Market Review and Outlook

December 2024

The content of this document is supplementary to the Monthly Fund Factsheets.

For the following funds:

Allianz Life Master Bond Fund ("MBF")
Allianz Life Master Equity Fund ("MEF")
Allianz Life Master Dividend Fund ("MDF")
Allianz Life Master Dana Ekuiti ("MDE")
Allianz Life Master ASEAN Plus Fund ("AMAF")
Allianz Life Managed Fund ("MF")
Allianz Life Equity Fund ("EF")
Allianz Life Dynamic Growth Fund ("DGF")
Allianz Life Equity Income Fund ("EIF")
Allianz Life Bond Fund ("BF")
Allianz Life Dana Padu ("DP")
Allianz Life ASEAN Plus Fund ("AAF")

Market Review

The global equity markets were mix in December 2024, with the MSCI World Index declining 2.68% mom. In the US, the Dow Jones plunged 5.27% mom during a volatile month, despite setting a new high of 45,014 points during the month. This was mainly attributed to the Federal Reserve (Fed) Chairman Jerome Powell's hawkish view that projects only two cuts of 25 basis points each in 2025 during the December meeting and describing how inflation may remain sticky through next year. On inflation, US CPI rose 2.70% in November 2024 versus a year ago (2.60% in October 2024), matching expectations.

Meanwhile, the European Stoxx 50 rose by 1.91% mom, rebounding from a 0.48% mom drop the previous month. The HCOB Eurozone Manufacturing Purchasing Managers' Index (PMI) fell to 45.1 in December, down from 45.2 in November, suggesting continued weakness in its manufacturing sector. As of the latest reading, EU's November unemployment rate was at 6.30%, similar to October 2024.

China's Shanghai Composite Index rose by 0.76% mom, as China's Caixin PMI Services came in higher at 52.2 in December, compared with 51.5 in November. However, retail sales of +3.0% yoy in November, was lower compared to +4.8% yoy in the previous month.

During the month under review, Brent oil price rose 4.39% mom to USD74.64/bbl after OPEC and its allies delayed their plan to start raising output until April 2025 against a backdrop of falling oil prices. Conversely, crude palm oil tumbled 9.28% mom to RM4448/MT as crude palm oil prices came under pressure due to competition for soybean oil, which was cheaper. Crude palm oil's price premium to soy oil traded as high as USD130/MT premium during the month of December, vs the long term average of USD140/MT discount.

Turning to the ASEAN region, Singapore's Strait Times gained 1.29% mom, as its November 2024 Non – Oil Domestic Exports (NODX) rose 3.40% yoy, as compared to a drop of 4.60% yoy in October. However, its retail sales fell 0.7% yoy in November, vs a gain of 2.2% yoy in the previous month. Meanwhile, The Stock Exchange of Thailand declined 1.91% mom, despite its S&P Global PMI Manufacturing rising to 51.4 in December, as compared to 50.2 in the previous month. Back at home, Malaysia's FBMKLCI surged 3.01% mom, despite net foreign selling of RM2.9bn worth of equities. This brought full year 2024 net foreign selling to RM4.2bn. This was despite a lower S&P Global PMI Manufacturing reading of 48.6 in December, as compared to 49.2 in the previous month. Its October Industrial Production was also lower at 2.1% yoy, as compared to 2.3% yoy in September. Lastly, Indonesia's Jakarta Composite Index was down slightly by 0.48% mom, despite recording a higher S&P Global PMI Manufacturing of 51.2 in December, as compared to 49.6 the previous month. Bank Indonesia (BI) maintained the benchmark policy rate at 6.00% in December.

The US Treasuries (UST) yields rose by 18 – 42bps mom across all tenors as expectations for more interest rate cuts in 2025 diminished, sending most yields to its highest levels since June 2024. The largest selloff happened on 18th December when the Fed cut rates by 25bps as widely expected but indicated that it would probably only lower rate twice in 2025 according to the median estimate compared to four rate cuts projection back in September. As of end – December 2024, the market – implied total rate cuts by December 2025 declined to 46bps from 64bps as of end – November 2024.

Malaysian Government Securities (MGS) yields increased marginally by 1 – 4bps mom except for the 20y tenor which declined by 1bp mom. Malaysia's inflation rose below expectation in November at 1.8% yoy (Survey: 2.1% yoy, October: 1.9% yoy) largely due to slower increase in the health and transport segment. The newly published Auction Calendar for 2025 indicates that there will be more long – tenor (15y, 20y and 30y) issuances in 2025 with a total of 18 auctions (2024: 15 auctions). The gross MGS/GII supply in 2025 is estimated to be lower at RM164bn (2024: RM175bn).

Foreign funds net outflows increased to RM1.4bn in December (November: outflow of RM1.1bn). However, Malaysia still recorded a full – year inflow of RM4.8bn for 2024 (2023: +RM23.6bn). Foreign share of both MGS and MGS+MGII reduced to 32.3% (November: 32.7%) and 21.2% (November: 21.4%) respectively. Malaysia's foreign reserves lowered by USD2.1bn to USD116.2bn as of end – December 2024 (November: USD118.3bn).

Market Outlook

Global inflation, particularly in the USA, is now being closely monitored, as expectations regarding rate cuts have shifted. The Fed is now expecting only two cuts (from four) for 2025. Other key considerations capturing investors' attention would include the implications of new policies from the incoming U.S. President, tensions in the Middle East, ongoing Ukraine war and the effectiveness of China's stimulus package. The incoming U.S. President could, in the near-medium term, herald an increase in market volatility, but we would at the same time be somewhat buoyed by domestic catalysts which include an investment upcycle and income/ consumption boosting measures, among others. In addition, the prevailing stable domestic politics under the auspices of the Unity government coupled with a sustained focus on reforms would help to reinforce investor sentiments. Other key developments to watch include the launch of JSSEZ in January.

Against that backdrop, we remain committed to investing in fundamentally good investments over long – term investment horizons. Furthermore, we might partake in a modicum of trading activities to capitalize on any prevailing market volatility. That said, we have to remain alert that the pervasive geopolitical and other risks may necessitate the adoption of new strategies to adapt to the ever – volatile market conditions.

Going into 2025, bond market volatility is expected to persist with the aforementioned inauguration of Trump in January 2025 and the implementation of his new policies. In 2024, the Fed lowered interest rates by 100bps, reducing interest rates from a peak of 5.25% – 5.50% to 4.25% – 4.50%. However, the Fed appears to have tempered its future rate cut trajectory as its policy stance now seems considerably less restrictive and any additional rate cuts would depend on further progress on inflation as well as continued strength in the labor market. The cautious approach would also provide some maneuvering room for the Fed to respond to any changes in economic data and policies as needed in the coming year. On local monetary policy, Bank Negara Malaysia (BNM) is expected to maintain the Overnight Policy Rate (OPR) at 3.00% in 2025. In its latest Monetary Policy Statement, BNM stated that the latest indicators revealed sustained strength in economic activity contributed by resilient domestic expenditure and greater export activity. In terms of inflation outlook, BNM stipulated that it would be subjected to the details of the implementation of announced domestic policy measures. We would continue accumulating bonds at favorable valuations while prioritizing good quality names.

For Allianz Life Global High Payout Fund:

Target Fund Manager's Comment (For Allianz Global High Payout Fund)

What helped?

- December was a weak month for global equities. Our strategy did better than the market average in this volatile period.
- High Quality stocks with stable earnings and high profitability as well as stocks with strong trend-following features did well over the past month. This contributed positively to performance.

What hurt?

- Value and High Dividend stocks did poorly over December and underperformed global equities.

Market Review and Outlook

Global equities slid as the euphoria of Trump's decisive election victory faded and the US Federal Reserve (Fed) issued a more hawkish outlook for interest rates in 2025. Artificial intelligence (AI)-related stocks in the Consumer Discretionary, Communication Services and Information Technology sectors continued to hold up well but elsewhere returns were mostly negative. Real Estate, Materials and Energy were the weakest sectors in the MSCI All Countries World Index.

US equities were mixed over December. The tech-heavy Nasdaq Composite Index held up relatively well due to ongoing interest in mega-cap growth stocks, but the broad-based S&P 500 Index lost ground as sentiment was knocked by the Fed's more hawkish rate projections for 2025. Small-cap stocks, which had surged in the aftermath of Donald Trump's landslide victory, slumped even more. While the Republican Party will control the White House, Senate and House of Representatives from January, December brought early indications that the president-elect may struggle to win approval for some of his proposals: a federal shutdown was narrowly averted after a handful of Republications voted against Trump's proposals to get rid of the debt ceiling.

European equities closed December with flat returns. The weakness of the euro helped to support the outlook for the region's exporters, although the threat of higher tariffs once Donald Trump regains the White House continued to weigh on sentiment. The political turmoil in France lessened after Michel Barnier was replaced as prime minister after failing to get parliamentary backing for his budget of tax rises and spending cuts. His replacement is former justice minister Francois Bayrou, a centrist politician. Germany, meanwhile, faces elections in February.

Donald Trump's return to the White House will probably be a turning point for both the US economy and the financial markets. Additional fiscal stimulus and deregulation should fuel growth in the US and support riskier assets at least in the short term. At the same time, the regional gap in terms of growth, inflation and interest-rate trends looks set to widen. US equities remain attractive due to the "Trump effect", but we are well aware that their valuations are high in a historical comparison. In contrast, European equity valuations appear favourable, and the European Central Bank (ECB) might opt for larger rate cuts than the Fed because euro-area growth will likely remain low. In China, domestic stimulus and reforms of the private pension system might give the market a stronger lift than currently expected. Overall, we remain optimistic for equity investments, but expect volatility to increase, particularly as market participants learn more about the potential impact of the new US policies – above all immigration and tariffs – on inflation and global supply chains. The dynamic market environment pronounced regional divergences and persistent geopolitical uncertainties will probably require an active approach to portfolio management.

For Allianz Life Asia Multi-IncomePLUS Fund:

Target Fund Manager's Comment (For Allianz Asian Multi Income Plus)

Market Review

Asia Pacific equities were broadly lower in December, but overall finished 2024 with positive returns. Bucking the trend, Chinese stocks moved higher in the month, buoyed by further signs that Beijing is taking steps to bolster economic growth. China loosened its monetary policy stance for the first time in 14 years, changing it from "prudent" to "moderately loose."

While stocks in Taiwan rallied modestly, South Korea stocks lost ground as sentiment was knocked by a political crisis when the nation's President tried to impose martial law. Elsewhere, Australian stocks touched a fresh all-time high in early December, but later lost ground, as commodity prices were hit by concerns over global growth. Higher US bond yields and the stronger US dollar pressured other parts of the region. ASEAN markets were broadly lower. India closed the month lower, with economic growth of 5.4% in Q3, signalling a significant slowdown from earlier in the year. Thailand was the weakest market in the region, with Indonesia and the Philippines also recording moderate declines.

On the fixed income side, US Treasury rates remained volatile as investors were surprised by the hawkish projections from the US Federal Reserve (Fed). Asian credits reported negative returns in December, mainly due to higher US Treasury rates. December was a quiet month for the new issue market in Asia. Net supply remains negative as Asian corporates and sovereigns have ample financing optionality. Overall in 2024, Asian investment grade (IG) credits delivered 4.2% in total return, while Asian high yield (HY) credits delivered a total return of 15.2%, significantly outperforming other HY markets.

The Fund return was negative in USD terms in December, but still ended the year with a strong positive return.

In the equity portfolio, the top detractor was Charter Hall Group, a leading diversified REIT in Australia, as the stock saw profit taking pressure amid the broader market correction last month. We maintain our positive view on the company as the peaking of the interest rate cycle globally should provide a favourable business backdrop for Charter Hall. Despite the pull back last month, the stock remains a top performance contributor to the Fund over the full year of 2024.

On a positive side, key contributions came from our Taiwan technology positions. For example, the top contributor was chipmaker Taiwan Semiconductor Manufacturing Company (TSMC). We expect that growth momentum for TSMC should continue to be supported by rising demand for artificial intelligence-related (AI-related) applications, as well as recovery in the personal computer (PC) and smartphone segments.

The asset allocation at the end of the month was 69.5% invested in Asian equities and 30.6% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity for the equity sleeve, over the month we initiated a position in a semiconductor testing board company in Taiwan with business exposure to AI-related orders. On the other hand, we exited select positions in India as sources of funding.

Within the fixed income portfolio, portfolio activity was lighter due to the lower market liquidity during the seasonally quieter December.

At the end of the month, we held 56 equities and 59 fixed income securities. The equity portfolio yield was 2.5% (based on forward 12-month estimates), and the average fixed income coupon was 5.6%, with an average credit rating of BB+ and average duration of 2.2 years.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. Although bond yields have risen in recent months, in longer term the peak of the US rate cycle should provide a supportive overall backdrop. Overall, valuations generally remain at reasonable levels.

A key market concern since the US elections has been to what extent higher US tariffs, across Asia and especially in China, will become a major risk factor. Our view is that the "shock factor" of a Trump presidency will be somewhat less the second time around, and that China authorities will react with further domestically focused stimulus measures in the event of a major hike in tariffs. This comes in addition to the measures required to address the more structural problems in China, especially related to the property sector as well as the broad-based deflationary pressures.

For Allianz Life Asia Multi-IncomePLUS Fund:

Target Fund Manager's Comment (For Allianz Asian Multi Income Plus)

Across the region, we continue to find a number of attractively-valued structural growth stories in South Asia that are less impacted by geopolitical risks. In particular, the more favourable demographics and rising consumption power is boosting the growth outlook across ASEAN markets and India.

On the fixed income side, primary market activities should pick up after the holiday season and may put pressure on credit spread in the near term, given the tight valuation particularly for IG credits. We continue to like the corporate fundamentals in Asian credits and expect relatively limited impact from potential trade tariffs in 2025, as most of the Asian issuers do not have large direct exposures to the US market. That said, given current tight valuation and the less supportive technicals, we do not see much room for credit spreads to tighten for IG credits and expect most of the return to come from carry moving forward. For HY, although valuation is not as attractive as a year ago, we continue to favour HY in the Asian credit space as valuations look less stretched compared to IG. We also take comfort from the stable to improving fundamental outlook for most of the HY issuers. Nevertheless, prudent credit selection remains the key for outperformance given the idiosyncrasies of Asian HY. All-in yield of Asian credit remains attractive and the stable-to-improving credit fundamentals should keep spread volatility in check. We will continue to take market correction, if any, as opportunities to buy into credits that we have high conviction on.

For Allianz Life Amanah Dana Ikhlas:

Collective Investment Schemes Fund Manager's Comment (For Maybank Malaysia Balanced-I Fund)

Market Review

Malaysian yield curve bear flattened for the month, with yields rising a tad by 1 to 2bps across the curve, in line with higher UST yields. Key local date for the month was Nov 24 inflation data, which saw 1.8% growth, eased further from 1.9% yoy in Oct 24. 10y MGS yield rose 1 bps to 3.82% from 3.81% a month ago while 3y MGS rose 2 bps to 3.48% mom. Shorter-ends underperformed belly to long-end of the curve. Treasury yields rose sharply by 69 bps Yoy, and 38 bps higher on a monthly basis. The rise in yields was primarily driven by upcoming Trump inauguration and expected inflationary impact from upcoming policy measures. Furthermore, the last FOMC meeting of the year was hawkish, which added fuel to the fire by revising downward its rate cut projections from four in 2025 to only two. Meanwhile, US core CPI for November continued to be stubbornly high 3.3%, limiting the room for FOMC to ease rates further in 2025.

Equity markets closed the year mixed with the main US markets dipped, while Asia was mostly higher. December saw the Fed cut another 25bps but talk down the prospect of further cuts, which led to the movements in the US 10-year yields. Main US markets Dow Jones and the S&P fell 5.3% and 2.5% respectively while Nasdaq was flat (0.5%). For the year however, majority of the main markets had solid gains but saw substantial volatility. AI theme was perhaps the main driver, leading to Nasdaq and the Taiwan market becoming top performers for the year. China saw sharp movements with poor economic data that met with national support and stimulus.

Closer to home, the KLCI was up 3.0% in December, wrapping up the year with a 12.9% gain. This markets the best performance since 2010 (+19.3% yoy). The main market was driven by performance by utilities, materials and industrials with top performers were YTL Power, YTL Corp and Petronas Chemicals. In the broader market, most sectors were up, apart from the financial sector. Leading indices were technology, healthcare, and utilities with the bottom sectors were financial, consumer and REITs. Foreigners continue to sell Malaysia equities, for the third consecutive month, amounting to RM2.9bn, bringing the year to a net sell of RM4.2bn, the highest net sell since 2020. Since 2010, net selling has expanded to RM38.6n since 2010.

Regionally, Malaysia was the best performer for the month, followed by Singapore which rose 1.3%. The rest were in negative territory, as Thailand, Philippines, and Indonesia losing 1.9%, 1.3% and 0.5% respectively. On year-to-date basis however, Singapore got top spot with a gain of 16.9%. Philippines rose 1.2% while Indonesia and Thailand were lower by 2.7% and 1.1% respectively.

In currencies, the DXY Index was higher 2.60%, led to a generally weaker Asian currencies. The Peso and Baht managed to strengthen 1.35% and 0.60% respectively while the Rupiah and Ringgit fell 1.62% and 0.56% respectively. On a year-to-date basis, the Ringgit was the best performer, strengthening 2.65% followed by the Baht which gained slightly by 0.13%. The rest of the region fell, with the weakest the Rupiah, lower by 4.58%, followed by Pesos which notched lower by 4.43%. In commodities, precious metals traded in line with the high US yields and stronger USD, with gold and silver returning 27.2% and 22.00% respectively, driven by inflation risks, strong demand from central banks and investors. Oil prices was higher by 4.00% in December but fell 3.10% for the year on demand concerns while Trump aims to reduce energy prices through deregulation and higher production.

Market Outlook

Sukuk Outlook & Strategy

BNM maintained the OPR at 3.00% as unanimously expected in most recent MPC meetings. The monetary policy remains neutral given the favorable combination of solid economic growth and anchored inflation trajectory that is expected to sustain into 2025. We expect the recovery in Malaysia's fixed income market to continue, as most central banks around the world have started embarking on rate cuts, shifting towards more accommodative monetary policy. The positive dynamic of yield movement globally could lead the local government yields to trend lower. Our view remains that BNM to maintain OPR at 3.00% in 2025 as Consumer Price Index (CPI) numbers are relatively benign at the back of subsidy rationalization exercises. However, we will watch for signs of demand-pulled pressure, as Malaysia GDP growth remained robust at 5.3% in 3Q 2024, and is projected to expand between 4.80%-5.30% in 2024 (revised higher from 4.00-5.00%) and 4.5-5% in 2025. In addition, Malaysia is at full employment rate with a steady unemployment rate of 3.2%, and increase in minimum wage from MYR1,500 to MYR1,700, as well as civil servant salary increase; could lead to higher disposable income and increased consumption. We are also mindful of external factors such as US reflation risk and escalation of trade tensions under the Trump administration as well as China economic slowdown pose uncertainties.

For Allianz Life Amanah Dana Ikhlas:

Collective Investment Schemes Fund Manager's Comment (For Maybank Malaysia Balanced-I Fund)

Strategy wise, we maintain our neutral duration stance as we find current bond yields to be attractive. We will monitor government bond markets for attractive entry points to trade opportunistically but will continue to overweight corporate bonds as the primary source of income. Corporate bonds generally offer lower volatility and higher yields, which can help buffer against potential mark-to-market losses if sovereign bond yields rise. We favour strong AA-rated credits for yield pickup and carry, as well as those with the potential for long-term upgrades as economic activity accelerates. Our strategy will remain opportunistic, focusing on primary issuances and oversold bonds in the secondary market that offer higher yields.

Equity Outlook & Strategy

Despite the commendable returns seen in 2024, we think the outlook for the coming year nonetheless be challenging. In a Trump 2.0, investors are likely to focus on deregulation, tax cuts, geopolitics, rendering it away from emerging markets. Already, Trump had said he would impose a 25% tariff on all products from Canada and Mexico on his first day, and would impose an additional 10% tariff, above any existing tariffs on imports from China. While there is reason to believe that this is only a negotiating tactic and unlikely to implement a 60% tariff as he has previously threatened with these concerns have led net foreign flows to turn negative. Positively, however, the market has been supported by local institutions as data has shown that for the 11th consecutive quarter, they have had an opposite net flow to foreign investors. Elsewhere, the China+1, or trade diversion could benefit countries in Asean and has been in the past, but there is a risk that tariff could be imposed on Chinese content e.g. component made in China that are then assembled in Asean. This bears watching. This could negatively affect the trade diversion theme.

Moving forward, we are maintaining our tilt to a more defensive stance and watch for pockets of opportunities. Upside risks to growth include greater spillover from the tech recovery and investment/infrastructure projects. We think stock picking will be the key strategy for outperformance going into next year, with a focus on thematic names. Although one may argue that these themes may have led to a run-up in the stocks last year, mostly on new flows, we think delivery of contracts and earnings delivery would be the catalysts for stock outperformance. Themes include such as: 1) Emphasizing NETR-related segments such as water, solar, and energy-efficiencies businesses perhaps expanding into tech software and hardware, 2) Allocation of additional government spending for Penang & East Malaysia (Sabah & Sarawak) from the 2024 Budget, likely to drive pent-up economic activities in these states; 3) new growth pillars such as datacenters/hyperscale supply chain e.g. land owners, contractors, network/cable providers, energy providers, data security etc.; and 4) Lastly, fostering a closer Malaysia-Singapore relationship which will directly benefit Johor State e.g. ART, HSR.

For Allianz Life All China Equity Fund and Allianz Life All China Equity Fund (USD):

Target Fund Manager's Comment (For Allianz All China Equity)

Market Review

The Fund outperformed the benchmark in December. Positive stock selection in the Financials sector was the main contributor.

At a single stock level, a key contributor last month was China Merchants Bank. A leader in China's retail banking sector, the bank is a preferred pick given its strong retail franchise and higher return on equity compared to most peers. A high level of provision coverage ratio also helps provide an earnings buffer. Overall, the Bank sector had a good recovery to end the year with their high dividend yields providing valuation support in an environment where domestic government bond yields have fallen significantly.

Conversely, a detractor was a semiconductor equipment producer. The stock saw some profit taking after a strong rally earlier in Q4. This was fuelled by expectations that further US restrictions on China's access to semiconductor technologies would lead to enhanced opportunities for domestic players. The company has been gaining market share given its technological edge over other equipment players in China and in the longer term should benefit from the increased localisation of semiconductor production.

Market Outlook

China equities ended the year with double-digit gains in US dollar terms in both onshore and offshore markets, making them one of the better performing global asset classes in 2024 and ending a three-year losing streak.

Most of the gains in the last year occurred in a relatively short period towards the end of September and into October, spurred by a significant change in government policy focused on stabilising the economy as well as financial markets. Since then, China equities have remained broadly stable, as investors wait for more detail on the extent of the expected fiscal stimulus, as well as a potential market stabilisation package.

In addition, a further market headwind has been to what extent higher US tariffs, which weighed heavily on sentiment in China equities in 2018, will again become a major factor. Our view is that the "shock factor" of a Trump presidency will be somewhat less the second time around, and that China authorities will react with further domestically focused stimulus measures in the event of a major hike in tariffs.

Looking ahead to the coming year, a fundamental issue will be the sustainability of the improved economic momentum seen in recent months. In particular, China's export momentum – a key driver of growth last year – will likely fade in 2025. As such, an improvement in domestic demand will be needed to achieve the expected gross domestic product (GDP) growth target of around 4.5-5.0%.

In our view, the main reasons for the weakness in domestic consumption in recent years are related both to concerns of future income prospects in the uncertain macro environment, and also the erosion of wealth linked to falling house prices.

In this area, while recent government initiatives, such as reducing mortgage rates and downpayment ratios, and improving access to funding for cash-strapped developers have undoubtedly been a step in the right direction, more policy support will likely be needed to underpin the property market. The National People's Congress, held each March, is typically when more policy details are announced.

Notwithstanding the uncertainty regarding what the Trump presidency will bring, overall our view is to be more optimistic on the outlook for China equities, particularly in the context of risk/reward outcomes. The government has sent strong signals that it will step in to support the China A-shares market in particular, which should help limit downside risks.

While we do not expect a massive fiscal boost in coming months, there is nonetheless a higher probability that a more expansionary approach benefits the real economy, and helps support corporate earnings, which have been the main drag on China equities this year. With the likelihood of more supportive government measures to come, and with valuations still reasonable, our view – and the way we have been managing the Fund – is to use periods of market weakness to "buy the dips".

For Allianz Life All China Equity Fund and Allianz Life All China Equity Fund (USD):

Target Fund Manager's Comment (For Allianz All China Equity)

In line with this approach, in recent months we have added to stocks which are more sensitive to an improvement in the domestic economy and financial markets. These include financial services companies such as investment banking and mutual fund management businesses, as well as consumption-related stocks. We also believe higher yielding stocks should be well supported given the lower interest rate environment in China. Conversely, we have trimmed exposure to previous outperformers such as selective technology semiconductor stocks.

At year-end, the portfolio has around 41% in China A-shares. Sector weightings continue to be relatively close to the benchmark, so that stock selection remains the key relative performance driver. At year-end, the largest sector overweight is Consumer Discretionary (+1.2%), while the largest underweight is Communication Services (-2.7%).

For Allianz Life Global Artificial Intelligence Fund and Allianz Life Global Artificial Intelligence Fund (USD):

Target Fund Manager's Comment (For Allianz Global Artificial Intelligence)

Market Review

Global equities pulled back in December following a strong rally in the prior month. For the US, markets were mixed amid a more hawkish outlook from the US Federal Reserve (Fed). Ongoing debates on President-elect Trump's policies and a narrowly averted government shutdown also introduced some uncertainty. The technology-heavy Nasdaq Composite Index held up relatively well due to positive headlines from mega-cap growth companies, while smaller cap stocks experienced more profit taking. European equities closed the month with flat returns. The weakness of the euro helped support the outlook for the region's exporters, although the threat of higher tariffs weighed on sentiment. While Asia equities were mixed overall, China stocks moved higher, buoyed by further signs that Beijing is taking steps to bolster economic growth.

As widely expected, the Fed cut rates by 25 basis points (bps) in December, but policymakers issued more cautious guidance for 2025, reducing the number of expected 25-bps cuts to two from four at the previous Federal Open Market Committee (FOMC) meeting. Concerns that progress against fighting inflation had stalled were cited for the change. It was mostly a different story in Europe, with the European Central Bank (ECB) cutting rates by 25 bps, while the Swiss National Bank reduced borrowing costs by 50 bps, its largest cut in nearly a decade. However, the Bank of England (BoE) kept rates on hold as inflationary pressures remained stubbornly high. The Bank of Japan (BoJ) also maintained its monetary stance.

Commodity prices were mixed. Oil prices, as measured by Brent crude, hovered around USD 72-73 per barrel for much of the month. While the Organisation of the Petroleum Exporting Countries Plus (OPEC+) nations voted to continue production cuts in 2025, this was offset by concerns over the outlook for global growth. Gold mostly traded above USD 2,600 an ounce, remaining below the record high of almost USD 2,800 an ounce reached in late October.

From a sector perspective for the MSCI All Country World Index, performance was led by Consumer Discretionary and Communication Services, as mega-cap names held up better amid a mixed equity backdrop. The Materials and Health Care sectors were the top laggards over the period.

During the period, the Fund outperformed the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). From a sector perspective, Consumer Discretionary and Information Technology were the largest relative contributors. The Industrials and Financials sectors were slightly offsetting. Artificial intelligence (AI) infrastructure was the strongest performer as our AI chip holdings reported better-than-feared earnings results. Both AI applications and AI-enabled industries pulled back during December, following strong returns in the prior month.

Contributors

The top relative contributor over the period was Broadcom Inc. The company designs, develops and supplies a broad range of leading semiconductor, enterprise software and security solutions. Shares outperformed during the period after the company reported solid earnings results and management articulated a materially larger-than-expected revenue opportunity for AI-related infrastructure in the next three years. Looking forward, the company is on track for meaningful acceleration in revenue and earnings growth driven by AI-related computing and networking programmes, software infrastructure and a recovery in its wireless semiconductor business.

Our position in electric vehicle (EV) producer Tesla Inc. was another contributor over the period. The stock continued its rally following the US presidential election results. Given Elon Musk's support for the Trump presidential election bid, the company stands to benefit under a friendlier regulatory regime and from a pro-business agenda. Looking forward, Tesla continues to have an ambitious innovation agenda, spanning EV, energy storage, autonomous driving and humanoid robots. We believe the company is making good progress on each of these agendas in ways that can unlock significant shareholder value in the future.

Detractors

Amongst the detractors is a supplier of building materials and construction services to professional contractors and housebuilders. The company uses AI, robotics and digital technologies to drive operational efficiencies. Shares were lower as higher interest rates weighed on housing activity and sentiment for the building products space. The company has been an organic market share gainer and consolidating smaller regional competitors. The management team has maintained financial discipline by returning cash to shareholders, while driving efficiency through AI.

Target Fund Manager's Comment (For Allianz Global Artificial Intelligence)

Another detractor is an American energy company specialising in clean energy generation, primarily through its nuclear, wind and solar assets. Shares were lower alongside the rest of the Utilities sector, primarily from profit taking. The company is positioning itself to meet the growing energy demands from AI and digital infrastructure. The demand for data centre power is anticipated to drive significant growth in energy consumption. The anticipated rise in AI-driven electricity demand could lead to substantial power contracts with data centre operators over the coming years.

New Buys and Sells

We re-initiated a position in a technology conglomerate as the company's core search engine and advertising franchise continues to experience positive trends, while overall valuations remain relatively modest. Moreover, the company's recent AI announcements could drive better earnings growth. This included an upgraded generative AI chatbot, AI video generation models and an AI agent platform that allows enterprises to deploy agentic AI into their ecosystems.

We exited the remaining small position in a health benefits company as profitability outlook appears to have deteriorated over the next year. Also, we sold our remaining position in a workflow management software maker. We previously reduced the name at higher prices as shares were approaching our intermediate-term price target. We decided to exit the position as management recently provided some cautious commentary on their near-term growth trajectory.

Market Outlook

We maintain a positive outlook for equity markets in 2025, though markets may have periods of volatility due to concerns over stickier inflation, the implementation of Trump's fiscal policies, subdued global growth and slower interest rate cuts. The Fed looks to be in a comfortable spot balancing inflation with economic stability and should continue its path towards rate cuts, albeit at a more gradual pace. An easier monetary policy backdrop should be constructive for pockets within the US economy to regain its footing and drive more broad-based growth.

We believe the upcoming Trump administration represents an evolution of policy, with a net positive effect on AI innovation. Trump recognises the US leads in AI and wants to maintain that leadership. A less regulated and business-friendly environment should be conducive for more AI investment and capital markets activity. However, companies heavily reliant on an overseas supply chain in some countries may face greater uncertainty. It remains to be seen how much tariffs and other restrictions could impact certain industries, but overall should be manageable. A wide range of capital is fuelling the AI investment backdrop, including venture capital, private equity, self-funding from larger technology companies and the start of an AI initial public offering (IPO) cycle.

From an innovation perspective, progress with AI development is accelerating as more powerful capabilities become readily available from the robust "Phase 1" infrastructure buildout. We are beginning to enter "Phase 2" where new generative AI use cases and application adoption drive significant benefits over the coming years. Our analysis suggests that investments in AI could lower the marginal costs of operations, much like the information technology (IT) revolution did. Furthermore, the advanced features of AI-enhanced products or services can drive new levels of productivity, cost savings and revenue opportunities across industries in "Phase 3". Given the transformative potential of AI investments, we believe profit margins may not simply hold steady but could in fact grow, supporting valuations for innovative companies that are investing now to disrupt the status quo.

AI infrastructure: Spending on AI infrastructure should continue to be robust over the next several years as more powerful AI data centres are built around the globe. Nvidia's upcoming Blackwell AI chips provide up to a 30 times performance increase compared to the previous generation and more hyperscalers are designing custom AI chips to meet their unique specific needs. This is driving demand for new data centre architectures that can handle the higher power, cooling, space and networking requirements. Overall demand for generative AI training remains durable as more companies across the ecosystem are rushing to build better foundational models or fine tune other models. Growth in AI inference systems is also expanding to process and respond to new data in real time and support applications that require low latency and high reliability at the edge of the network. Newer reasoning engines require more "think time" to yield better results, driving additional workload demand.

AI applications: Generative AI applications are evolving into their next phase with the emergence of AI agents. Unlike AI copilots designed to answer a single question, AI agents have decision engines that allow them to operate autonomously and complete complex tasks. AI agents can be easily customised to handle repetitive tasks and have human-like decision making capabilities to adapt to different situations. This can create a new level of automation and dramatically cut costs and improve productivity. We believe there will be an upcoming surge of new generative AI-infused applications across many areas of consumer and enterprise workflows over the next several years, driving more investment opportunities.

For Allianz Life Global Artificial Intelligence Fund and Allianz Life Global Artificial Intelligence Fund (USD):

Target Fund Manager's Comment (For Allianz Global Artificial Intelligence)

AI-enabled industries: AI continues to open up new possibilities to drive true industry transformation across every industry. Many companies in AI-enabled industries are increasing investments in generative AI to train one's own industry-specific model on its proprietary content or knowledge to compete better. In Health Care, the application of AI could dramatically speed up the time for drug discovery, accelerate clinical trials and dramatically improve the efficacy of medical devices. Within Financial Services, there are companies with significant volumes of data related to transactions, customer interactions and research. This allows for the creation of AI solutions to enhance operational efficiency, improve fraud detection and personalise client service. There are similar opportunities within Automotive, Consumer, Industrials, Energy and even Mining. We think this is only the beginning as innovative companies embrace AI to enhance efficiency, lower costs, launch new products, take market share and drive higher levels of profitability.

We are still in the early innings of the AI era. Despite significant advancements, there is a lot more potential to be unlocked in the future. The industry is rapidly evolving, with major investments and innovations continuing to drive progress towards artificial general intelligence, possibly within the next decade. AI is becoming more integrated into various fields, from finance to health care to humanoid robotics. It is an exciting time, and we are likely to see even more transformative changes in the coming years.

Our view remains that the compounding effect from AI disruption will create opportunities for innovative companies across every sector. We believe that stockpicking will be essential to capturing the benefits of this opportunity, as today's AI winners may change in the future in an environment characterised by rapid change and disruption. We remain focused on identifying the companies that can best leverage AI to deliver the most shareholder value creation over the long term.

For Allianz Life Oriental Income Fund and Allianz Life Oriental Income Fund (USD):

Target Fund Manager's Comment (For Allianz Oriental Income)

Market Review

Asia Pacific equities were broadly lower in December, but overall finished 2024 with positive returns. Bucking the trend, Chinese stocks moved higher in the month, buoyed by further signs that Beijing is taking steps to bolster economic growth. China loosened its monetary policy stance for the first time in 14 years, changing it from "prudent" to "moderately loose".

Higher US bond yields and the stronger US dollar pressured other parts of the region. ASEAN markets were broadly lower. Thailand was the weakest market in the region, with Indonesia and the Philippines also recording moderate declines. Australian stocks touched a fresh all-time high in early December, but later lost ground, as commodity prices were hit by concerns over global growth. Taiwanese stocks rallied modestly, while South Korea stocks lost ground as sentiment was knocked by a political crisis when the nation's president tried to impose martial law.

Japan equities delivered strong gains in local terms in December, but yen weakness led to slightly negative returns for international investors. The currency weakness was spurred by the Bank of Japan (BoJ) keeping rates on hold. Governor Ueda also indicated that BoJ needed greater clarity on wage growth and the impact of Donald Trump's policies before deciding on the next rate move. Japanese inflation climbed to 2.9% in November, the highest rate in more than a year, spurred by higher food prices.

The Fund underperformed the MSCI AC Asia Pacific Index in December. Key detractions came from stock selection in the markets of Japan and Taiwan. At a sector level, some of our large positions in the Information Technology names were notable laggards. However, not all names in this sector suffered proportionally.

For example, a key detractor was a baseboard management controller (BMC) supplier. Based in Taiwan, this business plays an important role in the global artificial intelligence (AI) supply chain with its technology used to remotely monitor the physical state of a server. This area is set to benefit from growing demand for higher powered AI chips and servers. We view the company as particularly well placed in the AI supply chain and is not deterred by the near-term volatility around earnings given prevailing macroeconomic conditions and competitive pressures.

Conversely, another Taiwan tech name was a key contributor over the month. This company designs sophisticated, customised chips for a global clientele with applications in growth areas such as cloud computing and data centres. It has a growing project pipeline with AI chipset customisation being a key growth driver.

The broad positioning of the portfolio remains in place as we enter 2025. At a geographic level, key overweight exposures are in Japan and Taiwan. Overall, we have used weakness in conviction stocks as an opportunity to add, with the market often being focused on the next set of quarterly results as opposed to longer-term growth potential. We have also initiated some new names that include a leader in networking products including switches, routers, and wireless solutions. The company has a well-established global customer base with the web services of an ecommerce giant being a key client.

In Japan, we continue to focus on stocks where we see potential for enhanced shareholder returns and an improved earnings outlook. In Taiwan, our focus is primarily on Technology stocks, especially in companies which we see as key suppliers into the next generation of AI technology and related industries. Underlying this, we believe the AI story is a structural market driver that has the potential to deliver productivity gains across many parts of the economy.

While the Fund remains underweight in China, we added to exposure in recent months by increasing allocations to insurance and ecommerce, which should benefit from macro stabilisation, as well as a major oil and gas producer that has lagged significantly, bringing it back to attractive valuations.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. Although bond yields have risen in recent months, in longer term the peak of the US rate cycle should provide a supportive overall backdrop. Overall, valuations generally remain at reasonable levels.

A key market concern since the US elections has been to what extent higher US tariffs, across Asia and especially in China, will become a major risk factor. Our view is that the "shock factor" of a Trump presidency will be somewhat less the second time around, and that China authorities in particular will react with further domestically-focused stimulus measures in the event of a major hike in tariffs. This comes in addition to the measures required to address more structural problems in China, especially related to the Property sector as well as broad-based deflationary pressures.

Target Fund Manager's Comment (For Allianz Oriental Income)

We also believe that structural drivers remain in place for a more positive outlook in Japan. In particular, the combination of higher inflation as well as ongoing governance reforms should contribute both to improved earnings as well as a greater focus on shareholder value. Notwithstanding the recent currency weakness, we continue to see the Japanese yen as fundamentally undervalued.

For Allianz Life Total Return Asian Equity Fund:

Target Fund Manager's Comment (For Allianz Total Return Asian Equity)

Market Review

Asia ex Japan equities were flat in December, but overall finished 2024 with positive returns. Chinese stocks moved higher in the month, buoyed by further signs that Beijing is taking steps to bolster economic growth. China loosened its monetary policy stance for the first time in 14 years, changing it from "prudent" to "moderately loose." Additionally, China's policymakers called for efforts to boost consumption and domestic demand at the annual Central Economic Work Conference, a high-level meeting in which top officials plan the next year's economic agenda.

Higher US bond yields and the stronger US dollar pressured some other parts of the region. ASEAN markets were broadly lower. Thailand was the weakest market in the region, with Indonesia and the Philippines also recording moderate declines. Taiwanese stocks rallied modestly, while South Korea stocks lost ground as sentiment was knocked by a political crisis when the nation's president tried to impose martial law. India also closed the month lower, with Q3 economic growth of 5.4% signalling a significant slowdown from earlier in the year. The slowdown likely represents a weak patch caused by weather events and lighter government expenditures amid state elections, rather than more structural problems.

The Fund outperformed the benchmark in December. From a market perspective, stock selection in China and Taiwan was a key source of value add. At the sector level, stock picks in the Technology and Industrials areas contributed, whereas Consumer Discretionary and Financials picks were relatively weaker.

A key contributor this month was Chinese consumer electronics and smartphone manufacturer Xiaomi. The company beat earnings expectations and guided for smartphone segment growth over the next two years, driven by market share gains and premiumisation trends. Beyond smartphones, we believe Xiaomi's home appliance segment is an under-appreciated growth channel with significant opportunities to expand into overseas markets. Xiaomi's electric vehicle (EV) business has also achieved stronger-than-expected operating results.

Conversely, a top detractor was a Korean financial services company with a footprint across banking, securities, insurance, and credit cards. The share price weakness was mainly a function of macro events, with President Yoon Suk Yeol declaring martial law which led to an extensive market sell-off. There was substantial net selling by foreign investors, which put additional downward pressure on widely held stocks such as the company in discussion. Overall, we maintain conviction in the stock and believe that it will be able to increase shareholder returns through dividends and share buybacks.

During the month, we initiated two new names in Taiwan, including a components supplier for smartphones, notebooks and other consumer electronics, and a producer of wafers and memory chips. Conversely, we exited a Taiwan company manufacturing power supplies and components, along with a China dairy business.

At a market level, the portfolio is modestly overweight the ASEAN region, with the Philippines, Malaysia, and Singapore representing the top overweights. This is balanced out by underweights in Hong Kong/China and Korea. At a sector level, Information Technology, Financials, and Energy are the primary overweight positions, while Industrials, Materials, and Utilities are among the main underweights. Top names in the portfolio at month-end include Taiwan Semiconductor Manufacturing Company (TSMC), Tencent, and HDFC Bank.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. Although bond yields have risen in recent months, in longer term the peak of the US rate cycle should provide a supportive overall backdrop. Overall, valuations generally remain at reasonable levels.

A key market concern since the US elections has been to what extent higher US tariffs, across Asia and especially in China, will become a major risk factor. Our view is that the "shock factor" of a Trump presidency will be somewhat less the second time around and that China authorities in particular, will react with further domestically focused stimulus measures in the event of a major hike in tariffs. This comes in addition to the measures required to address more structural problems in China, especially related to the Property sector as well as broad-based deflationary pressures.

Across the region, we are finding a number of attractively valued structural growth stories in South Asia that are less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook across ASEAN markets and India. Notably, the Indian market has seen around a 10% pullback over Q4. We see this as near-term profit taking rather than a more fundamental change to the outlook.

For Allianz Life Global Income Fund:

Target Fund Manager's Comment (For Allianz Global Income)

Market Review

Risk assets and safe havens finished lower in December. The US Federal Reserve (Fed) cut its benchmark interest rate by 25 basis points (bps) to a range of 4.25-4.50%. However, the central bank also updated its summary of economic projections for 2025, decreasing its forecast for further interest rate cuts and employment, while increasing its forecast for real gross domestic product (GDP) growth and inflation. On the economic front, nonfarm payrolls, small business optimism, and consumer sentiment rose, and inflation measures were generally in line with estimates. On the other hand, regional manufacturing gauges missed expectations. Against this backdrop, the 10-year US Treasury yield rose, pressuring risk assets and core fixed income.

In this environment, global equity markets, as measured by the MSCI World Index, returned -2.61% with US equities outperforming their non-US counterparts.* Global convertible securities, as measured by the ICE BofA Global 300 Convertible Index, returned -2.41% with non-US issues outperforming US issues.** Global high yield bonds, as measured by the ICE BofA Global High Yield Index, returned -0.21% with non-US issues outperforming US issues.** Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -2.15% with US exposure outperforming non-US exposure.^

The portfolio was negatively impacted by weakness across global equities, convertible securities, and corporate bonds.

Top contributors in the period included Apple and a major US electric vehicle (EV) manufacturer. Alphabet, Amazon, and Meta – companies capitalising on secular trends around artificial intelligence (AI) and cloud migration – were also notable contributors, along with several semiconductor companies. An enterprise software provider outperformed on revenue growth optimism, and a commercial airline rallied after boosting earnings guidance.

Top detractors in the period included several health care-related holdings facing regulatory uncertainty. Multiple positions settled lower, consolidating strong year-to-date gains, such as Nvidia, a power management company, a real estate advertising platform, and an enterprise software provider. The other top detractors were a specialty REIT that traded lower on divestment speculation, an ecommerce platform that fell on currency concerns, and several financial services companies that were impacted by potential macro headwinds.

Exposure increased the most in Technology, Industrials, and Communication Services, and decreased in Real Estate and Materials. Covered call option positioning increased month-over-month.

Market Outlook

Global economic growth could begin to stabilise as central banks worldwide reduce interest rates or implement stimulus to boost spending. The US economy should continue to expand in 2025, supported by earnings growth, further Fed easing as inflation and the labour market continue to normalise, and the new administration's pro-US growth policies.

Apart from these factors, steady consumer spending, ongoing services sector expansion, continued fiscal spending, and improving productivity aided by the proliferation of AI are US growth tailwinds. Risk to the US economy may increase if these trends weaken. Other considerations include tariff and immigration policies, geopolitical tensions, prolonged labour market softening and continued manufacturing contraction in the US, and economic weakness outside of the US.

Against this backdrop, mid- to high-single-digit returns in 2025 are possible for global large-cap equities, global convertible securities, and global corporate bonds. The equity market's path will not be linear, with bouts of volatility probable throughout the year. Given their defensive characteristics, corporate bonds and convertible securities can mitigate market volatility better than equities.

The expected range of annual returns for global large-cap equities is 5-10%. The market could benefit from continued Fed easing, economic growth, and accelerating or inflecting earnings from more companies. Secular growth themes, such as AI, lower taxes, increased mergers and acquisitions (M&A) activity, deregulation, productivity gains, and share buybacks are also catalysts. If either economic growth or earnings growth fall short of expectations, the equity market could be challenged. US valuations will continue to be debated.

Global convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. The asset class may outperform the broad equity market if leadership broadens, and new issuance remains steady. USD 85-95 billion# of new issuance is expected in 2025 due to coupon savings demand, elevated refinancing needs, and a positive outlook for price appreciation among small- and mid-cap companies. Aside from diversification benefits, new issuance expands the opportunity set of investments with attractive terms and the desired risk/reward characteristics.

For Allianz Life Global Income Fund:

Target Fund Manager's Comment (For Allianz Global Income)

The global high yield market, yielding over 7%^^, is expected to deliver a coupon-like return in 2025 with upside possible. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. Increased M&A activity and deregulation could also have a positive market impact. In this environment, new issuance is expected to remain elevated, the default rate should stay below the historical average of 3-4%, and spreads can remain tight.

Global investment grade corporate bond's risk/reward opportunity is compelling. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains attractive given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering compelling total return potential and downside cushioning. If the 10-year US Treasury yield finishes 2025 near the lower bound of the expected range of 3.5-4.5%, the asset class return could exceed mid-single digit.

A covered call options strategy can be utilised to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualised yields.

Collectively, these asset classes can provide a steady source of income and a compelling "participate-and-protect" return profile.

The Fund is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

All data are sourced from Allianz Global Investors dated 31 December 2024 unless otherwise stated.
* Source: MSCI, as at 31 December 2024
^ Source: Bloomberg, as at 31 December 2024
** Source: BofA Merrill Lynch, as at 31 December 2024
^^ Source: ICE Data Services, as at 31 December 2024
# Source: BofA Research, as at 31 December 2024

For Allianz Life Thematica Fund and Allianz Life Thematica Fund (USD):

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities slid as the euphoria of Trump's decisive election victory faded and the US Federal Reserve (Fed) issued a more hawkish outlook for interest rates in 2025. Artificial intelligence-related (AI-related) stocks in the Consumer Discretionary, Communication Services and Information Technology sectors continued to hold up well, but elsewhere returns were mostly negative. Real Estate, Materials and Energy were the weakest sectors in the MSCI All Countries World Index.

Global bonds sold off as investors became less optimistic on the Fed's willingness to cut rates in 2025. The yield on the 10-year US Treasury bond rose to a 7-month high of 4.6%. Eurozone bonds fared better, although yields still moved higher with the 10-year German Bund yield rising to 2.4%. In contrast, 10-year Japanese Government Bond yields closed the month little changed, while 10-year Chinese yields fell to a record low of 1.7%. High yield bonds continued to outperform investment grade debt.

As widely expected, the Fed cut rates by 25 basis points (bps) in December, but policymakers issued more cautious guidance for 2025, reducing the number of expected 25-bps cuts to two from four at the previous Federal Open Market Committee (FOMC) meeting. Concerns that progress against fighting inflation had stalled were cited for the change. It was mostly a different story in Europe, with the European Central Bank (ECB) cutting rates by 25 bps, while the Swiss National Bank reduced borrowing costs by 50 bps, its largest cut in nearly a decade. However, the Bank of England (BoE) kept rates on hold as inflationary pressures remained stubbornly high. The Bank of Japan (BoJ) also maintained its monetary stance.

The Fed's more hawkish stance at its last meeting of the year provided a further boost to the US dollar. In contrast, the euro strengthened against the Japanese yen. The BoJ refrained from enacting another rate increase in December, given concerns over the growth prospects of the global economy and whether Japan's inflation rate is sustainably above 2%.

Market Outlook

The Fund returned negatively in December, underperforming global equity markets as represented by the MSCI AC World Index. Stock selection as well as sector allocation have been a drag to overall performance.

From a sector perspective, the underweight to Energy, Financials and Real Estate created a tailwind, while the overweight to Industrials, Materials and Utilities has been a headwind. Stockpicking has been favourable among Communication and Consumer Staples, while being negative among Industrials, Information Technology and Materials.

From a theme perspective, the exposure to Intelligent Machines and Digital Life has been positive, while themes like Clean Water and Land as well as Infrastructure have been detractors. This once again shows that Technology dominates the current market as both themes have a very high exposure to the sector. Once again, the moves in the Technology sector remain driven by the index heavyweights, resulting in a continuation of the recent market concentration. As a result, the underweight to a smartphone and personal computer (PC) producer and a technology conglomerate has been one of the largest burdens for the portfolio, as well as having no exposure to an electric vehicle (EV) manufacturer. On the positive side, the Fund benefitted from the exposure to a consumer electronics and smartphone manufacturer (Digital Life), as well as a high-speed connectivity solutions provider and Arista Network (both Intelligent Machines).

In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year.

For Allianz Life Income and Growth Fund:

Target Fund Manager's Comment (For Allianz Income and Growth)

Market Review

Equity, convertible, and high yield markets finished lower in December. The US Federal Reserve (Fed) cut its benchmark interest rate by 25 basis points (bps) to a range of 4.25-4.50%. However, the central bank also updated its summary of economic projections for 2025, decreasing its forecast for further interest rate cuts and employment, while increasing its forecast for real gross domestic product (GDP) growth and inflation. On the economic front, nonfarm payrolls, small business optimism, and consumer sentiment rose, and inflation measures were generally in line with estimates. On the other hand, regional manufacturing gauges missed expectations. Against this backdrop, the 10-year US Treasury yield rose, pressuring risk assets and core fixed income.

Market Outlook

The US economy should continue to expand in 2025, supported by earnings growth, further Fed easing as inflation and the labour market continue to normalise, and the new administration's pro-US growth policies.

Apart from these factors, steady consumer spending, ongoing services sector expansion, continued fiscal spending, and improving productivity aided by the proliferation of AI are growth tailwinds. Risk to the economy may increase if these trends weaken. Other considerations include tariff and immigration policies, geopolitical tensions, prolonged labour market softening, continued manufacturing contraction, and economic weakness outside of the US.

Against this backdrop, mid- to high-single-digit returns in 2025 are possible for large-cap equities, convertible securities, and high yield bonds. The equity market's path will not be linear, with bouts of volatility probable throughout the year. Given their defensive characteristics, high yield bonds and convertible securities can mitigate market volatility better than equities.

The expected range of annual returns for large-cap equities is 5-10%. The market could benefit from continued Fed easing, economic growth, and accelerating or inflecting earnings from more companies. Secular growth themes, such as AI, lower taxes, increased mergers and acquisitions (M&A) activity, deregulation, productivity gains, and share buybacks are also catalysts. If either economic growth or earnings growth fall short of expectations, the equity market could be challenged. Valuations will continue to be debated.

US convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. The asset class may outperform the broad equity market if leadership broadens, and new issuance remains steady. USD 60-65 billion# of new issuance is expected in 2025 due to coupon savings demand, elevated refinancing needs, and a positive outlook for price appreciation among small- and mid-cap companies. Aside from diversification benefits, new issuance expands the opportunity set of investments with attractive terms and the desired risk/reward characteristics.

The US high yield market, yielding over 7%^^, is expected to deliver a coupon-like return in 2025 with upside possible. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. Increased M&A activity and deregulation could also have a positive market impact. In this environment, new issuance is expected to remain elevated, the default rate should stay below the historical average of 3-4%, and spreads can remain tight.

A covered call options strategy can be utilised to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualised yields.

Collectively, these three asset classes can provide a steady source of income and a compelling "participate-and-protect" return profile.

The Fund is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

For Allianz Life Income and Growth Fund:

Target Fund Manager's Comment (For Allianz Income and Growth)

All data are sourced from Allianz Global Investors dated 31 December 2024 unless otherwise stated.
* Source: FactSet, as at 31 December 2024
^ Source: BofA Merrill Lynch, as at 31 December 2024
** Source: J.P. Morgan, as at 31 December 2024
^^ Source: ICE Data Services, as at 31 December 2024
# Source: BofA Research, as at 31 December 2024

For Allianz Life Elite Income Fund and Allianz Life Elite Income Fund (USD):

Target Fund Manager's Comment (For PIMCO GIS Income Fund (Accumulation))

Market Review

Risk assets faltered in December amid reallocation and profit taking, along with growing concerns over the future path of rate cuts, ending the year on a cautious note. In the US, labour markets added 227k jobs in November, marking a strong recovery from the upwardly revised 36k gain in October. On the inflation front, the annual headline rate rose to 2.7% in November from 2.6% in October, in line with expectations. In the Euro Area, the headline annual rate rose to 2.2% in November from 2% in October, but it was below estimates of a 2.3% increase. In the UK, the annual inflation rate edged higher for a second month to 2.6% in November from 2.3% in October, matching forecasts.

The Fed's Beige Book indicated that business activity increased modestly amid resilient consumer spending, and as expected, the FOMC lowered its benchmark interest rate by 25bps to 4.25%-4.50%. Nonetheless, US Treasury yields rose as the Fed's dot plot revealed officials anticipate fewer rate cuts in 2025. In the UK, investors also revised their expectations for a slower pace of rate cuts in 2025, which contributed to a broader rise in UK Gilt yields. In the short end, US 2-year Treasury, UK 2-year Gilt, and German 2-year Bund yields sold off 9, 15, and 13bps, respectively. Further out the curve, US 10-year Treasury, UK 10-year Gilt, and German 10-year Bund yields sold off 40, 32, and 28bps, respectively.

Elevated volatility pushed equity markets lower, with the S&P 500 recording a negative return of 2.5% as valuations were impacted by rising Treasury yields. Elsewhere, UK equity markets also ended the month lower amid concerns over weak trade data from China and as investors pencilled out future rate cuts by the Bank of England. In credit, US investment grade spreads widened by 3bps while Euro investment grade spreads tightened by 6bps. Meanwhile, US high yield spreads widened by 21bps while Euro high yield spreads tightened by 21bps.

During the month, the PIMCO GIS Income Fund returned -0.71% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '24 performance to 5.48%.

For Allianz Life World Healthscience Fund:

Target Fund Manager's Comment (For BGF World Healthscience Fund)

Market Review and Outlook

Market:

• Global equities experienced negative performance in December with the MSCI World Index returning -2.6% as investors interpreted monetary policy guidance for 2025 and the implications of the incoming Trump Administration.

• In the US, the S&P 500 Index returned -2.4% in one of only three negative months of the calendar year. The Fed announced a 25 basis points (bps) reduction to the benchmark overnight borrowing rate in the third cut of 2024 and indicated that two rate cuts could be expected next year given ongoing inflationary pressures. November CPI revealed YoY inflation of +2.7%, higher than the readouts from September and October.

• In Europe, equities were challenged by political instability. France appointed its fourth prime minister of 2024, leading to volatility in the French CAC 40. In the UK, inflation rose to the highest level since March 2024. The FTSE 100 index fell, driven by disappointing retail sales and concerns of economic stagnation.

• Asian equities were similarly under pressure from global economic uncertainty with evolving US monetary policy and geopolitical tensions affecting regional trade dynamics. The People's Bank of China committed to supportive monetary policy in the year ahead to enhance liquidity of financial markets and to stabilise economic growth.

• Global sectors had mostly negative performance over the month, with only Communication Services, Consumer Discretionary, and Information Technology experiencing positive returns. Materials and Real Estate were the most challenged sectors.

• From a regional perspective, Europe and North America were challenged over the period.

Stocks:

• Not holding a position in CVS was the top contributor to relative performance as the diversified healthcare company continues to experience fundamental challenges due to elevated costs and policy overhang.

• An overweight position in Boston Scientific was another top contributor to relative returns. The medical device company continued to benefit from continued growth in both its cardiovascular and medical surgery segments.

• An underweight position in Teva Pharmaceutical was the top detractor from relative performance as the company reported positive clinical trial results for its inflammatory bowel disease treatment.

• An underweight position in Novo Nordisk was another top detractor from relative returns. The Fund concluded the month underweight the GLP-1 leader, following a reduction in our overweight position after the company reported weaker-than anticipated clinical trial results for its next-generation weight-loss drug, CagriSema.

Changes:

• During the month, the Fund increased exposure to select pharmaceutical and biotechnology companies in anticipation of a new product launches. Elsewhere, we decreased our exposure to the health care providers & services sub-sector as the sub-sector continues to experience negative sentiment and regulatory overhang.

Key Positioning & Outlook:

• We continue to seek opportunities in segments of the health care sector with attractive valuations, stable growth, and promising product pipelines over the medium-to-long term. We also consider new innovations and technological developments for selective growth opportunities in the biotechnology, pharmaceuticals, and medical devices space.

For Allianz Life World Healthscience Fund:

Target Fund Manager's Comment (For BGF World Healthscience Fund)

• While the sector may see an uptick in volatility with the transition of the US president and congressional leadership, change is unlikely to be immediate or unilateral. Leaders will need to navigate complex procedural processes involving multiple government levels, with opportunities for public and judicial challenges to reforms at various stages. Heightened dispersion driven by sector-specific impacts of policy changes and ongoing policy uncertainty underscores the importance of active management. Leveraging scientific and industry expertise is essential in identifying undervalued opportunities.

• We expect continued market volatility and seek attractive opportunities in stable, strong cash flow generating companies across all health care industries. Over the long-term, secular drivers for the sector remain in place; firstly, aging demographics in both developed and developing countries and secondly, innovation in medical technology. The combination of these secular trends, with favourable valuation creates an attractive long-term investment opportunity.

For Allianz Life ESG-Integrated Multi-Asset Fund:

Target Fund Manager's Comment (For BGF ESG Multi-Asset Fund)

Market Review and Outlook

Market Review:

• Q4 proved to be a challenging end to the year for financial markets with the US election and policy uncertainty acting as primary drivers of asset class returns. Positive returns over the quarter included US Equities, led again by the US Tech sector, Japanese Equities and German Equities, whilst Emerging Market Equities delivered negative returns in the context of a stronger US dollar. High Yield credit was positive over the quarter whereas sovereign bond yields broadly detracted. Precious metals also gave up some of their strong year-to-date returns.

• The quarter got off to a shaky start with both Equities and Bonds providing negative returns in October. The combination of stickier inflation and a resilient labour market in the US led to expectations for less interest rate cuts from the Federal Reserve. This spurred a sell-off in US equities and a rise in US government bond yields over the month, though policy uncertainty remained a theme throughout the quarter keeping sovereign bond yields elevated. Notably, whilst both the Federal Reserve and the European Central Bank cut rates in December, a less dovish than expected tone regarding the prospect of future rate cuts pushed yields higher across both regions. UK Gilt yields were also negatively impacted over the period by the UK budget announcement, which contained more government spending than anticipated, and French government bond yields moved higher as the successful vote of no confidence added to political uncertainty.

• Market performance over the quarter was also heavily influenced by the outcome of the US election. Trump's victory and the Republican party's majority win across both chambers of Congress supported the view that "US exceptionalism" can continue. Expectations for corporate tax cuts, expansionary fiscal policy, and a nationalist trade policy drove US equity markets and the US dollar higher over November. US equities hence finished the quarter in positive territory as the rally over November was enough to offset the losses experienced by the asset class in October and December. Equity markets outside the US did not, however, receive the election outcome as positively, with both European and Emerging Market Equities selling off. The prospect of trade tariffs impacted both regions and the surge in US dollar proved to be particularly painful for Emerging Markets. In addition, waning views that the Chinese government support measures will be enough to boost the domestic economy also worked to spur further weakness in Chinese Equities.

• Elsewhere, commodity returns were mixed, with Precious Metals retracing some of their strong gains year-to-date primarily due to rise in the US dollar, whereas growing concerns about gas supply and the prospect of a cold winter pushed gas prices higher over the quarter.

Performance:

• Against this backdrop, the fund delivered a positive return. From an asset class perspective, the exposure to Developed Market equities was the key contributor, however fixed income exposure was also additive in aggregate. Precious metals also contributed. Despite spot Gold being down over the period, the contribution from FX resulted in a positive performance outcome given the iShares Physical Gold ETC is US dollar denominated. Elsewhere, volatility strategies were marginally positive, whereas exposure to Emerging Market equities, listed alternatives and cash and FX all detracted.

• Within equities, Thematic Equity baskets were the primary driver of returns over the period, with targeted exposures to US tech stocks via the Mega Cap Tech and the US Enterprise Tech baskets leading the way. The Global Brands basket was also additive, as was the Japanese High Dividend Equity basket. Contrarily, more value-oriented exposures in the form of the ESG Value Long-Short Equity basket and the Green Technology basket detracted, as did the Healthy Living basket.

• Macro asset allocation decisions within equities were also positive, with the broad exposure to Japan and tactical allocation to US Small Caps both adding to returns.

• Active equity strategies managed by BlackRock security selection specialists were additive in absolute terms, however each strategy underperformed the global equity opportunity set due to stock selection.

• Within Fixed Income, the allocation to Argentina Bopreal Bonds was the key driver of positive returns over the period, more than offsetting the losses from US Treasuries, UK Gilts, German Bunds and Canada Government Bonds. The Sovereign CDS basket was also additive. Credit exposure proved to be a positive driver of returns in aggregate with the ESG High Yield Credit strategy adding whereas the ESG Fixed Income strategy, which is more focused on Investment Grade, detracted.

For Allianz Life ESG-Integrated Multi-Asset Fund:

Target Fund Manager's Comment (For BGF ESG Multi-Asset Fund)

• Listed Alternatives were broadly down over the period impacted primarily by the prospect of higher rates for longer. The exception was the Schiehallion Fund, which benefitted from its exposure to SpaceX given the recent press speculation about a tender offer where existing investors could sell shares at a $250bn valuation.

Positioning:

• Over the period we remained constructive on Equities, however managed equity beta dynamically throughout. We added put protection to US Equities in October given expectations for volatility in the build-up to the US election. We added back to US Equity exposure in November leaning tactically into US Small Caps to capture the rally and finally took some equity risk out of the portfolio towards the end of the period given stretched valuations and market consensus risk-on positioning.

• Relatedly, we tactically allocated to the VIX Index as a means of further diversifying the portfolio. As volatility picked up at the start of October, we took profits on the October VIX Future position and subsequently implemented a VIX December put option based on our view that volatility may drop following the conclusion of the US election.

• We sold out of the tactical Luxury Goods basket at the beginning of the period at a small loss. We implemented the basket immediately following the China stimulus announcement given the historical tendency for European Luxury Goods companies to benefit from China stimulus measures, however our view has since change and that the beneficiaries of the stimulus will likely be domestically focused Chinese companies.

• We added to Gold early in the quarter given near-term geopolitical risks remain elevated, peaking interest rates and dedollarization are structural tailwinds. We later added to Silver following a pull-back in the spot price given our view that the price of Silver has lagged that of Gold.

• We reflected cautious duration positioning over the period given the potential for widening fiscal deficits to keep yields anchored at elevated levels. We maintained our preference for European duration relative to the US given the weaker growth picture and disinflation trend gives more certainty for interest rate cuts from the ECB, in our view.

• We actively managed exposure to sustainability related themes given increased uncertainty for green technologies following the Trump election win. We sold the Green Technology equity basket and reduced the overall exposure to renewables within our Listed Alternatives allocation. Instead, we added exposure to the Resource Efficiency basket, which we believe will benefit from the increasing energy demand from Tech companies as they continue to build out their A.I. capabilities.

• We also closed out of the Healthy Living basket, given the increased uncertainty around the pharmaceutical sector in general, and potential pricing controls under the incoming US administration in particular.

• Elsewhere, we took profits on the Listed Private equity basket following a period of strong share price performance from the underlying companies and also closed out of the ESG Long-Short Value basket given our preference for higher quality names from here.

Market Outlook:

• The US economy remains robust. Corporate earnings and consumer spending are resilient. Job creation is slowing, though job opening levels still look healthy and higher frequency data on initial claims shows little signs for concern. Our main concern in the near-term is that the disinflation trend appears to have stalled above target. There is potential that pent-up price pressures are still to show up in inflation data, retailers and producers could front-run tariffs by raising prices, and some upside in wages is already starting to show even before the effect of potential immigration constraints.

• Given the above, markets have already dialled back the number of rate cuts priced in for 2025 following the Fed's hawkish received December meeting. Clearly both fiscal and monetary policy uncertainty in the US is likely to remain elevated ahead of the new administration taking charge. Key things we are watching include the Federal Reserve's reaction to tariffs, and whether they look through what is expected to be a one-off increase in the price of goods.

• In Europe, economic growth continues to lag that of the US. Whilst growth is set to remain broadly stable, survey data continues to weaken presenting a downside risk. Our central case remains that the disinflation backdrop leads to further rate cuts from the European Central Bank, however political instability and potential tariffs are risks we continue to monitor.

For Allianz Life ESG-Integrated Multi-Asset Fund:

Target Fund Manager's Comment (For BGF ESG Multi-Asset Fund)

• Moves by China to support the domestic stock and housing markets, to ease monetary conditions and to stimulate consumption, reflect a growing urgency to support the economy. However, question marks remain over the effectiveness of the announced measures thus far. Elsewhere within emerging markets, continued disinflation and improving economic growth presents an opportunity, yet the prospect for tariffs and a stronger US dollar are potential risks. This highlights the need for a more selective approach.

• From a positioning perspective, given that global growth remains robust, and the fiscal and monetary backdrop remains supportive for markets, we remain broadly positive on equities. However, there are risks to this view and we have already begun slightly trimming overall equity exposure. Regionally, US equities stand out given continued economic strength, whilst the economies of regions such as Europe and Asia are weaker and susceptible to tariffs, as well as being marked by political instability. However, the extent to which US equities can continue to outperform from here is uncertain.

• We remain underweight government bonds, with a preference for taking duration exposure outside of the US. We are managing allocations dynamically, preferring Europe and Canada given our view that markets are not yet fully pricing in the required rate cuts to bring rates to neutral, unlike in the US. Despite being in a rate cutting cycle, we believe that there are structural drivers that will keep long-term yields elevated, particularly in the US, including resilient economic growth and high fiscal issuance. Despite tight spreads, a positive growth outlook is supportive of corporate credit given the level of income available.

• Active asset management and dynamic monitoring of positioning remain important parts of our toolkit. They provide an effective means of navigating the new regime, which is characterized by higher macroeconomic and policy uncertainty. In this environment it is necessary to take a more granular approach by narrowing down regional, sectoral, and industry specific exposures. We emphasise the importance of downside protection and continuously monitor key risks including geopolitical tensions and the policy implications of the incoming US administration.

For Allianz Life Global Unconstrained Equity Fund:

Target Fund Manager's Comment (For BGF Global Unconstrained Equity)

Market Review and Outlook

Market Review:

Global equities (as represented by the MSCI World Index) were broadly flat in the final quarter. Negative returns for the Index in October and December were offset by market strength in November as investors were bulled by the outcome of the US presidential election. Although equity markets responded positively to the result, sentiment was counterbalanced by the potential for tariffs and greater immigration controls which pushed inflation expectations higher. Whilst the Federal Reserve cut interest rates twice in the quarter, at the December meeting Chair Jerome Powell noted that policymakers would now be "cautious" about further reductions, leading bond yields to rally into the end of the year and the equity market to give up some of its November gains.

At a regional level, the US outperformed Europe again, rounding out a difficult year for the region. Ongoing concern about the outlook for growth across the continent was exacerbated by political instability in both Germany and France. More worrying for the region is the persistent outperformance of US corporates relative to those based in Europe. In the last 50 years, Europe has only founded three companies which today have a market capitalization of >US$100bn. In contrast, 25 have been founded in the US.

Outlook:

The team remain bullish on the outlook for equities. The global profit pool (as defined by consensus earnings growth estimates) is growing, particularly in the US, and ongoing interest rate cuts should provide incremental support to many subdued cyclical areasvi. Some of these remain in a protracted post-COVID-19 downturn, which has certainly persisted for longer than we would have expected. We continue to believe that demand for various goods will return as households have more cash available and that areas like housing are not structurally impaired.

We are doing more work to understand the sustainability of central bank debt and what this might mean for the path of interest rates. Borrowing costs have increased across developed markets and while current yield levels are not unusual, governments have amassed more debt, particularly during the COVID-19 years. Outside of this, we are monitoring US policy closely to understand whether any regulatory change may materially impact stocks in the portfolio or the industries in which they operate.

Reference to individual companies mentioned in this communication is for illustrative purposes only and should not be construed as investment advice or investment recommendation.

Any opinions or forecasts represent an assessment of the market environment at a specific time and is not a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation.