Market Review and Outlook

October 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 reversed its uptrend in October 2024 with the MSCI World Index falling -2.04% mom as rising US Treasury yields drove up borrowing costs and made equities less attractive. Geopolitical tensions in the Middle East further unsettled investors, contributing to higher oil prices and market instability. In the US, the Dow Jones Index fell 1.34% mom as pre-election uncertainty in the US heightened investor caution and added to overall market volatility. Technology sector earnings, especially from major players like Microsoft and Meta, fell short of expectations, sparking concerns over future growth and increased spending pressures.

The European Stoxx 50 Index also declined by 3.46% mom as weaker-than-expected corporate earnings, especially in the technology and luxury sectors, combined with rising U.S. Treasury yields, prompted a shift away from equities. The European Central Bank also noted signs of slowing economic momentum in Europe, particularly in the manufacturing sector, and responded with the third 25 bps rate cut of the year, lowering the deposit facility rate to 3.25%. This economic uncertainty, coupled with geopolitical tensions in the Middle East, added to investor caution and drove broad declines across European markets.

China’s Shanghai Composite Index fell 1.70% mom amid profit-taking and investor disappointment over China’s economic stimulus measures, despite intensified efforts from the People’s Bank of China. The central bank lowered key lending rates, including a 25 bps cut to the one-year loan prime rate to 3.1% and the five-year rate to 3.6%, aimed at easing financial strains in critical sectors like property and consumer spending. On the flip side, China’s Caixin Purchasing Managers’ Index (PMI) showed an improvement in October’s reading which came in at 50.3 compared to its prior month’s contractionary reading of 49.3.

During the month under review, Brent oil price inched up 1.7% mom to USD 73.16/bbl due to escalating geopolitical tensions in the Middle East, which raised fears of potential disruptions to oil supplies. Additionally, OPEC+ maintained reduced output levels by delaying planned production increases. On the other hand, crude palm oil price rallied hard by +16.4% mom to RM4800/MT, due to increased demand from major importers like India and China, who sought to secure supplies ahead of anticipated price hikes. Additionally, adverse weather conditions limited production, and policy changes in Malaysia and Indonesia raised export duties, prompting buyers to expedite purchases, thus further driving up prices.

Back in the region, the ASEAN markets had mixed performances. The Stock Exchange of Thailand posted a +1.19% mom increase as the Bank of Thailand's Monetary Policy Committee reduced the key policy rate by 25 bps, lowering it to 2.25%. This move was aimed to stimulate economic growth. On the other hand, Singapore’s Straits Times Index slipped 0.74% mom, in-line with global equity weakness and rising U.S treasury yields which led to negative investor sentiment. Its September 2024 Non – Oil Domestic Exports (NODX) reported a +1.1% growth mom which was below consensus’ expectations of +4.9%, whereas its industrial production came in flat mom, as compared to a +6.7% mom increased the previous month. Malaysia’s FBMKLCI declined by 2.85% mom as foreigners were net equity sellers to the tune of RM1.77bn in the month of October. The index's performance was also impacted by a widespread global equity sell-off, as investor sentiment dampened amid uncertainties in international markets. Lastly, Indonesia's Jakarta Composite Index eased -0.61% mom, in-line with most regional peers.

The US Treasuries (UST) yields were up across all tenors for the first time since April 2024 by 36 – 60 bps mom as robust US economic data raised uncertainty on further interest rate cuts by the Fed. In addition to that, expectations of wider deficits and the prospects of larger government bond supply next year exerted upward pressure on longer tenure yields. US job growth for September exceeded expectations as it surged to 254k (Survey: 150k, August revised: 159k) while unemployment rate unexpectedly dropped to 4.1% (Survey: 4.2%, August: 4.2%). Majority of economists then scrapped forecasts for a second 50bps rate cut on November 7 and forecasted a 25 bps cut instead. With that, as of end – October 2024, the market – implied total rate cuts by December 2024 declined to 44 bps from 70 bps as of end – September 2024.

Similarly, Malaysian Government Securities (MGS) yields increased as well but at a smaller quantum of 5 – 21 bps mom. On 6th November, Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% as widely anticipated in Monetary Policy Committee's (MPC) final meeting for the year as growth and inflation remain within official forecasts for the year. There was no change in BNM stance and they continue to state that the current OPR level is supportive of the economy and consistent with its inflation assessment and growth prospects. Meanwhile, Malaysia's advanced estimates of 3Q24 GDP growth was stronger than expected at 5.3% yoy (Survey: 5.1% yoy, 2Q: 5.9% yoy) on gains in the services, manufacturing and construction sectors. On the other hand, September's CPI turned out lower than expected at 1.8% yoy (Survey: 1.9% yoy, August: 1.8% yoy) as key food items and utilities price remained steady while transport cost eased.

Foreign funds turned net seller in October with net outflows of RM11.4bn (September: +RM1.0bn), likely due to profit-takings and defensive positioning ahead of the November US election. Foreign share of both MGS and MGS+MGII lowered to 33.2% (September: 34.8%) and 21.7% (September: 22.6%) respectively. Malaysia's foreign reserves shrunk by USD2.1bn to USD117.6bn as of end – October 2024 (September: USD119.7bn).

Market Outlook

Now that global inflation appears to have been brought under control and the much-anticipated interest rate normalization in the US has begun, we believe that investors would shift attention to several other key exogenous uncertainties such as the impact from potential new policies from the new US President, further interest rate cuts before the year's end, the escalating tensions in the Middle East and the efficacy of the Chinese stimulus package. From a domestic perspective, investors would likely be keen on the potential rollout of the Johor – Singapore Special Economic Zone (JSSEZ) and the implementation details of policies such as the fuel subsidy rationalisation.

Against that backdrop, we remain unswervingly committed to investing in fundamentally good investments over long – term investment horizons. Moreover, we might also participate in some trading activities to capitalize on any prevalent 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.

Bond market volatility in the fixed income market will persist. From now till Trump's inauguration in Jan 25, there could be more volatility and uncertainty to come from the actual policies to be instituted. Although the FOMC decision for a 25 bps cut is widely expected in November, the future of Fed rate cuts however could be less certain with the market implied terminal rate looking slightly higher. Locally on the economy, BNM said the latest indicators point towards sustained strength in economic activity, driven by resilient domestic expenditure and better export performance. Its inflation outlook remains subject to the details of the implementation of announced domestic policy measures. Market expectation is for BNM to stand pat on the OPR for 2025. 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 October, trend-following stocks outperformed. The Fund is positively exposed to stocks with strong momentum and earnings revisions as well as growth and dividend growth.
- Stocks with higher dividend yield did well in the past month.

What hurt?

- The Fund lagged the benchmark index MSCI World in October.
- Stocks with strong quality and valuation features as well as stable dividends lagged in October. The Fund is strongly allocated to this segment and hence the long-term attractive styles contributed negatively.

Market Review and Outlook

Global equities mostly ended October lower. Japanese stocks were a rare bright spot, advancing on hopes of higher government spending after the ruling Liberal Democratic Party lost its parliamentary majority for the first time in 15 years. Elsewhere, however, early gains were more than offset by a weak close to the month. At a sector level, Health Care, Materials, Consumer Staples and Real Estate fell the most, while Financials, Communication Services and Energy moved higher.

US stocks lost ground over October. Shares trended higher for much of the month, with the Nasdaq Composite Index hitting a fresh high as mega-cap tech stocks returned to favour, before slumping on the final trading day of the month as tech earnings highlighted the growing cost of investment in artificial intelligence (AI). US shares have started to price in a growing possibility that Donald Trump may win the US presidential election. The former President has vowed to cut taxes and lower regulation, moves that are seen as being positive for equities. While the race for the White House remains neck and neck, Trump appears to have a slight advantage in the seven swing states that will likely decide the election result.

European equities retreated over October. Sentiment was knocked by the growing possibility that Donald Trump may win November's presidential election, as he has vowed to impose a 20% tariff on imports from Europe. At a sector level, Information Technology, Real Estate and Materials companies fell the most, while Energy was the only sector in the MSCI Europe Index to deliver a positive return.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asia Pacific equities retreated over October. While Taiwan withstood the sell-off, many of the region's other markets ended the month lower. A strong tone to the US dollar posed as a headwind for returns. Chinese equities lost ground as optimism over recent stimulus measures faded given the lack of hard details from authorities. Nevertheless, data releases hinted at some improvement in the domestic economy. Korea equities declined on mixed corporate earnings and disappointing export and manufacturing data. Meanwhile, Australian and most ASEAN market shares broadly closed the month lower, reflecting the stronger US dollar and general market concerns around US election results and the direction of the US Federal Reserve's (Fed's) interest rate policy. India equities also suffered, with weaker returns stemming from a combination of profit taking, foreign investor outflows, and weak corporate earnings. On the positive side, India's manufacturing and services activity remained robust, along with local investor appetite for domestic equities.

Asian credit markets corrected in October due to a steep rise in US Treasury rates, as expectations for the total number of US policy rate cuts were tampered due to continued strong economic data in the US. Asian credits (JACI composite) corrected by -1.0% return in October. Investment grade (IG) credits corrected by -1.3% due to higher US Treasury rates, but this was partially mitigated by credit spread compression. On the other hand, high yield (HY) credits returned 1.1% from higher carry and aggressive spread compression. Year-to-date, Asian HY credits have delivered strong returns of 16.0%, significantly outperforming credit markets globally.

The Fund return was negative in USD terms in October.

In the equity portfolio, the top detractor was Alibaba, the leading ecommerce platform in China. After a strong rally in the final days of September in response to significant policy stimulus, share price saw some consolidation as investors assess the extent to which the measures are likely to alter China's economic growth path. Overall, Alibaba has been regaining market share and pricing power as it has refined its business strategy to improve competitiveness.

On a positive side, key contributions came from our positions in the Taiwan Technology sector. For example, the top contributor was Taiwan Semiconductor Manufacturing Company (TSMC), which reported a jump in profits and raised its earnings guidance. We expect growth momentum to continue to be supported by increased demand for artificial intelligence (AI) servers and recovery in personal computer (PC) and smartphone segments.

The asset allocation at the end of the month was 69.4% invested in Asian equities and 31.2% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity for the equity sleeve, over the month we added to an information technology (IT) services company in China and an international logistics software provider based in Australia. On the other hand, we exited positions in an airport operator in India and an automaker in Korea.

For the fixed income sleeve, we used the market weakness to extend the duration of the portfolio by switching out some low carry front-end papers to longer-dated senior financial papers and Japanese corporate bonds.

At the end of the month, we held 61 equities and 62 fixed income securities. The equity portfolio yield was 2.6% (based on forward 12-month estimates), and the average fixed income coupon was 5.5%, with an average credit rating of BB and average duration of 1.8 years.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. The peak of the US rate cycle should provide a supportive overall backdrop and overall valuations generally remain at reasonable levels. The outlook in China also looks to be improving with the recent slew of policy measures. While the recent policy initiatives have been successful in jumpstarting markets and boosting domestic confidence, eventually it will still be necessary to address the more structural problems, especially related to the property sector as well as the broad-based deflationary pressures. 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. Within the region, we are also 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 and rising consumption power is boosting the growth outlook across ASEAN markets and India.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

On the fixed income side, major global central banks have begun their respective rate cut cycles. While the eventual terminal rates are very much data-dependent and evolving, the downward trajectory in rates seems clear and supportive for credit as an asset class. Our view is that lower rates and yield carry will be the main contributor to performance. Policy support in China should provide support for tighter credit spreads in the region. Asian IG yields continue to benefit from strong demand, and we remain positive on HY with wider spreads and stable to improving fundamental outlook. With the strong performance year-to-date, prudent credit selection remains key for outperformance.

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 6 to 22bps across the curve, after UST selling off and higher yields on the back of uncertainty of US presidential election. Market sentiment is weak despite the budget announcement by PM on narrower deficit of 3.8% GDP in 2025 and stronger economic growth in 2025. 2024 GDP forecast was revised higher to 4.80%-5.30% (from 4.00-5.00%) and 2025 headline CPI inflation in the range of 2.00-3.50%, higher than 2024's revised estimate of 1.50-2.50%. 10y MGS yield rose 21 bps to 3.93% from 3.72% a month ago while longer-ends outperformed the short to belly of the curve. On the currency front, Ringgit grossly underperformed major and regional currencies. Against USD, MYR weaker by 6.7% MoM to 4.395.

Global equity markets were broadly weaker, although US jobs and retail data supported a soft-landing narrative. After commencing a 50bps rate cut last month, the street is estimating another 25bps cut in November. However, given the close US election race and fears of inflation risks this drove the 10-year US Treasury yield to 4.28% from 3.78% last month. There were also expectations of "higher-for-longer" scenario, with emerging markets, as well as for Malaysia that saw net foreign outflows. Elsewhere, after a robust performance by China/Hong Kong, the market succumbed to profit taking. Likewise, Indian stock market also took a breather, although this was compounded by weaker-than-expected corporate results season. Elsewhere, Korea and Thailand cut policy rates by 25bps.

Regionally, most Asean markets was weaker, with the KLCI being the worst performer in the region, slipping 2.9% mom in October. Utilities and telecommunication dragged the index lower, notable by the YTL Corp and YTL Power and Axiata. In macro, Malaysia's September headline CPI came in below expectations at +1.8% yoy (consensus: +1.9%, August: +1.9%) but was flat mom basis. On the other hand, core CPI, was up 1.8% yoy (August: 1.9% yoy) and 0.1% mom. Elsewhere, Malaysia's exports slipped 0.6% in September while imports fell 1.9%. The drop in exports fell due to declines in mineral fuels and manufacturing. For imports, this was driven by decline in chemicals and manufactured goods.

The USD strengthen, causing the regional currencies lower with the DXY Index gaining 3.2% during the month. The Ringgit suffered the most by 6.2% in the region. This was followed by the Baht, Rupiah, and Pesos that declined 4.9%, 3.7%, and 3.7% respectively.

In commodities, oil prices added 1.9% on geopolitical tensions as Iran-Israel confrontation flared with retaliatory attacks in addition to some uptick in demand for the commodity. This also partly led the gold to rise 4.2% to ~US$2,790/oz in tandem with the US yield movements and stronger USD. On the other hand, industrial metal slipped 4.1%, which was notably choppier during the month due to the US election, as investor evaluate the growth-supportive considerations and as sentiment on the stimulus by China waned.

In fund flows, foreigners sold US$413m (RM1.8bn) during the month, a substantial amount, considering it is after net buy of US$110m in September. This marks the first net sell after net buying for the past 3 months. On year-to-date basis, net foreign inflows amount to US$376m (RM1.7bn).

Market Outlook

Sukuk Outlook & Strategy

BNM maintained the OPR at 3.00% as unanimously expected in most recent MPC meetings. The monetary policy remains in a neutral setting given the favorable combination of solid economic growth and anchored inflation trajectory that is expected to sustain into year-end, as well as a stronger ringgit. We expect the recovery in Malaysia's fixed income market to continue in the remainder of 2024, 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 2024 in the absence of demand-pulled pressures, especially when Consumer Price Index (CPI) numbers are relatively benign at the back of subsidy rationalization exercises. In terms of growth prospects, Malaysian GDP growth is projected to expand between 4.80%-5.30% in 2024 (revised higher from 4.00-5.00%). This justifies a continuation of the current monetary policy stance. Having said no change, the next move in OPR, if any, is likely to be a cut rather than a hike. However, we do expect volatility to remain elevated amid the ebb and flow of recession fears, and geopolitical tensions continue to linger in the backdrop.

For Allianz Life Amanah Dana Ikhlas:

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

Strategy wise, 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 returns. We will maintain our Neutral to long-duration stance as we find current bond yields to be attractive. We continue to Overweight corporate bonds over sovereign bonds to 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 ROI (return on investment) purposes. We will continue to trade opportunistically to realize profits.

Equity Outlook & Strategy

Equity markets, especially for the region, have seen weaker performance as investors have stayed on the sidelines due to the US presidential elections, not to mention the ongoing geopolitical tensions and the divergence in rate cut opinions by central banks. In any case, we maintain our positive stance on the Malaysian equity markets. While the market thus far has done remarkably, we caution that the price action has been concentrated into blue-chips and to some extent thematic plays e.g. AI/Data Centre plays. Moving forward, we think that earnings deliverables will be the key focus for investors, as sentiment initially driven by news flows are likely to be lessen.

Hence, we may look into trimming our positions and taking profit while switching to laggards and defensives, and stock picks will be the key factor to look for outperformance. We will continue to remain cautious in the near-term with our main strategy remains on thematic names 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

There has been significant market rotation in recent weeks, with previously resilient stocks generally lagging. It has been noticeable, for example, how small cap stocks have rebounded strongly with increasing retail investor participation. In terms of attribution, there was a positive effect from an overweight position in the Information Technology sector which was offset by weaker stock picking in the sector.

At a single stock level, a key contributor last month was a thermal management solution provider for data centres, energy storage and artificial intelligence (AI) chips. The company posted another good set of results with management remaining upbeat on its growth outlook. It continues to have a robust order pipeline both in China and overseas, particularly in Southeast Asia where data centre cooling demand remains strong.

Conversely, a key detractor was a hydraulic components maker. The share price gave back its gains from the previous month with a slightly disappointing set of quarterly results. Looking ahead, we expect the company to benefit from improving domestic excavator demand supported by a replacement cycle. It has also been actively diversifying its business and the recently opened factory automation division should also become a future growth driver.

Market Outlook

Recent weeks have seen a slew of economic stimulus measures. There have been numerous announcements at both national level as well as local government initiatives piggybacking on the change of central government direction to a more pro-growth policy setting.

The outcome has been a rollercoaster ride for China equity investors with an initial market surge followed by some welcome consolidation as investors assess the extent to which the measures are likely to alter China's economic growth path.

The long-term economic objective is still, in our view, very much about building a more diversified future growth model based on technology-intensive manufacturing, and in doing so to reduce the reliance on property and infrastructure. Going hand-in-hand with this is the focus on national security, especially through the enhancement of self-sufficiency in critical industries.

As such, we view recent policy initiatives as an important change of approach which increases the likelihood of economic stabilisation, rather than being the precursor to a new growth surge. This stabilisation is much needed if China's longer-term vision is to be achievable.

If successful, this should remove some of the headwinds that have been blowing hard in the face of China equities, undermining both valuations and corporate earnings.

Indeed, a key aspect of the policy announcements is the eye-catching focus on financial markets, with the provision of significant liquidity for share buybacks and stock purchases as well as a potential equity market stabilisation fund. There have now been three key moments this year when the government has stepped in to stabilise equity markets during periods of particular weakness.

Our view is that this should at least provide a floor to China equity markets and, in a more optimistic scenario, potentially sets the scene for a more sustained market rally. In summary, we are now in a situation where the government is easing both monetary and fiscal policies, and actively looking to boost asset prices. This is a different position from just a few weeks ago.

In terms of portfolio activity, given our more optimistic view of the China A-shares market outlook, we have added to stocks which are more sensitive to an improvement in the domestic economy. These include insurance companies, brokers, consumption-related stocks, as well as selective industrial names. Conversely, we have trimmed more defensive areas such as banks.

At month-end, the portfolio has around 42% in China A-shares. Sector weightings continue to be relatively close to the benchmark allocations. The largest sector overweight is Industrials (+2.6%), while the largest underweight is Communication Services (-2.4%).

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 mostly ended October lower. Japanese stocks were a rare bright spot, advancing on hopes of higher government spending after the ruling Liberal Democratic Party lost its parliamentary majority for the first time in 15 years. Elsewhere, however, early gains were more than offset by a weak close to the month. US stocks lost ground over October. Shares trended higher for much of the month, with the Nasdaq Composite Index hitting a fresh high as mega-cap technology stocks returned to favour, before slumping on the final trading day of the month.

With economic data continuing to indicate a soft landing for the US economy and a solid jobs market, expectations grew that the US Federal Reserve (Fed) may slow the pace of its rate cuts. In Europe, the European Central Bank (ECB) lowered interest rates by 25 basis points (bps), marking its third cut of this year. The People's Bank of China (PBoC) also reduced its 1- and 5-year loan prime rates by 25 bps. The rates are used as a reference point for most loans and mortgages in China.

Oil prices initially surged past USD 80 per barrel after Iran launched hundreds of rockets at Israel, sparking fears that Israel may retaliate by attacking Iranian oil facilities. However, oil prices subsequently retreated, closing the month around USD 73 per barrel, after Israel's response focused on military targets and Tehran signalled it would take a measured response to these strikes. Gold prices surged to a fresh record high of almost USD 2,800 an ounce amid ongoing geopolitical tensions and as investors evaluated political risks ahead of the US presidential election.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, performance was led by Financials. The favourable interest rate backdrop and strong earnings were tailwinds for the sector. Communication Services was the only other sector with positive absolute returns. The Materials and Consumer Staples sectors were the top laggards over the period.

During the period, the Fund outperformed on both a gross- and net-of-fees basis versus the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). From a sector perspective, Information Technology and Financials were the largest relative contributors. The Health Care and Consumer Discretionary sectors were the largest detractors. Artificial intelligence (AI) infrastructure was the strongest performer given positive industry data points that remain constructive for our AI semiconductor and data centre-related holdings. AI applications was another outperformer with strength from companies with AI agent exposure. AI-enabled industries underperformed the blended benchmark because of our Health Care exposure.

Contributors

Morgan Stanley is a leading global financial services company with business segments that includes institutional securities, wealth management and investment management. The company reported strong better-than-expected earnings, with broad strength across segments. Morgan Stanley also highlighted that AI and technology investments helped drive new wealth management clients wins. We believe the company is well positioned to deliver products and services leveraging AI to enhance its various product offerings. Moreover, the company's earnings trajectory is also positioned to benefit from a recovery in capital markets, improved net interest income trends and controlled costs.

Datadog Inc. offers a monitoring platform that provides software engineers real-time observability across the entire technology and application stack. This platform enhances user experiences and avoids downtime through automated problem detection. Shares were higher as the spending environment for observability software experienced incremental improvements. Looking out, the company has an attractive growth trajectory given a large addressable market, Datadog's strong product offering, and the ongoing trend of digital transformation. Datadog is also a beneficiary of increased AI-stack workloads. The company has also integrated generative AI into its platform, including natural language prompts to surface intelligent insights from their observability data, generate key assets like tests and post-mortems and streamline incident response and remediation.

Detractors

Detractors include a vertically integrated solar manufacturer that specialises in the production of high-performance 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 lower during the month as bookings slowed due to policy uncertainty. It remains well positioned to capture the growth potential of US utility scale solar. Also, the company has strong visibility with orders extending through 2027 and margins should trend higher as new projects get priced in at higher rates.

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 11.50% during the quarter versus the Fund's average weight of 7.90%. Shares were higher during the period as Nvidia and other AI server companies provided positive commentary on the AI infrastructure investment environment. We still favour the company as one piece of a diversified exposure to the AI infrastructure opportunity. Cloud hyperscalers continue to add AI compute capacity to meet large, unmet customer demand, while enterprises are also building out their own AI training capabilities to create new business applications and enhance employee productivity.

New Buys and Sells

New buys include a pharmaceutical company with drug franchises that includes oncology, diabetes and ventral nervous systems. The company's blockbuster obesity treatment is a key growth driver that has a large addressable market with strong momentum. It is also utilising AI to accelerate their drug discovery and development processes, including treatments for diseases with unmet medical needs.

We also bought a US financial services company. The company is positioned to benefit from a better regulatory backdrop and from Fed rate cuts that should yield a more favourable interest rate environment. It has been heavily investing in AI technologies, which should yield productivity enhancement and greater operation efficiency across areas that include fraud detection and personalised recommendations for customers.

Although we previously reduced the position in supplier of semiconductor manufacturing equipment, specifically machines for the production of chips through lithography, we ultimately exited the position given uncertainty regarding the spending intentions of key customers and potential additional US government export restrictions on equipment sold to China.

We also exited a data developer platform because of inconsistent performance over the past couple quarters. Further, we have been more concerned regarding competitive pressures, especially from a computer technology company, that is making it more challenging to migrate legacy workloads to the platform.

Market Outlook

We continue to have a constructive mid- to long-term outlook for equity markets given the earnings growth potential from continued AI innovation and adoption over the coming years. However, we could see higher market volatility in the near term as markets digest the outcome of the US elections, potential shifts in some policies, and timing of future rate cuts by the Fed. We continue to maintain a balanced portfolio positioning for the upcoming Trump presidency, which should be similar to his past administration. Overall corporate earnings have been relatively resilient year-to-date although there have been pockets showing some softness given the lag effect of higher rates. As we have done in periods of volatility, we will opportunistically look to upgrade select names and add to our highest conviction ideas to better position the portfolio for improved performance.

Since inflation is now moving towards the Fed's target of 2% and employment conditions have moderated, the central bank is now in a more comfortable spot to normalise policy. The Fed started its cutting campaign by reducing the federal funds rate by 50 bps, with more reductions expected in the coming months. Since the risk of inflation has abated, the Fed has greater latitude to pursue its goal of maximum employment. An easier monetary backdrop should be constructive for the economy to regain its footing, but it may take time for effects to take hold. We remain optimistic in the resiliency of the US economy, corporate earnings growth and AI innovation in the years ahead.

As for what's next in the ongoing generative AI innovation wave, we expect the robust capital investments in "Phase 1" AI infrastructure to continue and the industry to enter the "Phase 2" AI applications wave that leverages this infrastructure to develop new generative AI capabilities in software to drive greater value and automation opportunities. We are also seeing early signs of "Phase 3" AI-enabled industries demonstrating effective use of generative AI. Many companies outside of the Technology sector are increasing investments in generative AI to train one's own industry- specific model on its proprietary data or knowledge to compete better and innovate in the future. A backdrop of emerging AI beneficiaries underappreciated for their potential creates a significant opportunity for alpha generation in the years ahead.

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. Generative AI appears to be evolving into its next phase with the emergence of AI agents. These applications are customisable and run 24/7 and can mimic human decision-making capabilities. This can take a lot of costs out of businesses and dramatically improve productivity. As these AI agents roll out for broader distribution, AI applications companies can open up many new monetisation opportunities and create value for users.

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. Stock picking 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

Asia Pacific equities retreated over October. While Taiwan withstood the sell-off with a strong rally in an index-heavyweight semiconductor manufacturing company, which reported a jump in profits and raised its earnings guidance, many of the region's other markets ended the month lower. A strong tone to the US dollar posed as a headwind for returns.

Japan equities were in the spotlight during the month and weakened in US dollar terms as a surprise result in the general election saw the Liberal Democratic Party's coalition lose its parliamentary majority for the first time in 15 years. As widely expected, the Bank of Japan (BoJ) kept rates on hold and reaffirmed its commitment to normalising monetary policy. Other economic measures like private sector activity and manufacturing delivered weaker prints, while inflation eased to 2.5% in September, the lowest level since April.

Chinese equities also lost ground in October as optimism over recent stimulus measures faded given the lack of hard details from authorities. Nevertheless, data releases hinted at some improvement in the domestic economy. Meanwhile, Australian and most ASEAN market shares broadly closed the month lower, reflecting the stronger US dollar and general market concerns around US election results and the direction of the US Federal Reserve's (Fed's) interest rate policy.

The Fund outperformed the MSCI AC Asia Pacific Index in October. Key contributions came from the Taiwan market, where our large position in Information Technology names and stock selection in this area helped drive performance. After a tough September, October saw a strong recovery in the Technology space broadly, especially names related to artificial intelligence (AI) adoption and adjacent technologies.

Similarly, stock selection in the Industrials sector was also beneficial. Several of our holdings in Japan Industrials, which are exposed to AI capital expenditure (capex) expansion and technology development, delivered solid gains. Stocks related to aerospace and alternative energy solutions also made positive contributions during the month.

The broad positioning of the portfolio remains in place. At a geography level, the key overweight exposures are in Japan and Taiwan. 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 have 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 in recent months bringing it back to attractive valuations.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. The peak of the US rate cycle should provide a supportive overall backdrop. Overall, valuations generally remain at reasonable levels.

The outlook in China also looks to be improving with the recent slew of policy measures. It is, nonetheless, still unclear how large the latest round of China stimulus will be and how effectively it will be implemented. While the recent policy initiatives have been successful in jumpstarting markets and boosting domestic confidence, eventually it will still be necessary to address the more structural problems, especially related to the Property sector as well as the broad-based deflationary pressures.

Finally, we 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. We also continue to see the 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 retreated over October. While Taiwan withstood the sell-off with a strong rally in index-heavyweight Taiwan Semiconductor Manufacturing (TSMC), which reported a jump in profits and raised its earnings guidance, many of the region's other markets ended the month lower. A strong tone to the US dollar posed as a headwind for returns.

Chinese equities lost ground as optimism over recent stimulus measures faded given the lack of hard details from authorities. Nevertheless, data releases hinted at some improvement in the domestic economy. India equities also suffered, with weaker returns stemming from a combination of profit taking, foreign investor outflows, and weak corporate earnings. On the positive side, India's manufacturing and services activity remained robust, along with local investor appetite for domestic equities. Meanwhile, ASEAN equity markets apart from Thailand closed the month lower, reflecting the stronger US dollar and general market concerns around US election results and the direction of the US Federal Reserve's (Fed's) interest rate policy.

The Fund outperformed the benchmark in October. Stock selection in the Taiwan market was a key source of value add, with several stock picks in the semiconductor supply chain benefitting from an artificial intelligence-related (AI-related) rally after experiencing some weakness earlier in the year.

A trio of top contributors at the stock level are from the Taiwan Technology sector, with Hon Hai Precision being a key positive driver in the month. Hon Hai's direct exposure to AI servers and its established relationship with an industry giant as the dominant supplier to its data centre solution helped boost the shares. We expect growth momentum in 2025 to continue to be supported by increased demand for AI servers, as well as Hon Hai's emerging electric vehicle (EV) business, which is helping to offset softness in the smartphone area.

Conversely, a top detractor was a health care group, a name that we exited during the month. It is an oncology-focused private hospital business in China. While we continue to believe that the group is a well-managed business with a quality product offering, we are concerned about the company's exposure to local government debt and the overhang on its share price in the near term.

The main portfolio activity during the month was to reposition somewhat in China. We took advantage of the market opportunity post the policy announcements to add to internet/ecommerce exposure including Meituan, the leading online food delivery platform. Even in the challenging macro environment, consensus earnings forecasts have been increasing and a significant improvement in cash flow is allowing the company to step up its share buyback programme. We also initiated a position in a major dairy company, where an easing of competitive pressures in the industry should also support a growth turnaround. Conversely, we exited other positions in the Consumer Staples, Energy, and Health Care sectors.

At a sector level, Financials, Real Estate, and Health Care are the primary overweight positions, while Industrials, Consumer Staples, and Materials are among the main underweights. Top names in the portfolio at month-end include TSMC, Tencent, and Alibaba.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. The peak of the US rate cycle should provide a supportive overall backdrop. Overall, valuations generally remain at reasonable levels.

The outlook in China also looks to be improving with the recent slew of policy measures. It is, nonetheless, still unclear how large the latest round of China stimulus will be and how effectively it will be implemented. While the recent policy initiatives have been successful in jumpstarting markets and boosting domestic confidence, eventually it will still be necessary to address the more structural problems, especially related to the Property sector as well as the broad-based deflationary pressures.

Within 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.

For Allianz Life Global Income Fund:

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

Market Review

Global equity and fixed income markets were broadly lower in October. The Q3 earnings season got off to a strong start, with most companies exceeding top- and bottom-line estimates and year-over-year earnings growth approaching double digits. Management commentary has been focused on positive credit conditions, strong artificial intelligence (AI) demand, favourable advertising traction, mixed consumer demand, China headwinds, and Industrials/Auto-related softness. On the economic front, the Q3 gross domestic product (GDP) growth was above trend, consumer confidence rose, employment data was balanced, and core inflation increased modestly. Against this backdrop, futures markets pared back rate cut expectations to 25 basis points (bps) for the November Federal Open Market Committee (FOMC) meeting, driving Treasury yields higher.

In this environment, global equity markets, as measured by the MSCI World Index, returned -1.98% with US equities outperforming their non-US counterparts.* Global convertible securities, as measured by the ICE BofA Global 300 Convertible Index, returned -1.38% with US issues outperforming non-US issues.** Global high yield bonds, as measured by the ICE BofA Global High Yield Index, returned -0.25% with non-US issues outperforming US issues.** Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -3.35% with US exposure outperforming non-US exposure.^

Global equity and fixed income market weakness weighed on the overall portfolio.

Top contributors in the period were led by several semiconductor companies, including Nvidia, that are seeing strong AI demand growth. Several holdings in business intelligence and specialty financial services that have bitcoin exposure advanced alongside the cryptocurrency. Other sources of strength were a cruise line operator and a paper company, both of which reported better-than-expected earnings results. An alternative asset manager gained on mergers and acquisitions (M&A) news, an airframe manufacturer executed a well-received capital raise, and a major US bank guided for higher interest income.

Top detractors in the period included Apple and Microsoft, both of which consolidated year-to-date gains, and several pharmaceutical holdings that declined on earnings-related concerns. An aerospace company fell despite raising guidance, a logistics provider declined on an executive departure, and a software holding moved lower on weaker-than-expected results from a subsidiary. A health care diagnostics company expected to benefit from improving bioprocessing demand also underperformed. Other top detractors in the period were holdings in ecommerce and nutrition.

Exposure increased the most in Financials, Materials, and Consumer Discretionary, and decreased in Health Care. Covered call option positioning decreased 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.

Apart from an accommodative shift in monetary policies, potential economic tailwinds include steady consumption, continued government spending, improving productivity, increasing capital expenditures, and the proliferation of AI. Risk to growth may increase if these trends weaken. Other potential headwinds include escalating geopolitical tensions, prolonged labour market softening, deteriorating consumer sentiment, and continued manufacturing contraction.

In the short term, global equity volatility could increase due to foreign conflicts and US labour disputes and elections. Over the intermediate term, markets could move higher on continued central bank easing, stabilising global growth, secular drivers, such as AI, and accelerating earnings or an earnings inflection from more companies. If economic growth or earnings growth fall short of expectations, the global equity market could be challenged.

Global convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. Higher debt financing costs have drawn issuers to the convertible market for coupon savings, resulting in accelerated new issuance at favourable terms and an expanded investment opportunity set with the desired risk/reward characteristics. While a change in market leadership is not certain, a sustained broadening of the equity market could be a positive development for the asset class.

The global high yield market, yielding over 7%^^, offers the potential for 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

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

continue to exercise balance sheet discipline. Given these factors, the default rate has been below the long-term average with expectations for it to trend towards the historical average in 2025. Regarding credit spreads, they can stay tight for many years. This was the case in the mid-1990s and 2000s – periods like today when high yield balance sheets were healthy and defaults were low, the economy was stable, and interest rates were elevated.

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 October 2024 unless otherwise stated.
* Source: MSCI, as at 31 October 2024
^ Source: Bloomberg, as at 31 October 2024
** Source: BofA Merrill Lynch, as at 31 October 2024
^^ Source: ICE Data Services, as at 31 October 2024

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

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities mostly ended October lower. Early gains were more than offset by a weak close to the month. At a sector level, Health Care, Materials, Consumer Staples and Real Estate fell the most, while Financials, Communication Services and Energy moved higher.

Global bonds sold off, with yields rising sharply in the US as polls indicated Donald Trump was likely to win November's presidential election. The former president has promised to hike import tariffs substantially, while tax cuts are likely to further swell the fiscal deficit. The yield on the 10-year US Treasury bond rose 50 basis points (bps) over the month to close just below a 4-month high of 4.3%. On a global basis, corporate bonds outperformed government debt, with high yield debt faring better than investment grade securities.

With economic data continuing to indicate a soft landing for the US economy and a solid jobs market, expectations grew that the US Federal Reserve (Fed) may slow the pace of its rate cuts. In Europe, the European Central Bank (ECB) lowered interest rates by 25 bps, marking its third cut of this year. The People's Bank of China (PBoC) also reduced its 1- and 5-year loan prime rates by 25 bps. The rates are used as a reference point for most loans and mortgages in China. In Japan, hopes of higher government spending came up after the ruling Liberal Democratic Party lost its parliamentary majority for the first time in 15 years.

The US dollar strengthened as investors moderated their forecasts for the pace of rate cuts by the Fed. While the euro fell against the dollar, it rose against the Japanese yen. Oil prices initially surged past USD 80 a barrel after Iran launched hundreds of rockets at Israel, sparking fears that Israel may retaliate by attacking Iranian oil facilities. Gold prices surged to a fresh record high of almost USD 2,800 an ounce amid ongoing geopolitical tensions and as investors evaluated political risks ahead of the US presidential election.

Market Outlook

The Fund returned negatively (in EUR, gross of fees) in October, underperforming global equity markets as represented by the MSCI AC World Index.

The theme selection contributed negatively to overall performance, while stock selection among the themes has been slightly negative. The largest thematic detractor has been the theme Next Generation Energy which suffered most over the month of October. While the market was starting to price in a win of Donald Trump in the presidential election on 5 November, this created a negative sentiment for this theme over the course of October. Intelligent Machines also did weaker as the semiconductor industry negatively reacted to a weaker guidance by a supplier of semiconductor manufacturing equipment, specifically machines for the production of chips through lithography. Digital Life contributed well to overall performance driven by positive stock selection.

From a sector perspective, the overweight to Materials and Utilities created a burden, as well as the underweight to Financials as classical banks benefitted from a steepening in the yield curve in Europe and the US. From a single stock perspective, positive performance occurred from a manufacturer of semiconductor testing devices and electronic measuring instruments which reported better-than-expected quarterly results. A consumer electronics manufacturer (Digital Life) benefitted from the tailwind in the Chinese market after the government announced further stimulus programmes as of the end of September.

A solar panels manufacturer (Next Generation Energy) has been among the detractors as rising interest rates are generally lowering the speed of the energy transition. A specialty chemicals producer (Clean Water and Land) suffered from muted quarterly results. The biggest detractor was the underweight to technology company that designs graphics processing units, while being underweight a technology conglomerate has been a positive contributor.

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

Solid macro data and uncertainty surrounding the US election resulted in a volatile month for risk assets, pushing equity and bond markets lower. In the US, labour markets added 223k jobs in September, up from a downward revised 78k in August and higher than consensus forecasts. On the inflation front, the annual headline rate rose by 2.4%, slightly higher than expected, but cooled from a 2.5% rise in August. In the Euro area, the annual inflation rate was revised lower to 1.7% in September, compared to initial estimates of 1.8% and an August print of 2.2%. In the UK, the annual inflation rate fell to 1.7% in September, compared to forecasts of 1.9% and a 2.2% reading in August.

In the US, Treasury yields rose as the resilience of the US economy and uncertainty around post-election policy changes lowered market expectations for the magnitude of future rate cuts. Meanwhile in the UK, the budget announcement put pressure on gilts due to stronger than expected levels of spending planned for 2025. In the front end, US 2-year Treasury, UK 2-year gilt, and German 2-year Bund yields sold off 53bps, 45bps, and 21bps, respectively. Further out the curve, US 10-year Treasury, UK 10-year gilt, and German 10-year Bund yields sold off 50bps, 44bps, and 27bps, respectively.

Equity markets also declined in October, with the S&P 500 returning -0.9%, despite stronger economic data. Elsewhere, Japanese stocks performed well despite the hawkish tone from the BoJ at its October meeting, with the Nikkei 225 rising by 3.1%. In credit, USD and Euro investment grade spreads tightened 5bps and 11bps, respectively. Meanwhile, USD and Euro high yield spreads tightened by 13bps and 28bps, respectively.

During the month, the PIMCO GIS Income Fund returned -1.64% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '24 performance to 4.60%.

For Allianz Life World Healthscience Fund:

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

Market Review and Outlook

Market:

• Global equities fell in October with the MSCI World Index returning -2.0% as investors weighed quarterly earnings, moderating global growth, and uncertainty around the US Presidential Election. Fixed income was also challenged with the Bloomberg US Aggregate Bond Index returning -2.5% on the month.

• In the US, mixed economic data and Q3 results drove equity returns. On the earnings front, over 60% of the S&P 500 Index reported in October, the majority of which had results that exceeded street estimates. September's CPI demonstrated further progress on inflation, although to a lesser extent than anticipated. At the same time, nonfarm payrolls were better than feared and the unemployment rate declined. Elevated core inflation, coupled with a resilient labour market, led investors to price in less significant Fed rate cuts for the remainder of the year.

• In Europe, the ECB announced a 25 basis points (bps) reduction to interest rates, noting signals of weak economic momentum in the region, particularly in the manufacturing sector. Progress on inflation continued with September headline CPI revised down. In the UK, rising unemployment and muted economic growth led markets lower.

• Asian equity markets were challenged by the strength in the US dollar. In China, supportive monetary and fiscal policy were perceived as a positive for the region. In Japan, equities rose despite concerns around the yen's appreciation and political uncertainty following the recent election. The BoJ held rates steady, as expected, but maintained a hawkish tone that led bonds to sell off.

• Global sectors had negative performance over the month, with only Communication Services experiencing positive returns. Materials and Health Care were the most challenged sectors.

• From a regional perspective, only the Middle East had positive performance while Europe had the weakest returns over the month.

Stocks:

• An overweight position in Boston Scientific was the top contributor to relative performance after the medical device manufacturer reported robust quarterly earnings, driven by growth in its cardiology business.

• An overweight position in Intuitive Surgical was another top contributor to active returns. The robotic surgery device maker saw double-digit growth in procedure volumes using its da Vinci system over Q3.

• Elsewhere, not holding a position in Bristol-Myers Squibb was the top detractor from relative returns as the biopharmaceutical giant surpassed earnings expectations due to continued cost prudence.

• Lastly, an underweight position in Johnson & Johnson detracted from active performance. The diversified health care provider reported progress in resolving its long-standing talc litigation, with an increasing number of plaintiffs choosing to settle over the adverse effects of the company's legacy products.

Changes:

• During the month, we increased our exposure to select pharmaceutical and biotechnology companies with strong fundamentals and attractive valuations. As a source of capital, we trimmed positions in select pharmaceutical companies with deteriorating growth prospects or a lack of near-term catalysts.

For Allianz Life World Healthscience Fund:

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

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.

• From a policy perspective, we believe the environment should be benign in the near-term. Regulatory outcomes expected to impact the sector have largely been realized with the Affordable Care Act (ACA) being 14 years old, the passage of the Inflation Reduction Act (IRA), and the reduction of drug patent durations. While health care rhetoric may intensify, it does not appear to be a central focus for regulatory reform, and therefore, we anticipate a relatively stable policy environment.

• 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:

• October was a volatile month for financial markets with both Equities and Bonds providing negative returns. The combination of stickier inflation and a resilient labour market in the US saw a repricing of expectations for interest rate cuts from the Federal Reserve. The upcoming US election added to the uncertainty leading US equities to sell-off and US government bond yields to rise.

• Whilst continuing disinflation in Europe prompted the European Central Bank to cut interest rates by a further 25 basis points, European government bond yields rose, and European equities suffered amidst ongoing growth concerns particularly in the manufacturing sector. Whilst inflation in the UK also continued on a downward trajectory, UK Gilt yields were negatively impacted by the UK budget announcement later in the month, which contained more government spending than anticipated.

• Contrarily, Japanese Equities proved to be an outlier over the month providing positive returns as a weaker Yen prompted flows into the asset class.

• Elsewhere, despite further announcements of stimulus measures by Chinese policymakers Emerging Markets across both Equities and Debt suffered in the context of a stronger dollar.

• Precious metals continued their upward momentum in October, marking a third consecutive month of gains, as heightened geopolitical tensions drove ongoing demand for these safe-haven assets.

Performance:

• Against this backdrop, the ESG Multi-Asset fund delivered negative returns. From an asset class perspective, return contributions were negative across Equites, Bonds and Listed Alternatives, whereas the allocation to Gold and to Volatility Strategies provided a source of diversification, contributing positively over the month.

• Within Equities, the allocation to Developed and Emerging markets provided negative returns. The main detractors from returns stemmed from the core alpha strategies managed by BlackRock equity specialists. This was in part due to the higher allocation to the strategies, however stock selection decisions also led to negative active returns across all four of the strategies. Offsetting the losses to a degree was the Mega-Cap Tech Equity and US Enterprise Tech baskets, which benefitted from the relative outperformance of Growth and Tech over the month. The allocation to Japanese stocks with a focus on higher dividend paying companies also added to returns, as did hedging on the broad European equity market.

• Fixed Income exposures also contributed negatively with the allocation to US treasuries and to Investment Grade Credit undermining positive returns from High Yield, Argentina Bopreal bonds and the Sovereign CDS basket.

• Listed Alternatives, being listed in the UK, were impacted by volatility in the UK Gilt market, however positive diversification stemmed from the allocation to Gold and to VIX futures.

Positioning:

• Over the month we remained constructive on Equities however added put protection US Equities given stretched valuations and expectations for volatility in the build-up to the US election. Relatedly, as volatility picked up at the start of the month, 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 also added to Gold given near-term geopolitical risks remain elevated and peaked interest rates and de-dollarization are structural tailwinds.

• We sold out of the tactical Luxury Goods basket 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 views regarding the package since shifted to being more beneficial for domestic China.

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

• We maintained a cautious level of duration given policy uncertainty and looser government fiscal policy keeping yields elevated in our view. We therefore also closed the long UK Government bond position following the UK budget announcement, which contained more government spending than anticipated.

Market Outlook:

• US economic data have re-accelerated of late after a weak spot in the summer. The main concern continues to be the unemployment rate which is rising, but unlike ahead of past recessions, the main driver is not layoffs – it is an immigration driven increase in labour supply. Job creation is slowing though still robust whilst consumer spending has firmed up in recent months after softness in the middle of the year. Corporate earnings have also beaten expectations. In the near-term inflation is likely to continue trending lower although markets may be too optimistic about the speed of the path back to the Federal Reserve's 2% target and so the market may dial back the number of rate cuts currently priced in.

• Within Europe, economic growth picked up over the first half of the year, yet this was driven by external demand rather than domestic growth. Whilst growth is set to continue over the second half of the year, survey data continues to weaken presenting a downside risk, with energy insecurity in Germany in particular continue to have a long-term impact on the region's manufacturing sector. A constructive disinflation backdrop suggests that further rate cuts from the European Central Bank are likely into the end of the year.

• Moves by China to support the domestic stock and housing markets have resulted in a change in the outlook for emerging market assets. Easing monetary conditions and moves to stimulate consumption reflect a growing urgency to support the economy. Elsewhere within emerging markets, continued disinflation, improving economic growth, and light investor positioning presents an opportunity.

• As we reach the peak in developed market interest rates, fixed income assets are becoming more attractive. We are managing exposure dynamically, preferring the UK, Europe, and Canada given our view that markets are not 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 reasons that will keep long-term yields supported, particularly in the US, including strong growth and high fiscal issuance. Despite tight spreads, a positive growth outlook is supportive of credit and high yield given the level of income available.

• 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. We emphasize the importance of downside protection and continuously monitor key risks including geopolitical tensions and the impact of the US presidential election.