

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 environmental and social characteristics. 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 February

Global equities delivered mixed returns over February as markets struggled to navigate President Trump's deliberately disruptive and unpredictable agenda. Chinese stocks surged, boosted by strength in Technology companies. In the meantime, European equities continued to outperform US stocks, fuelled by strong earnings revisions coming out of a solid Q4 reporting season. A fade in US exceptionalism led to inflows into Europe. Hopes that Trump tariffs can be negotiated before they start and ramping up European Central Bank (ECB) rate cut expectations as well as a potential Ukraine peace deal all supported the performance of European equities.

We have seen some broadening of performance in the US market, with the Magnificent 7, following a strong performance post the election, now having dropped sharply from their peak in December.

Portfolio Review

Our positive sector allocation was offset by negative stock selection over February.

Stock selection within Health Care and Technology proved particularly disappointing over the month.

Contributors

A real estate investment trust (REIT) focused on wireless and broadcast communications real estate performed well over the month and was the top contributor to relative performance, boosted by a solid set of quarterly results. An Asian insurance group also performed well on better sentiment in Asia. A UK pharmaceutical company was a positive contributor to performance, they released a good set of quarterly numbers and reassuring guidance.

Our holding in an eyewear specialist also had another strong month of performance, having delivered a strong set of results, reiterating the solid contribution of the artificial intelligence (AI) glasses and its strong future growth and contribution potential. Its hearing product was also announced which is a brand new category of growth for the company.

Detractors

The top detractor over the month was our holding in a technology conglomerate. The company posted results that were broadly in line with expectations although the cloud business grew slightly less than the market had hoped. Increased capital expenditure (capex) spending also comes at a time when an emerging Chinese startup, which launched an open-sourced AI model, has rattled confidence in AI capex intensity which soured sentiment on the stock.

Political uncertainty around the Health Care sector has affected our holdings negatively. A laboratory equipment and instruments supplier and UnitedHealth feature amongst the top detractors over the month. The former was weak on government health care spending cuts although this is a small part of the business. On top of the concerns affecting the sector, UnitedHealth was also impacted negatively by an article in the Wall Street Journal reporting that the company might face further investigation into their billing practices. The valuation presents a favourable opportunity in the face of negative headlines.

Significant Transactions

Over the month, we sold our position in a creative software company, and initiated a position in a workflow automation cloud company.

With mounting competitive pressures, we believe that the former has a long journey to exit the "AI loser" camp and a rebound in the share price had increased the risk of disappointment.

Meanwhile, the latter is the clear cloud native leading platform that is pushing agentic AI on a consolidated platform. They are a leading workflow automation cloud company that specialises in delivering information technology (IT) service management and IT operations management applications for enterprise via the cloud. They develop and sell a hosted, subscription-based suite of services designed to automate various IT department functions, such as help desk, operations management and change/release management. The company also sells a number of applications which automate various self-service related applications outside of the IT department, such as human resources (HR) onboarding, facilities requests and governance, risk and compliance. The company's "platform of platforms" sits at a critical point in the digital transformation lifecycle for enterprises, set to capitalise on the growing need for modernisation initiatives globally. Following the shares' recent fall on lacklustre guidance, they offer good value as the business is expected to grow in excess of 20% with very favourable margins. They are at the forefront of agentic AI which is something we are very positive on.

Market Outlook

Between all the tariffs back and forth, geopolitical re-alignment as well as US data showing signs of a slowdown, markets have become unsurprisingly nervous; in that context we feel comfortable with the positioning of the Fund.

While we are constructive on equities, and particularly our portfolio, it is clear that current valuations are unlikely to push markets higher and for 2025 it will be earnings that are more responsible for market moves.

Tariff weaponisation contrasts with a potential de-escalation in Ukraine and the Middle East which should make for a dynamic risk backdrop.

Higher and stubborn rates and inflation add to concerns the US fiscal position will become a focus subject that can threaten US exceptionalism. As it stands, the velocity of the US economy contrasted with Europe and Asia still makes it attractive as a region and the AI trade is still the best growth impulse of any economy.

The Fund is very exposed to Europe and Asia relative to most global funds and any sustained weakness in US equities is a significant positive for the Fund.

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All data are sourced from Bloomberg and Allianz Global Investors as at 28 February 2025 unless otherwise stated.

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