Market Review and Outlook

May 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

May 2024 turned out to be a pleasant reversal from the previous month with both equity and fixed income markets posting positive returns. For equities, the MSCI World Index rose +4.23% mom on the back of improving investor confidence, while the Dow Jones and Stoxx50 grew by +2.30% mom and +1.27% mom respectively. In US, the expectations of an eventual reduction in interest rates had spurred investors to favour growth – centric sectors such as technology. This was reflected in the Nasdaq which surged +6.28% mom over the month under review. Its economy was also in decent shape with its April 2024 unemployment rate of 3.9%, +0.1 ppt mom and its expansionary May 2024 S&P Global US Composite Purchasing Managers' Index (PMI) reading of 54.5, its highest since April 2022. The much – dreaded inflation was somewhat held in check with its April 2024 Consumer Price Index (CPI) reading of +3.4% yoy and +0.3% mom, which were both 0.1 ppt lower than their previous readings. In its May 2024 meeting, the Federal Open Market Committee (FOMC) voted unanimously to keep its policy rate unchanged for the 6th time and its Chair alluded that while it would take longer than expected to lower the inflation rate to its accepted level of +2.0%, it was unlikely that its next policy move would be a hike. That said, the Federal Reserve minutes revealed in May 2024 did suggest that some officials were, to a certain extent, concerned with regards to the seemingly stalled pace of disinflation whilst others voiced a ‘willingness to tighten policy further should risks to inflation materialize in a way that such an action became appropriate’.

The aforementioned uptick in Europe's Stoxx50 Index was in part due to the continent's improving economic fortunes. This was reflected in the May 2024 HCOB Eurozone Composite Index which had an expansionary reading of 52.2, spearheaded by the services sector, as compared to 52.3 in the previous month. Meanwhile, the Eurozone unemployment rate remained stable at 6.4% in April 2024. The Eurozone 1Q24 GDP growth figures of +0.4% yoy and +0.3% qoq, came in within consensus expectations.

On the other hand, China's Shanghai Composite Index slid by 0.58% mom despite some nascent signs of economic recovery. The May 2024 Caixin China PMI Composite Index increased to 54.1 versus 52.8 in the prior month and industrial production grew by +6.7% yoy ahead of consensus expectations and beating the previous month's +4.5% yoy growth rate. However, its May 2024 Manufacturing PMI chalked a minor contraction at 49.5 which was below consensus and the previous two months' expansionary readings. Apart from that, China kept its 1 – year and 5 – year Loan Prime Rates unchanged in May 2024 to help support its credit and property markets'.

During the month under review, Brent crude oil declined 7.1% mom to USD81.62/ bbl on the back of uncertainty surrounding an OPEC+ decision to boost oil supply amidst the emergence of signs of demand weakness. Conversely, crude palm oil price rose +5.4% mom to RM4069/ MT due to subdued output from Indonesia caused by El Nino and reduced stockpile levels in Malaysia.

On the ASEAN front, equity markets were mixed in May 2024. For us at home, the FBMKLCI continued its uptrend by rising +1.31% mom but, unlike last month, with foreign investors turning net buyers. This helped to lower the cumulative YTD net foreign equity sell flow to RM761.8m (RM2.2b as at end April 2024). Malaysia's economy appeared to be on firm footing with its 1Q24 GDP growth coming in at +4.2% yoy, which was ahead of consensus' and the previous quarter's growth rate of +3.9% yoy. From an administrative standpoint, the government demonstrated its resolve in implementing its plans to improve the nation's fiscal position as reflected by the rollout of the difficult but laudable diesel subsidy rationalization. The Singapore's Strait Times Index also enjoyed a rise of +1.33% mom. It recorded a 1Q24 GDP growth rate of +2.7% yoy and +0.1% qoq, which were better than consensus' expectations. However, its April 2024 Non – Oil Domestic Exports (NODX) still contracted by 9.3% yoy, albeit at a lesser pace than the 20.7% yoy contraction in March 2024. On the contrary, the Stock Exchange of Thailand fell by 1.63% mom despite posting an expectation - beating 1Q24 GDP growth of +1.5% yoy and +1.1% qoq. This was partly due to the concerns of political uncertainty which arose when the Attorney General indicted former prime minister Thaksin Shinawatra on grounds of lese – majeste or royal defamation. Last but not least, the Jakarta Composite Index dropped 3.64% mom as the market reacted to the unexpected Bank Indonesia late April 2024 rate hike of 25 bps to 6.25%, a rate not seen since 2016.

The US Treasuries (UST) yield curve declined across the tenors by 13 – 21 bps mom as April's jobs report weakened and CPI was lower than anticipated (April: 0.3% mom, Survey: 0.4% mom, March: 0.4% mom). US April non – farm payrolls (NFP) contracted to 175k (Survey: 240k, March revised: 315k), contributed by slowing job growth within the leisure and hospitality, the construction and the government segments. In addition, the advance estimates of retail sales in April were flat mom (April: 0.0% mom, Survey: 0.4% mom, March revised: 0.6% mom) as consumers reduced discretionary purchases. As of end May 2024, the market – implied total rate cuts rose to 36 bps from 28 bps as of end April 2024 by December 2024.

Similarly, Malaysian Government Securities (MGS) yields were down by 4 – 11 bps across the tenors. In the May monetary policy committee (MPC) meeting, Bank Negara Malaysia (BNM) kept the overnight policy rate (OPR) unchanged at 3% as widely expected. In its MPC statement, BNM maintained that the monetary policy would be supportive of the economy and in – line with its assessment of the inflation and growth prospects. On the other hand, the April CPI was stable at 1.8% yoy (Survey: 1.9% yoy, March: 1.8% yoy) for the third straight month.

Market Outlook

The long – awaited path towards interest rate normalization has begun with Canada while the Eurozone has recently followed by embarking on their rate cut trajectory. In early June 2024, the Eurozone's European Central Bank (ECB) cut its interest rate by 25 bps for the first time in five years to 3.75%, noting that the outlook for inflation did improve 'markedly' while the Bank of Canada had also cut its key interest rate by 25 bps to 4.75%. These significant moves could potentially herald the start of the long – anticipated monetary easing cycle. Domestically, investors would likely digest the data derived from the recent 1QCY24 results season and closely monitor the efficacy of our government's reform policy implementation.

Notwithstanding the different rates of disinflation across the various global economic powers, the advent of a monetary easing cycle should be supportive of those assets with a skew towards growth – centric investments. As always, we have been steadfast in being partial towards fundamentally sound investments over long – term investment horizons. Furthermore, we might partake in a modicum of trading activities to capitalize on any prevailing market volatility. Even so, omnipresent geopolitical risks as well as potentially easing global growth would dictate that we should be mindful of the necessity to adapt to new strategies as and when required to acclimatize to new and volatile market conditions.

Bond market volatility in the fixed income market would persist. Although the Fed has signaled that it has potentially reached the end of its tightening cycle, the policy rate might stay high for longer as the target 2% inflation rate would remain a challenge. While there have been signs of moderation in the recent US data releases, a firm job market, stubborn inflation and resilient US economy could result in the push back of the timing of its first rate cut. Locally, with the benign inflation and stronger than expected GDP growth, the market expectation is for BNM to stand pat on the OPR. The MPC statement highlights that 2024 inflation is expected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures. However, risks to the inflation outlook would remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. 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?

- In a strong market environment, the Fund held up with the benchmark MSCI World Index.
- Quality stocks did exceptionally well and performed favourably, benefitting our high dividend strategy which is also exposed to names with high profitability.

What hurt?

- The most relevant factors - Value, Dividend Yield as well as Dividend Growth detracted from active performance.

Market Review and Outlook

Global equities advanced over May. US stocks led the rally, boosted by a jump in Technology companies, particularly chipmaker NVIDIA which blew past earnings' forecasts. In contrast, Japanese and UK shares rose only modestly, while the MSCI Emerging Markets Index was pressured by weak returns from Brazil and Mexico, among others. At a sector level, Information Technology rallied the most, with Communication Services and Utilities also areas of notable strength. Meanwhile, Energy was the only sector in the MSCI All Countries World Index to fall over the month.

US equities advanced strongly, setting fresh record highs, although the market came off its best in the closing days of the month. The appreciation was mostly driven by robust gains in the Technology sector. As a result, the tech-heavy Nasdaq Composite Index outperformed the broad-based S&P 500 Index, with Growth stocks topping Value ones by a sizeable margin. Ahead of November's presidential election, President Joe Biden stepped up the trade war with China, with additional tariffs slapped on steel, semiconductors, electric vehicles and battery/solar cells. Meanwhile Donald Trump became a convicted felon when a New York jury found him guilty of all 34 counts relating to the cover up of hush-money payments.

European equities rallied over May, buoyed by growing hopes that the European Central Bank (ECB) would cut rates in June, although some late-month weakness capped the monthly gains. At a sector level, Financials and Real Estate stocks were the strongest in the MSCI Europe Index, while Energy was the only sector to end the month in negative territory.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Equity markets in Asia ex Japan rose modestly over May. China markets were mixed, with H-shares outperforming A-shares. The key event in China in May was policymakers stepping up support for the embattled Property sector. We view the combined measures – including reduced down payment ratios, cuts to mortgages rates, and funding for local governments to buy unsold homes – as representing the biggest nationwide property easing since the property turmoil started close to three years ago. Elsewhere in the region, Taiwan equities were lifted by robust gains from chipmaker Taiwan Semiconductor Manufacturing (TSMC), but South Korean shares lagged. In ASEAN markets, Singapore rallied the most, but stock markets in Thailand, the Philippines, and Indonesia lost ground as early gains were eradicated by declines later in the month. India posted another month of gains ahead of the general election results in early June.

In May, bond markets were off to a strong start, largely driven by the dovish statement from the latest Federal Open Market Committee (FOMC) meeting and the softer-than-expected employment data. In addition, US Federal Reserve (Fed) Chairman Jerome Powell indicated policy rates are sufficiently restrictive and that the Fed's next move is unlikely to be a hike. China's regulators also announced a slew of policy measures to support the Real Estate sector, which helped further boost market sentiment. Both investment grade (IG) and high yield (HY) markets displayed strong performance over the month. The JP Morgan Asia Credit Index (JACI) composite rose by 1.3%, led by JACI HY, which rose 2.8%, while JACI IG increased by 1.1%.

The Fund return was positive in USD terms in May.

In the equity portfolio, a leading contributor was chipmaker TSMC. The company outlook has strengthened both in demand and in pricing power, driven by increasing interest in artificial intelligence-enabled (AI-enabled) applications and the bottoming out of inventory levels.

Conversely, a top detractor was Samsung Electronics, the smartphone and memory chip maker in South Korea. The share price saw some profit taking after a strong rally earlier in the year. The latest company results show profitability improvement in its chip making unit, and we continue to see further growth potential ahead with rising demand for high bandwidth memory chips from AI-based smart solutions.

The asset allocation at the end of the month was 67.7% invested in Asian equities and 30.2% in Asian fixed income, with the remainder in cash and others.

Over the month, we initiated a position in a cloud services provider in Taiwan. On the other hand, we exited select positions in the Financials and Telecommunications sectors.

For the fixed income sleeve, we increased our exposure to India issuers, particularly on non-bank financial institutions to further diversify the portfolio.

At the end of the month, we held 61 equities and 51 fixed income securities. The equity portfolio yield was 2.9% (based on forward 12-month estimates), and the average fixed income coupon was 5.4%, with an average credit rating of BB and average duration of 2.0 years.

Market Outlook

Across the Asia region, we are expecting some of 2023's macro headwinds for equities to ease as we move into the new year. In India, we continue to see favourable demographics, rising consumption power and reordering of supply chains associated with "China +1" boosting the growth outlook. In China, our view is that the balance of risk and reward is looking considerably more favourable now than before. While near-term visibility on growth remains uncertain, any signals of macro stabilisation could support a market rally given the depressed valuations. In the rest of Asia, there are also signs of stronger momentum in the Technology sector, especially for companies with AI-related business exposure. Overall, from a regional standpoint, equities valuations remain at reasonable levels.

For fixed income, we continue to see Asia credit fundamentals improving and corporates deleveraging their balance sheets. Overall, the all-in yield remains attractive, providing high carry. We expect credit spreads to stay at current levels, given the strong demand supply technical and attractive credit cycle. In terms of strategy, we seek a careful balance between quality and carry from a positioning perspective, while at the same time looking to minimise spread duration risk. Interest rate volatility remains a key risk, and our strategy is to maintain a highly diversified portfolio with high portfolio yield and carry.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

Malaysian yield curve remained stable despite some volatility in UST and JGB in past weeks. At one point the 10y UST yield jumped more than 15bp to >4.60%, but had little impact on local government bonds where 10y MGS almost flatlined at 3.90% level. Overall, Malaysia government securities stronger by 3-9bps for the month and the Ringgit sustained as one of the best performing Asia FX, closed the month at 4.7045 compared to 4.7675 at end-Apr. BNM maintained the OPR at 3.00% as unanimously expected. The monetary policy stance remains neutral, with the current OPR being seen as "supportive of the economy and is consistent with the current assessment of the inflation and growth prospects". The languages on monetary policy stance has been unchanged for the fifth consecutive meeting since September. UST yields curve stronger by 13-21bps for the month, closing the 10y UST at 4.50% and 2y at 4.87%, 2y10y inversion gap at -37bps. The Fed in its 30 Apr/01 May 2024 FOMC meeting kept the policy rates unchanged at 5.25%-5.50% as widely expected.

The strong AI momentum continue to lift global equity markets in May, helped somewhat by China's policy boost, and optimism that the FED would cut as the 2-year yields were down 16bps to 4.87%. This was helped by the softer-than-expected April macro data in employment, retail sales and inflation, easing the concerns of the central bank's policy path. The USD was weaker with the DXY Index falling 1.5%, for the first time for the year, benefiting risk assets as well as emerging markets generally higher. The Ringgit gained 1.4%, Sing Dollar 1.0% and the Baht by 0.7% while the Pesos declined 1.3%. In commodities, metals were broadly higher with gains seen in aluminum (+2.4%), nickel (+2.5%), and copper (+0.5%). Similarly, in precious metals, gold continued to rise (+1.8%). On the contrary, oil prices fell 7.1% mom partially due to the seasonally lower demand as well as the inventory buildup.

Closer to home, the KLCI maintained positive form, gaining 1.3% mom to 1,597 pts (April: +2.6% mom). Broadly, the technology and construction and property sectors were the top performers while plantation and energy were at the bottom. The month was the corporate earnings season which saw decent showing for the 1Q of the year. More importantly, thematic plays continue to help sentiment with even more companies announcing their forays into the booming datacenter/hyperscale sector. Both Microsoft and Google announced multibillion cloud and AI transformation investments in the country. Real estate names also gained ground such as Sime Darby property, Mah Sing and UEM announced forms of initiatives. Contractor Gamuda was awarded a hyperscale contract worth RM1.7bn for Sime Darby's Elmina Business Park. Similarly, the local semiconductor had a boost with an announcement of a RM25bn National Semiconductor Strategy. Corporate action was not shy either with the announcement from MAHB (privatization), MPHB (privatization), XL Axiata-PT Smartfren (merger), YTL-Ranhill (acquisition), GHL (acquisition) and AMMB (exit by ANZ). For macroeconomic data, the CPI rose 1.8% (consensus: +1.9% yoy) while core CPI rose by 1.7% yoy. The reading suggests that the subsidy and price rationalization has not boarded into core CPI however, the bigger items e.g. petrol are yet to be implemented while diesel initiatives have just been announced as at writing. The 1Q GDP however came in above expectations, growing 4.2% yoy and 4.9% qoq, with domestic demand and private consumption gained strongly.

In regional markets, Malaysia and Singapore shared the top spot for the month, gaining 1.3% (in local currency terms). Philippines was the worst performer, tumbling 4.0% followed closely by Indonesia's 3.6% drop and Thailand sank 1.6%. In net foreign flows, Malaysia was the only net positive by US$314m (MYR1,487m). This brought year-to-date outflow of US$160m (MYR762m). Indonesia had another biggest net selling amounting to US$880m in the region. Thailand and Philippines had net outflow of US$455m and US$1.74m respectively.

Market Outlook

Sukuk Outlook & Strategy

BNM maintained the OPR at the 3% level during May's MPC meeting and we opine that BNM will maintain OPR at the 3% level throughout 2024 in the absence of demand pulled pressures, although monthly CPI is likely to trend higher depending on the pace of subsidy rationalization. In addition, the central bank is more inclined to support growth for the local economy.

Our view remains that interest rates have peaked, and we are in the stage of market recovery, although we expect some volatility in between. As such, we maintain our positive outlook for Malaysia's fixed income market as central banks globally shift towards more accommodative monetary policy. The prospect of rate cuts amidst lower economic growth expectations globally creates an ideal environment for bond yields to fall. This would bode well for the valuations of fixed income funds.

For Allianz Life Amanah Dana Ikhlas:

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

As such, strategy-wise, we aim to be fully invested and are looking to increase our duration exposure for better returns from the market recovery going forward. We continue to monitor sovereign bond yields for opportunities to increase our exposure in GIIs at attractive entry level for trading opportunities. Nonetheless, we maintain our overweight position in corporate sukuk versus government bonds, as we believe our preference for corporate bonds over sovereign bonds and strong credit selection will continue to add value to the Fund portfolio. Such positioning would anchor the Fund's income, as corporate bonds are less volatile and provide higher yields to buffer against potential mark-to-market losses. We prefer strong AA-rated and A-rated papers for yield pickup, while our holdings in AAAs and GIIs will be primed for trading and return on investment purposes. At the same time, we will continue to trade opportunistically and realize profits, reinvesting into longer-duration and higher yield accretive bonds while also considering new primary issuances with higher yields to increase the Fund returns.

Equity Outlook & Strategy

Equity markets remained steadfast while the local markets reacted well to the thematic plays. Certainly, net foreign inflows have returned for the month after several months of net selling (recall that YTD remains negative). News flows remain positive and encouraging as the country seeks sources of FDIs, continued progress of the Johor-Singapore Economic Zone, National Semiconductor Strategy, rapid development for datacenters/hyperscale's etc. Structural reforms have also begun with the announcement regarding subsidy on diesel. While details are scant at this juncture, with petrol being next on the agenda, these initiatives are expected to result in savings north of RM4bn for the government.

Moving forward, despite the strong performance in recent times, we are maintaining a positive view on names that benefit from these themes. In our pursuit of growth, we look for thematic investing for 2024 focusing on 1) Emphasizing NETR-related segments such as water, solar, and energy- efficiencies businesses, 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 lagged the benchmark in May. Stock selection in the Information Technology sector was the key detractor with a number of tech stocks giving back some of their recent gains in the rotational market.

As an example, a top detractor was a maker of optical transceivers that allow high levels of data to be transmitted quickly across a network. These play an important role in areas such as the development of artificial intelligence (AI) applications, especially in data centres where high speed data transmission is required. The stock had previously performed well following a good set of results. We view this month's pull-back as some profit taking and expect the company to benefit over the longer term from rising AI-driven demand.

Conversely, a top contributor was Pinduoduo (PDD), an ecommerce business focused on low price items. The stock rallied following positive results from its Temu platform, which demonstrates how the company benefits as consumers trade down in the depressed economic environment. The quarterly results also prompted a number of upgrades from sell-side research analysts.

Market Outlook

May was generally a month of consolidation for China equities, after the previous good run post-Chinese New Year. Onshore equities traded in a narrow range, while offshore markets continued their period of outperformance.

To some extent, the outperformance of offshore equities reflects a degree of catch-up after lagging previously. However, several other fundamental and technical factors are also at play. Recent quarterly results for internet companies – big constituents in offshore indices – were above expectations and included significant share buyback announcements.

Another catalyst was a report that Mainland China retail investors would be exempted from paying the 20% dividend tax on Hong Kong stocks bought through Stock Connect. No details have been confirmed but the report prompted a significant rally in higher-yielding offshore stocks.

While we do not have a strong view on the relative allocation of onshore versus offshore at this stage, nonetheless for China equities overall, we continue to be encouraged by recent news flow and policy initiatives.

The most important development, in our view, has been the way Chinese policymakers have significantly stepped up their efforts to help stabilise the property sector, with measures to address both the lack of demand and excess supply.

Down-payment ratios have been reduced to 15% for first-time buyers and 25% for second home buyers. The nationwide floor to mortgage rates will be removed. And for cities with higher levels of housing inventory, local governments can now purchase part of the unsold homes and convert them into public housing. In combination, we view these measures as representing the biggest nationwide property easing since the property turmoil started close to three years ago.

And while the RMB 300 billion (approximately USD 42 billion) quota provided by the China central bank for local governments to purchase existing housing inventory makes a somewhat modest dent in the overall oversupply situation, nonetheless the government has sent a strong message about its intentions to put a floor under the property market.

With the more encouraging news on the housing market, we added selectively to stocks which should benefit from a recovery in the Real Estate sector. At month-end, the onshore/offshore allocation was around 38% in China A-shares. The portfolio continues to have relatively close-to-benchmark sector allocations. The largest sector overweight is Industrials (+1.0%), while the largest underweight is Financials (-3.0%).

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 advanced over May. US equities set fresh record highs, although the market came off its best in the closing days of the month. The appreciation was mostly driven by robust gains from the Technology sector. As a result, the tech-heavy Nasdaq Composite Index outperformed the broad-based S&P 500 Index, with growth stocks topping value ones by a sizable margin. In contrast, Japanese and UK shares rose only modestly, while the MSCI Emerging Markets Index was pressured by weak returns from Brazil and Mexico, among others.

On the monetary policy front, US Federal Reserve (Fed) Chair Jerome Powell signalled that investors would need to be "patient and let restrictive policy do its work" in reducing inflation. However, he also confirmed that the likelihood of a further increase in rates was "very small". In the eurozone, the European Central Bank (ECB) gave its strongest hint yet that rates would be cut in June, despite higher-than-expected wage growth. Hopes that the Bank of England (BoE) would also cut rates in June were dashed when UK inflation fell less than forecast and the government unexpectedly called a general election, to be held on 4 July.

In the commodity markets, oil prices eased, touching their lowest level since March on fears of a looming supply glut. Conversely, metals prices moved higher. Gold touched a fresh high of USD 2,450 a troy ounce, while copper topped USD 11,000 a ton for the first time on record as concerns over curtailed supply added to expectations of a pick-up in demand.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, all sectors had positive returns. The Information Technology sector was the top performer, with outperformance from the semiconductors and semiconductor equipment industry group. The Utilities sector was another outperformer. Conversely, the Energy and Consumer Discretionary sectors lagged broader markets.

During the period, the Fund underperformed on both a gross- and net-of-fees basis versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). Market performance was narrowly concentrated among the mega-cap Technology companies, a sharp short-term reversal from the recent market broadening. This backdrop was a headwind for relative returns. From a sector perspective, Information Technology and Consumer Discretionary were the largest detractors to relative performance, while the Industrials and Consumer Staples sectors were offsetting. Although the artificial intelligence (AI) capital investments remain strong, the portfolio's AI infrastructure exposure underperformed the blended index, as a few AI foundational software companies reported earnings results that missed expectations. AI application also underperformed because of a transitory slowdown across the software industry. AI-enabled industries outperformed from strength among our renewable energy names.

Contributors

First Solar Inc. is a vertically integrated solar manufacturer and specialises in the production of high-performance cadmium telluride (thin film) based solar photovoltaic panels. The company is implementing AI across its value chain to drive innovation, enhance efficiency and improve customer service. Shares were higher during the month on news of potential new tariffs for Chinese solar panels, and investor recognition that First Solar is a direct beneficiary of higher power demand from AI and data centres. First Solar remains well positioned to capture the growth potential of US utility scale solar. The company will be the clearest beneficiary of the Inflation Reduction Act (IRA) guidelines for domestic content. Also, First Solar has strong visibility with orders extending through 2027 and margins being set to trend sharply higher, while the announcement of additional manufacturing capacity in the US could provide another catalyst.

Another contributor is a provider of enterprise AI software. Its platform empowers organisations to develop and deploy enterprise-scale AI applications. Shares were higher as the company reported better-than-expected earnings results, as subscription revenues accelerated for the fifth consecutive quarter. The company noted continued success in the government vertical and strong increase in pilot agreements. It is currently benefitting from the developments of large language models and generative AI. Bookings trends have been solid given new products and increased interest from various organisations to leverage AI technologies.

Detractors

Our position in a data developer platform was among the top detractors during the period. Its platform is used to build highly available and scalable cloud applications. Shares fell as it provided disappointing forward guidance, given a slower-than-expected start to the fiscal year for consumption growth and new workload wins. We believe these headwinds to the business are more transitory in nature and that company fundamental factors remain intact. The company continues to strengthen its market position and technological leadership in the growing database-as-a-service market.

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

Among the largest detractors on a relative basis was Nvidia Corp. Although the stock was a meaningful position in the Fund, we were underweight relative to the benchmark. The benchmark had an average allocation of 9.4% during the quarter versus the Fund's average weight of 3.9%. Shares were higher during the month as the company delivered a better-than-expected earnings report and as management highlighted that demand continues to out-strip supply, including the current generation Hopper graphics processing unit (GPU) and next generation Blackwell GPU products. For additional context, year-to-date as of 31 May 2024, shares of Nvidia rose 121% and we opportunistically took profits during its rise. We still favour the holding as one piece of a diversified exposure to the AI infrastructure opportunity.

New Buys and Sells

A new addition to the Fund included a technology and computational software company, a leader in the field of Electronic Design Automation (EDA). The company's capabilities are critical for the advancement of AI hardware, enabling engineers to efficiently design next-generation AI-specific semiconductors. Moreover, it integrated AI into its EDA tools. Examples of AI-enhanced tools include capabilities that automates design verification, creates new design through generative AI, and can optimise manufacturing yield.

Another new name included a biotechnology company that is actively leveraging AI across various stages of drug discovery and its business operations. We believe the combination of the company's AI investments blended with pipeline developments creates an attractive entry point to initiate a position.

We also added a provider of technology hardware and services. It developed an AI strategy focused on three pillars: AI in products, AI infrastructure solutions, and AI for its internal operations. By infusing AI across its business, the company can drive operational efficiencies, gain competitive advantages and offer AI-optimised products, which include AI server racks and AI edge devices, to customers.

We exited positions in a subscription streaming service and production company, and a manufacturer of semiconductors and wireless telecommunications products as the positions became small and shares had appreciated to a point where we did not believe the reward-to-risk ratios were as attractive as other opportunities.

Market Outlook

We continue to believe that the equity market recovery can extend from 2023 into 2024. Inflation has trended lower over the trailing 12 months but has moved sideways so far this year. As a result, the Fed likely maintains the restrictive stance by holding policy interest rates at current levels. Despite tight monetary conditions, the US economy remains healthy, as labour markets, corporate earnings and consumer spending have been resilient.

Expectations for Fed rate cuts have been lowered from six to under two over the year-to-date period. Amid this backdrop, equity markets have demonstrated resilience, especially for AI and cloud infrastructure companies. From the most recent Federal Open Market Committee (FOMC) meeting, Fed Chair Jerome Powell indicated that rates likely stay elevated for the time being. As the Fed gets comfortable that inflation is moving towards its 2% target, we should see rate cuts, which are looking likely to happen closer to the latter end of 2024.

A normalised monetary policy backdrop should be conducive for economic growth to broaden. We are starting to see a broader recovery in earnings growth that encompasses sectors outside of Technology and for mid- and small market capitalisation stocks. Even if there is more volatility ahead, we believe smaller companies have discounted more uncertainties, offering attractive risk rewards for longer-term investors. Lower rates should eventually ease financial conditions and help broaden the recovery as we head into 2025. These conditions should translate to better demand across various industries, easier access to capital and increased investment in high return-on-investment (ROI) projects like generative AI. There are likely bumps along the way, but we remain optimistic for the rest of 2024.

AI's impact on every industry is starting to take hold, and we see a growing opportunity set beyond just the Magnificent 7* and the Technology sector. ChatGPT and early use cases of generative AI have proven that these breakthroughs can greatly improve efficiency and drive a new wave of automation. We are likely at the dawn of a long-term AI investment cycle that will have significant growth implications across the value chain and in every sector of the economy.

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 infrastructure: The developments around generative AI and large language models further demonstrate that the demand backdrop for AI infrastructure companies should remain strong given the computing requirements for training complex AI models and subsequent inference needed for edge intelligence. More companies are now motivated to build out their own domain-specific generative AI capabilities through continuous training and refinement. As these launch for broad-based use, demand should also expand to networking and storage infrastructure to support the explosive growth in new AI workloads. Investment also appears to be expanding to smaller cloud providers, governments and corporations in more countries around the world, which should be supportive of the ongoing build-out of critical AI infrastructure in the coming years.

AI applications: A new wave of AI applications is emerging that infuse generative AI capabilities into their software to drive greater value and create more monetisation opportunities. Today's general purpose AI models were trained on the internet, and they cannot respond to questions based on proprietary knowledge or data housed privately within an organisation. Many internet and software companies have a wealth of proprietary data sets and workflows to train AI models that can result in a new era of more intelligent applications and systems, opening up many new opportunities for monetisation and value.

AI-enabled industries: AI is helping to reinvent digital transformation, introducing new generative AI possibilities that can significantly boost productivity and reduce costs. As more processes go digital, the opportunity for AI to react to new information or unexpected changes can revolutionise 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 and innovate in the future. We are witnessing an increasing number of companies across Automotive, Consumer, Health Care and Finance sectors leveraging proprietary datasets that could yield differentiated AI models and applications that are difficult to replicate and can handle tasks better than general purpose AI. We believe this is just the tip of the iceberg as companies become more comfortable with AI's potential to drive greater efficiencies and automation across every part of their business.

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advances in – and the deployment of – AI. We believe these changes will drive meaningful growth for companies that can take advantage and drive disruption within their respective industries. Our view is that the compounding effect from AI disruption will create massive opportunities for innovative companies across every sector. Stockpicking will be essential to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change. As we have done since the launch of the Fund, we remain focused on identifying the companies that leverage AI to deliver the most shareholder value creation over the long term. Compared to the technology innovation ahead of us, humanity is still on day one of our journey through the AI revolution.

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

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

Market Review

Equity markets in Asia Pacific rose modestly over May. In Japan, equities advanced overall, but gains were capped by rising bond yields and growing speculation that the Bank of Japan may raise interest rates to help stem the sharp decline in the Japanese yen. Economic data was a mixed bag. The Japanese economy shrank more than expected in Q1. Services activity also slid to 53.6 from April's 54.3, but manufacturing activity rose to 50.5, indicating that the sector was expanding for the first time in a year.

China markets were also mixed, with H-shares outperforming A-shares. The key event in China in May was policymakers stepping up support for the embattled Property sector. We view the combined measures – including reduced downpayment ratios, cuts to mortgages rates, and funding for local governments to buy unsold homes - as representing the biggest nationwide property easing since the property turmoil started close to three years ago.

Elsewhere, Australian stocks closed the month slightly higher, though a rising consumer price index (CPI) print raised concerns that the Reserve Bank of Australia may keep rates high for longer. Taiwan equities were lifted by robust gains from a Taiwanese chipmaker but South Korean shares lagged, with a Korea-based chipmaker and consumer electronics manufacturer announcing weak earnings. In ASEAN markets, Singapore rallied the most, but stock markets in Thailand, the Philippines, and Indonesia lost ground as early gains were eradicated by declines later in the month.

The Fund outperformed the MSCI AC Asia Pacific Index in May. Stock selection was the primary driver, with wide dispersion within key sectors. For example, three of the month's top picks came from the Technology sector, while other names in the sector were among the top detractors. We interpret this as the market digesting some of the recent gains amidst structural changes in demand for artificial intelligence (AI)-related solutions.

At a single stock level, Aspeed, a baseboard management controller (BMC) supplier, was a top contributor. Aspeed plays an important role in the global AI supply chain with its technology used to remotely monitor the physical state of a server. This area is benefitting from growing demand for AI chips and servers, especially in the areas of cloud computing and data centres.

Conversely, a top detractor was Koh Young Technology, a South Korean company that is a global leader in inspection equipment for consumer and auto electronics. The share price has been vulnerable after a strong Q1. We continue to see opportunities ahead for Koh Young's business in the semiconductor area and also future growth potential from AI-based smart solutions.

The overall positioning of the portfolio remains little changed over the month. We rotated into a couple of new ideas related to power grid equipment and renewable energy in Taiwan, as well as a Chinese Consumer Discretionary name. At a geography level, key overweight allocations are in Taiwan and Japan.

In Taiwan, we maintain a high exposure to Technology, especially in the semiconductor supply chain where we see an improving outlook both in demand and also in pricing power. Japan represents around 41% of the overall portfolio compared to the benchmark level of 34%. We remain broadly underweight Hong Kong/China, along with India and Australia.

At the sector level, Financials remains our largest underweight, along with the Communication Services area.

Market Outlook

We continue to have a constructive view on the regional outlook. In Japan, 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. There have been a number of high-profile corporates increasing both dividends and share buybacks recently. Although the Japanese yen has been weaker year to date as a result of the negative real interest rate environment, fundamentally we believe the currency is significantly undervalued.

In China, while market sentiment has improved, the outlook remains quite fragile. Although near term visibility on growth remains uncertain, nevertheless any signals of macro stabilisation could trigger a continued rally given the depressed valuations. Elsewhere in the region, there are signs of stronger business momentum in the Technology sector, especially for companies with AI-related business exposure. Overall, from a regional standpoint, valuations remain at reasonable levels.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Equity markets in Asia ex Japan rose modestly over May. China markets were mixed, with H-shares outperforming A-shares. The key event in China in May was policymakers stepping up support for the embattled Property sector. We view the combined measures – including reduced downpayment ratios, cuts to mortgages rates, and funding for local governments to buy unsold homes - as representing the biggest nationwide property easing since the property turmoil started close to three years ago.

Elsewhere in the region, Taiwan equities were lifted by robust gains from chipmaker TSMC, but South Korean shares lagged, with Samsung Electronics announcing weak earnings. In ASEAN markets, Singapore rallied the most, but stock markets in Thailand, the Philippines, and Indonesia lost ground as early gains were eradicated by declines later in the month. India posted another month of gains ahead of the general election results in early June.

The Fund performed behind the benchmark in May. Stock selection in the India market was a key detractor, offsetting better picks in South Korea and Taiwan.

At a single stock level, a key detractor was an Indian hotel chain. The company is a strong incumbent in the Indian mid-priced hotel category, with a portfolio of over 160 hotels across India and international expansion plans. Not only is the company set to benefit from growing consumer travel demand, but also scope to improve pricing with higher demand. Despite the recent share price weakness, we maintain conviction in the name and have conducted a Grassroots Research® study on the company to inform our views.

In contrast, a baseboard management controller (BMC) supplier, was a top contributor. The company 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 benefitting from growing demand for AI chips and servers, especially in the areas of cloud computing and data centres.

During the month, we repositioned somewhat in India, where we exited a jewellery retailer, real estate developer, and a hospital chain. In its place, we initiated a transmission utility company and a public sector financial company. We also selectively added to China in the Health Care space, as we are seeing some signs of market stabilisation. Overall, we remain underweight in Hong Kong/China. Despite recent improvements, macro conditions continue to weigh on market sentiment. India continues to be a key market – the portfolio weight at the end of May 2024 was 24% compared to the benchmark level of 21%.

At a sector level, Financials, Real Estate, and Communication Services are the primary overweight positions, while Consumer Discretionary and Materials are the main underweights. Top names in the portfolio at month end include TSMC, Samsung Electronics, and Reliance Industries.

Market Outlook

Across the Asia region, we are expecting some of this year's macro headwinds to ease as we move through the year. Within the region, our preference leans more towards South Asia where we are finding a number of attractively valued structural growth stories 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. There are also signs of stronger momentum in the Technology sector, especially for companies with AI-related business exposure.

In China, our view is that the balance of risk and reward is looking considerably more favourable now than before. While near-term visibility on growth remains uncertain, any signals of macro stabilisation could trigger a market rally given the depressed valuations. In India, although the election results have resulted in a coalition government, we do not see the outcome derailing the country's long term growth potential. Overall, from a regional standpoint, valuations remain at reasonable levels.

For Allianz Life Global Income Fund:

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

Market Review

Global equity, convertible security, and bond markets advanced in May. With the Q1 earnings season nearly complete, most companies surpassed consensus estimates helped by strong sales, cost cuts, and share repurchases. Full-year 2024 and 2025 earnings estimates moved higher over the month despite mixed company management outlooks. Key economic reports were neutral in aggregate. The labour market remained healthy, consumer confidence improved, and inflation showed signs of slowly ebbing. On the other hand, manufacturing fell back into contractionary territory, and home and retail sales missed expectations. Finally, the US Federal Reserve (Fed) kept rates unchanged at May's Federal Open Market Committee (FOMC) meeting with Chair Jerome Powell pushing back against potential rate hikes at the press conference.

In this environment, global equity markets, as measured by the MSCI World Index, returned +4.47%.* US equities outperformed their non-US counterparts, and growth stocks underperformed value stocks. Global convertible securities finished higher and primary market activity was elevated. Global high yield bonds also rose and new issuance was robust. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +1.31% with US exposure narrowly outperforming non-US.^

The portfolio was positively impacted by strength across global equities, global convertible securities, and global corporate bonds.

Top contributors were led by several Technology companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, such as Microsoft and Alphabet, in addition to multiple semiconductor companies including Nvidia. Apple gained on strategic partnership headlines and international growth prospects. A pulp and packaging producer rose on news that it received an offer to be acquired. Other top contributors were aerospace company BAE, a reinsurance company, and an automobile manufacturer that reiterated full-year guidance.

Top detractors included a software provider that reported slowing revenue growth, and a payments company that offered weaker-than-expected margin guidance. An issuer in the food delivery space declined on competitive concerns, a data analytics platform was lower following an executive departure despite a strong quarter, and an online real estate marketplace weakened on reports of slowing user trends. Other top detractors were exposed to construction, life sciences, entertainment, building materials, and medical technology.

Exposure increased the most in Industrials, Consumer Discretionary, and Health Care, and decreased in Financials and Real Estate. Covered call option positioning modestly decreased month-over-month.

Market Outlook

2023's economic momentum has carried over into 2024. Economic tailwinds include a healthy labour market, steady consumption, government spending, elevated household net worth, an end to the rate hike cycle, and accelerating earnings. Economic headwinds include persistent inflation, restrictive monetary policy, prolonged yield curve inversion, less personal savings, and US/international political risks, among others.

Global equity valuations reside near long-term averages. Visibility around 2024 and 2025 earnings, US dollar and Treasury market stabilisation, and an end to the rate hike cycle could be positive developments for stocks. Any equity market volatility will present opportunities for active managers to take advantage of better prices in attractive investments.

Global convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and potentially lower volatility relative to the equity market. The shift in the universe's composition exiting 2022 remains largely unchanged heading into 2024. Many securities offer attractive current yields and exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher debt financing costs should draw issuers to the convertible market for coupon savings. As a result, new issuance is expected to increase materially year-over-year.

The global high yield market, yielding 8%**, offers the potential for equity-like returns but with less volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to prioritise debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to mitigate downside volatility.

For Allianz Life Global Income Fund:

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

Global investment grade corporate bond's risk/reward opportunity is also 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.

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 May 2024 unless otherwise stated.
* Source: MSCI, as at 31 May 2024
^ Source: Bloomberg, as at 31 May 2024
** Source: ICE Data Services, as at 31 May 2024

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

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities advanced over May. US stocks led the rally, boosted by a jump in Technology companies, particularly a chipmaker which blew past earnings' forecasts. In contrast, Japanese and UK shares rose only modestly, while the MSCI Emerging Markets Index was pressured by weak returns from Brazil and Mexico, among others. At a sector level, Information Technology rallied the most, with Communication Services and Utilities also areas of notable strength. Meanwhile, Energy was the only sector in the MSCI All Countries World Index to fall over the month.

In the US, the appreciation was mostly driven by robust gains from the Technology sector. As a result, the tech-heavy Nasdaq Composite Index outperformed the broad-based S&P 500 Index, with growth stocks topping value ones by a sizable margin. Shares of the afore-mentioned chipmaker soared after it beat quarterly earnings' forecasts, announced a stock split and increased its quarterly dividend. The company is now the third largest US company by market capitalisation, beaten only by two technology giants.

US Federal Reserve (Fed) Chair Jerome Powell signalled that investors would need to be "patient and let restrictive policy do its work" in reducing inflation. However, he also confirmed that the likelihood of a further increase in rates was "very small". In the eurozone, the European Central Bank (ECB) gave its strongest hint yet that rates would be cut in June, despite higher-than-expected wage growth. Hopes that the Bank of England (BoE) would also cut rates in June were dashed when UK inflation fell less than forecast and the government unexpectedly called a general election, to be held on 4 July.

In the commodity markets, oil prices eased, touching their lowest level since March on fears of a looming supply glut. Conversely, metals prices moved higher. Gold touched a fresh high of USD 2,450 a troy ounce, while copper topped USD 11,000 a ton for the first time on record as concerns over curtailed supply added to expectations of a pick-up in demand.

Market Outlook

The Fund lagged global equity markets as represented by the MSCI AC World Index.

Over the course of the month, the Next Generation Energy and Infrastructure themes were positive contributors. On the other hand, the Digital Life and Intelligent Machines themes detracted, driven by adverse stock selection (underweight in Tech index-heavyweights).

On a single stock basis, the positions in a solar panels manufacturer; a home solar panel and battery storage company; Nextera Energy (all Next Generation Energy), a computer peripherals manufacturer (Digital Life), and a manufacturer of semiconductors and wireless telecommunications products (Intelligent Machines) were amongst the key contributors to performance. Not owning the afore-mentioned chipmaker and a computer hardware and consumer electronics company were the most meaningful detractors for the month.

The Fund continues to carry a meaningful overweight to Industrials and Materials and underweight to Communication Services. This positioning is in our view supported by decent business activity overall with solid capital expenditures, further investment activity in modernisation of equipment etc., a pick-up in economic activity in China and improvements in Chinese stock markets, as well as the slight decrease in interest rates.

We see several turning points for infrastructure-related themes. After the shakeout of the theme last year, we are seeing a stabilisation across Utilities, as well as electric vehicle (EV) and renewables within the Next Generation Energy theme. Recent mergers and acquisitions (M&A) activity boosted the Materials sector overall and benefitted the Infrastructure theme. Water engineering consultancy and engineering companies we recently met mentioned an increase in order activity with funding now becoming available from infrastructure acts, etc.

In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year. At the same time, both earnings growth as well as sales growth are expected to come in well above global equity markets average.

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 continued to rise in May, supported by enthusiasm for technology stocks and a favorable U.S. Core PCE inflation print. Labormarkets eased as the U.S. economy added 175k jobs in April, a deceleration compared to the upwardly revised 315k jobs added in March and falling short of expectations for a 243k increase. On the inflation front, U.S. headline CPI rose by 3.4% year-over-year (YoY) in April, near the consensus forecast but below the March number, bolstering market expectations for a September rate cut. In the Euro Area, headline inflation came in at 2.4% in April, the same as in March, holding at levels not seen in three years. In the U.K., headline inflation came in above expectations at 2.3%, but was the lowest reading in the country since 2021.

Government bond yields were mixed across developed markets, with U.S. Treasury yields broadly falling in response to softer-than-expected economic data. Elsewhere, U.K. 10-year gilts were modestly lower despite hovering near their highest levels since November 2023, as a batch of data surprised to the upside. In the front end, U.S. 2-year Treasury and U.K. 2-year gilt yields rallied 16bps and 11bps, respectively, while German 2-year Bund yields rose 6bps. U.S. 10-year Treasury and U.K. 10-year gilt yields rallied 18bps and 3bps, respectively, while German 10-year Bund yields rose 8bps. Equity markets rallied, with the S&P 500 posting returns of 4.96%, its best May since 2009, supported by better-than-expected first quarter earnings results. European equities were also higher, as the Stoxx 50 finished May up 2.42%, while Japanese equities lagged amidst currency weakness, with the Nikkei 225 returning 0.21%. In credit, USD and EUR investment grade spreads tightened by 2bps and 5bps, respectively. High yield performance was mixed, as USD high yield spreads were 7bps wider, while EUR high yield spreads tightened by 34bps.

For Allianz Life World Healthscience Fund:

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

Market Review and Outlook

Market:

• Global equity markets advanced in May, with the MSCI World Index returning +4.5% as inflation data and strong earnings bolstered investment sentiment, supporting risk assets.

• In the US, the S&P 500 and Nasdaq reached record highs, driven by mega-cap technology returns. April's inflation results aligned with expectations, showing a 3.4% year-over-year increase in headline inflation, while services inflation remained sticky. The Federal Reserve reiterated its data-driven approach, emphasizing that further disinflationary progress is necessary before considering interest rate cuts. Concurrently, Chairman Powell indicated against further rate hikes, lifting equity markets.

• In the eurozone, inflation accelerated, yet the European Central Bank (ECB) indicated that rate cuts could still be anticipated in June. In the UK, headline inflation decreased in April, but services inflation remained high, reinforcing expectations that the Bank of England (BoE) will maintain elevated rates.

• In Asia, positive economic data drove sentiment in the Chinese market, although weakness remained in consumer spending and the real estate sector. In Japan, equities declined as a weak Yen weighed on consumer confidence.

• From a sector perspective, all global sectors had positive returns with the Information Technology and Utilities sectors as the top performers and the Consumer Discretionary and Energy sectors as the worst.

• Regionally, Europe ex-UK and the US had the highest returns, while Japan underperformed.

Stocks:

• Not holding a position in CVS was the top contributor to returns over the period. The pharmacy benefit manager missed earnings expectations due to decreased profits in is Medicare Advantage segment and revised down 2024 guidance.

• An overweight position in Amgen also contributed to outperformance. The biopharmaceutical giant beat earnings expectations and provided positive commentary around the mid-stage trial results for its GLP-1 obesity treatment.

• An overweight position in Cencora was the top detractor from returns over the period. The drug distributor missed revenue estimates as elevated demand for lower-fee products and higher operating expenses put pressure on margins.

• An underweight position in Novartis also detracted from returns. The Swiss drugmaker's stock rose on positive sentiment after surpassing earnings expectations and raising full-year guidance.

Changes:

• During the month, we rotated our exposure within pharmaceuticals to take advantage of attractive valuations and innovative product pipelines. At the same time, we sourced capital from select managed care and medical device names lacking nearterm catalysts.

For Allianz Life World Healthscience Fund:

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

Key Positioning & Outlook:

• Despite strong equity market performance in the first quarter of 2024, we continue to navigate an uncertain political and economic environment. We 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.

• From a policy perspective, we believe the environment should be benign in the near-term. With the passage of drug reforms included in the Inflation Reduction Act, there is now more certainty following years of speculation. President Biden announced ten drugs his administration will target for price negotiations as part of the prescription drug provisions included in the Act. The administration aims to leverage Medicare's market power to decrease prices for top-selling drugs treating blood clots, diabetes, cancer, and arthritis. Negotiations will take place over the next year for changes to take effect in 2026.

• 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

• May was a strong month for financial markets with both equities and fixed income providing positive returns against a backdrop of resilient economic data and an expectation that central banks will cut rates this year.

• Within equities, the anticipation of falling rates benefitted growth stocks which outperformed value stocks, and from a regional perspective, Developed Market equities outperformed Emerging Markets. US equities led the way buoyed by resilient economic data and better-than-expected earnings across a broadening set of sectors. Europe's economy also showed further signs of improving activity, which, supported by attractive valuations, prompted flows into European equities. Japan, whilst still positive, lagged its Developed Market counterparts as ongoing weakness in the currency weighed on consumer sentiment.

• Fixed income markets were broadly positive over the month with Developed Market sovereign bond yields ticking lower or remaining flat, with the exception of Japan. Despite stickier inflation prints in the US and the probability of rate cuts therefore being reduced, US Treasuries benefitted from the Federal Reserve's reinforcement against further rate hikes. In Europe, the ECB maintained its intention to cut rates given their confidence in inflation continuing its downward trend, however a shortterm rise in inflation capped the rally in yields. Contrarily, Japanese 10-year government bond yields rose over the month given the less certain policy outlook. Elsewhere, Global Credit spreads across High Yield and Investment grade broadly contracted over the period.

• In Commodities, the oil price gave up some of its strong returns from the month prior, however precious metals delivered positive returns amidst robust global demand and ongoing geopolitical tensions.

Performance

• Against this backdrop the ESG Multi-Asset Fund delivered a positive return. From an asset class perspective, Developed Market Equities were the key contributors to returns, however all asset classes were additive over the month.

• Within Equities, the mega-cap tech basket led the contribution to returns as growth stocks broadly benefitted from the positive rates outlook, with Nvidia in particular rallying strongly following another positive earnings announcement. All four of our core Equity strategies managed by BlackRock specialists added positively to returns with the Systematic Active Equity portfolio the key contributor, adding alpha relative to its opportunity set, as did the Global Sustainable Infrastructure Equity portfolio. The Global Unconstrained and Brighter Future Developed Market Equity portfolios both contributed positively but underperformed the opportunity set, largely due to underweight positioning in mega-cap tech stocks.

• Elsewhere, thematic equity baskets all contributed positively with leading contributions from the technology focused baskets. Contrarily, hedging strategies on both Europe and US equity indices detracted from returns amidst the positive environment for risk assets. Given the significant downside risks presented by geopolitics and policy uncertainty, we continue to seek out hedging strategies where pricing looks attractive in order to smoothen returns for our clients.

• Fixed Income allocations to both government bonds and corporate credit added to returns as the prospect of rate cuts later in the year saw yields broadly moving lower.

• The positive contribution from commodities stemmed from the allocation to Silver, which more than offset the marginally negative contribution from the allocation to Gold.

• Listed Alternatives furthered their positive trend over the month. Encouraging signs of acquisition activity and proactive steps to close discount levels from company management teams saw a continuation in share price recoveries, most poignantly from the Clean Energy Transition assets.

For Allianz Life ESG-Integrated Multi-Asset Fund:

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

Positioning

• Over the month we leant into Equity market momentum by trimming US and European Equity hedges to increase the beta of the portfolio, but rolled equity options protection strategies at attractive pricing levels, allowing us to increase market exposure whilst remaining mindful of looming background risks.

• We took profits on the Listed Private Equity Basket following a strong rally in the share prices of the names we own. We closed the long/short reflation strategy following the US CPI prints given near-term reflationary risk has now abated to a degree, in our view.

• In fixed income, we maintained a cautious duration profile given rates volatility remains high against an uncertain policy backdrop. However, we implemented a relative value duration trade involving a short US Treasury position against a set of long Government bonds in countries where the inflation and policy trajectory is clearer.

• Elsewhere we took some profits on Silver following a strong period of performance, trimming the position back to its original size. In FX, we closed out of a tactical long US Dollar trade and implemented a tactical EM carry trade in the form of long Brazilian Real and Mexican Peso relative to the US Dollar.

Outlook

• Market pricing of Fed rate cuts has been dialed back thanks to inflation remaining elevated. We continue to have conviction in our view that, whilst the rate of inflation will continue to moderate in the US, the final steps in the path to the Federal Reserve's 2% target remain less certain and we are closely monitoring reflationary risks. Inflation in Europe has also proved stickier than anticipated in recent prints, however we still believe disinflation backdrop is more favourable than that of the US. Whilst market pricing for interest rate cuts by the ECB has mirrored that of the Fed, we believe that the likelihood of the ECB delivering on expectations of rate cuts is higher.

• Despite normalising labour and growth data in the US, the economy remains on a strong footing with little sign of breaking. Recent concerns around consumer spending is something we are watching closely, however spending appears resilient for now. Ultimately, we expect that the US economy will see real GDP growth in 2024 that is close to its long-term trend. There are significant risks to that view, however, which we continue to monitor, including the lagged consequences of higher interest rates, significant global geopolitical tensions, and the presidential election at the end of the year.

• As we reach the peak in developed market interest rates and dollar strength, fixed income and emerging market assets have become more attractive. Within fixed income we are managing exposure dynamically, taking relative views preferring the UK and Europe over the US given the dispersion in the inflation and policy backdrops. Whilst interest rate cuts are on the horizon, we believe that there are structural reasons that will keep long-term rates supported, particularly in the US, including strong growth and high fiscal issuance.

• Within emerging markets, continued disinflation, as well as improving economic growth and light investor positioning presents an opportunity, though risks to this view include numerous elections and significant geopolitical tensions. We believe that the increasing dispersion of returns in emerging market countries enhances the appeal of a more selective approach. Chinese equities, for example, have rebounded since lows earlier in the year on the back of supportive measures from the central government.

• Portfolio resilience is at the fore; we continue to believe that active asset management and dynamic monitoring of positioning remain important parts of our toolkit. They provide an effective means of navigating the new regime in which we are in. In this regime, characterised by higher macro volatility, it is necessary to take a granular approach by narrowing down regional, sectorial, and industry-specific exposures. As we pivot to new opportunities, we emphasize the importance of downside protection and continuously monitor key risks including geopolitical tensions and changes in the global growth outlook. We prefer higher quality assets as companies with stable revenue generation and healthier balance sheets are better placed to withstand the current tighter credit conditions.

For Allianz Life ESG-Integrated Multi-Asset Fund:

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

• We maintain strong conviction in the embedded resilience of ESG strategies in portfolios; evidence of good practices has become even more critical given the unpredictable nature of current markets. We expect this theme to be underpinned by the recent crisis and the continued focus on climate change.