result, Japan's ruling Liberal Democratic Party lost its parliamentary majority in October's snap general election, prompting concerns over the

country's political stability and economic outlook. The British pound slumped towards month-end as the aftermath of the UK budget raised renewed questions on the growth and inflation outlook.

In commodities, oil prices initially surged after an escalation of tensions in the Middle East and subsequently retreating. Gold prices also surged to a fresh record high amid the ongoing geopolitical tensions and as investors evaluated political risks ahead of the US presidential election.

### Portfolio Review

The Fund lagged its benchmark, the Dow Jones Sustainability Index.

#### Contributors

Amongst the top contributors featured our Financial and Energy holdings that benefitted from the advance of their sectors. Previous detractors also fared better over the month.

Our holding in Morgan Stanley was the top contributor to performance. Whilst the sector had strong performance, the company also reported a solid set of Q3 results with robust revenue and profit growth well ahead of market expectations. Management also highlighted the strong momentum within the investment banking division and expects the deal-making environment to benefit from lower interest rates.

Visa also performed strongly over the month with their Q3 earnings showing modest topline revenue and earnings per share (EPS) growth, but it maintained a constructive sales guidance. Visa is a high quality business operating in duopoly markets with reasonable growth prospects and a strong competitive advantage inherent in its large payment network, despite this, it trades well below its peer group, and we think there is no reason for this gap to remain.

Other Financials such as a derivatives exchange operator also featured in the top contributors to performance over the month. The company showcased record revenue and volume growth in their latest earnings report. It still trades well below historical multiples, despite being a high quality business that is well positioned to benefit from any volatility in financial markets.

A producer of liquefied natural gas also marched forward over the month, benefitting from lower input prices of natural gas and boosted by the positive sentiment in the sector in the light of increased geopolitical tensions.

The Fund's holdings in a cyber security provider and a manufacturer of non-wood decking alternative products recovered and were positive contributors to Fund returns over the month after some period of weakness. Shares of the latter advanced as demand for its products fared well over the quarter and came in ahead of lowered expectations.

#### Detractors

A chipmaker continued its advance over the month as capital expenditure (capex) from the hyperscalers continues to grow. We are mindful of the escalation in tariff-related and geopolitical risks, particularly in the light of the impending change in US administration and we remain constructive in not having a position here.

Shares in an information technology (IT) services and consulting company weakened as investors were caught by surprise when sales guidance was revised lower, citing softer end markets and a lack of visibility.

Our position in a nutrition expert consolidated over October, following strong performance in the previous months. It posted a strong set of quarterly results as all divisions performed ahead of expectations. We continue to see upside potential from the planned disposal of its animal nutrition and health segment, a re-rating of the consumer ingredients business and a likely share buyback post disposal.

### Significant Transactions

On portfolio transactions, we trimmed a financial information and analytics company and took advantage of recent share price weakness in United Health to increase our position.

We initiated a position in a UK-listed pest control business with a large exposure to the US following the acquisition of a US peer. The pest control market has steadily grown in recent times and is expected to continue, driven by increasing regulatory requirements and increased hygiene standards. From a competitive standard, the barriers to entry are low but barriers to scale are high as expansion comes at a cost – we think the company following its merger positions the business as the largest pest control player. However, shares have recently de-rated as the integration was slower than expected and organic revenue growth in the North American segment has been lacklustre, leading to widespread earnings downgrade resulting in lower valuations and thus offering us with an attractive risk to reward structure.

### Market Outlook

Economic data continues to show signs of fatigue with weak purchasing managers' indices (PMIs) and ISM data. The disparity in regional valuations continues to widen, with the premium of US stocks versus the rest of the world at record levels.

The impact of the Trump election is still unknown in terms of what will be implemented and what a potential response from Europe and the rest of the world might be. This could result in another trade war. The clearest positives that are exempt from the weaker macro is the global shift to embrace artificial intelligence (AI) and we have plenty of exposure in the portfolio. The challenge is to avoid the overvalued and hyped parts and invest in the stocks that have predictable upside to the global roll-out of AI tools. We have increased our exposure to networking and power recently as it's clear that these bottlenecks to the roll-out will have meaningful growth going forward.

We need to stay hypervigilant to any improvement to the global economy ex US, whether that is more stimulus in China or more confidence in European businesses. The countries that are relatively exempt from Trump like India are clearly also on a positive trajectory albeit at very high valuations.

We continue to expect 2025 will be a stockpickers year and that AI will be the dominant theme in markets which puts our Fund in a good position to deliver returns. We do find markets to be expensive (especially US) and expect pullbacks which we will take advantage of.

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All data are sourced from Bloomberg and Allianz Global Investors as at 31 October 2024 unless otherwise stated.

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