Market Review and Outlook

September 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 uptrend continued in September 2024 with the MSCI World Index rising +1.69% mom. Equity markets remained buoyant amidst the long-awaited US Federal Reserve (Fed) pivot which signaled the start of interest rate normalization after the risk of high inflation had been reined in. It coincided with a more restrained disposition from Bank of Japan officials and a stimulus salvo from China. In the US, the Dow Jones Index climbed +1.85% mom as the Federal Open Market Committee (FOMC) finally cut its Fed Fund Rate by 50 bps to a range of 4.75% to 5.00%, marking its first rate cut in four years. The Fed Chair was however cautious in downplaying concerns that its outsized cut was due to concerns for economic growth but instead emphasizing that it was more due to the upside risks to inflation being significantly reduced. In addition, the Fed’s dot plot projection suggested another 50 bps cut by the end of 2024. The US economy also delivered some positive datapoints such as the S&P Global US Composite Purchasing Managers’ Index (PMI) data which showed an expansionary reading of 54.0, maintaining its expansionary streak since February 2023.

The European Stoxx 50 Index also edged up +0.86% mom as the European Central Bank (ECB) had also decided to cut its deposit facility rate by 25 bps to 3.50%. This was its second rate reduction in 2024. It was in response to lackluster economic growth and inflation cooling to its 2.0% target in August 2024. In fact, the ECB lowered its 2024 growth forecast by 0.1 ppt to +0.8% yoy, due to “weaker contribution from domestic demand over the next few quarters”. The ECB went on to elaborate that it was not pre – committing to a particular rate path and that future maneuvers would be data – dependent.

Looking East, China’s Shanghai Composite Index surged +17.39% mom as the government launched its most aggressive stimulus since the Covid pandemic in a bid to revitalize its economy. To that end, the People’s Bank of China cut the 7 – day reverse repo rate by 20 bps to 1.5%, the 1 – year Medium Lending Facility by 30 bps and the Reserve Requirement Ratio (RRR) by 50 bps. The government also attempted to bolster the country’s flagging property market by lowering mortgage rates for existing loans and a reduction of second homes’ downpayment ratio to 15%. Apart from the monetary easing measures and real estate market support, the government had also outlined its plan to aid liquidity in financial markets through loan prime and deposit rates as well as a CNY500b swap programme to allow brokers and funds access to central bank liquidity, thereby helping to shore up its equity market. China’s Caixin PMI Manufacturing showed a contractionary September reading of 49.3 which was worse compared to its prior month’s expansionary reading of 50.4 and was below consensus expectations.

In Japan, the Bank of Japan (BoJ) opted to keep interest rates steady in September 2024 and its governor signaled that it was in no rush to raise borrow costs further. This was after the heightened uncertainties stemming from the unwinding of the yen carry trade sparked by the BoJ’s surprise rate hike at the end of July 2024.

During the month under review, Brent oil price fell 8.9% mom to USD 71.77/ bbl due to increasing oil supply from the US, potential easing of Libyan oil supply disruptions and weakening oil demand from China. In addition, it was reported that Saudi Arabia was preparing to abandon its unofficial USD100/ bbl oil price target, as it postured towards gradually unwinding some oil production cuts in December 2024, in alignment with the broader OPEC+. Oppositely, palm oil price edged up +1.2% mom to RM4124/ MT due to a modest rise in soybean and corn prices, coupled with some dry weather in Brazil.

While developed markets enjoyed equity rallies, the ASEAN markets had mixed performances. The Stock Exchange of Thailand posted an impressive +6.60% mom jump as investors hurried to invest in equities ahead of the launch of the THB150b (approx. RM19b) Vayupak Fund which would begin investing in October 2024, thereby providing support for the Thai equity market. Foreign investors were also net buyers of Thai equities with a net inflow of approx. USD0.9b in September 2024. Singapore's Straits Times Index also shot up +4.13% mom on the back of the aforementioned Fed rate cut and supportive actions of the Chinese government. It reported mixed economic signals such as its August 2024 Non – Oil Domestic Exports (NODX), +10.7% yoy but -4.7% mom, which was below consensus expectations whereas its industrial production grew by +21.0% yoy and +6.7% mom, which was ahead of consensus expectations. However, Malaysia's FBMKLCI declined 1.78% mom despite foreigners still being net equity buyers to the tune of RM0.5b, albeit -80.0% mom. However, with Bank Negara Malaysia (BNM) keeping its Overnight Policy Rate (OPR) pat at 3.00% against the Fed rate cut, the Ringgit strengthened to RM4.1235: USD1.00 from RM4.3205: USD1.00 in August 2024. From an economic standpoint, Malaysia enjoyed July 2024 manufacturing sales value and industrial production growths of +9.1% yoy and +5.3% yoy respectively, which were better than the previous month's readings. Lastly, Indonesia's Jakarta Composite Index eased 1.86% mom despite strong foreign net buying to the tune of IDR2.3tr. Its central bank, Bank Indonesia (BI), unexpectedly cut its interest rates by 25 bps to 6.00% just before the start of the FOMC's easing cycle, to encourage economic growth. The move was, however, consistent with BI's expectation that inflation would remain low in 2024 and 2025.

The US Treasuries (UST) yields lowered across the tenors by 8 – 23 bps mom as job growth continued to fall short of expectations, prompting the Fed to deliver the abovementioned 50 bps cut to avoid further softening of the labour market. The August nonfarm payroll rose by +142k mom, which was lower than expectations of +165k mom. In addition, payroll of the previous 2 months i.e. July and June, were revised downwards to +89k mom (from +114k mom) and +118k mom (from +179k mom) respectively. With the 50 bps cut, the federal funds rate now ranges from 4.75% to 5.00% (previously 5.25% to 5.50%). As of end – September 2024, the market – implied total rate cuts by December 2024 stood at 70 bps (end – August 2024: 100 bps).

Similarly, Malaysian Government Securities (MGS) yields also reduced across the tenors by 1 – 5 bps, with the MGS 10yr yield decreased the most by 5 bps to 3.71% amidst unchanged OPR and lower – than – expected Consumer Price Index (CPI). On 5th September, BNM maintained the OPR at 3.00% as widely anticipated and stated that the current OPR level is supportive of the economy and consistent with its inflation assessment and growth prospects. Meanwhile, August CPI was marginally weaker than estimated at +1.9% yoy (Survey: +2.0% yoy, July: +2.0% yoy) as the moderation of prices in most services components (including health, furnishings, household equipment and maintenance, recreation, education and restaurants and accommodation) offset the price increase in alcoholic beverages and tobacco as well as transportation.

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 US Presidential election in November 2024, interest rate uncertainties 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 Budget 2025 in October 2025, the potential rollout of the Johor – Singapore Special Economic Zone (JSSEZ) and the implementation of policies such as 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. While the FOMC's policy direction points towards rates trending lower, there remains a level of uncertainty around the extent of future rate changes as it would be subjected to incoming data and whether the US economy deteriorates more than expected. Aside, US election uncertainty will come into greater focus in the following months. Despite slower growth experienced by major economies, Malaysia's latest indicators points towards sustained strength in economic activity. The outlook to inflation would depend on the implementation of further domestic policy measures on subsidies and price controls, as well as global commodity prices. Market expectation is for BNM to stand pat on the OPR for 2024. 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 September, equity markets turned positive.
- Stocks with higher dividend yield did well in the past month.

What hurt?

- The Fund lagged the benchmark Index MSCI World in September.
- Stocks with attractive valuation, stable dividends and quality features lagged the market and contributed to underperformance of the strategy.

Market Review and Outlook

Global equities mostly rallied over September, buoyed by the US Federal Reserve's (Fed's) larger-than-usual cut in interest rates, its first reduction in four years. In late September, a raft of further stimulus measures from the People's Bank of China (PBoC) and the Chinese government further boosted sentiment, particularly towards Chinese stocks which surged over the month. Sectoral performance was mixed, with Consumer Discretionary, Utilities, Real Estate and Communication Services rising the most, while Health Care and Energy were the weakest.

US stocks started the month on a weak footing as recessionary fears resurfaced but closed the month higher as the Fed started its rate-cutting cycle. The S&P 500 Index closed the month at a fresh record high, while the Nasdaq Composite Index remained below its July peak. With only five weeks to go until the presidential election, Vice President Kamala Harris remains ahead of Donald Trump at a national level, but the race is neck-and-neck in the seven swing states that will decide who wins the most electoral college votes.

Euro-zone equities closed the month little changed. To an extent, the US stock market influenced movements in Europe. Shares sold off in the first half of the month as continued weak US job growth raised recessionary fears once more, before rallying in the second half as central banks loosened monetary policy and the Chinese authorities announced additional stimulus measures. Sectoral returns were mixed: Materials, Real Estate and Utilities were the strongest sectors, while the largest losses came from Energy, Health Care and Information Technology.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asia Pacific equities rallied over September but market returns were mixed. Regional markets enjoyed a particularly strong end to the month following the Chinese authorities' announcement of the biggest stimulus package since the pandemic, as they attempted to kick the economy out of its doldrums and boost equity valuations. Additionally, sentiment was lifted by the US Federal Reserve's (Fed's) first cut in interest rates in more than four years, and a weaker tone to the US dollar. Taiwanese shares were broadly flat, but South Korean shares lost ground as corporate reforms appeared to stall and a bellwether stock delivered results below expectations. Meanwhile, ASEAN markets advanced, benefitting from both Chinese stimulus measures and currency appreciation versus the US dollar. Australian stocks rose modestly, with the ASX 200 Index reaching fresh highs mid-month, buoyed by gains from its heavyweight banks.

On the fixed income side, September was a strong month for Asian credits on the back of the Fed's front-loaded easing cycle that began with a 50-basis point (50-bps) policy rate cut. The market rally also gathered pace on the news around China's stimulus package, which was also followed by significant monetary policy easing from China's central bank. Asian credit (JACI composite) delivered 1.2% return in September. Investment grade (IG) credits returned 1.1%, as favourable US Treasury movements contributed 0.8% and credit spread added another 0.3%. High yield (HY) credits delivered 1.8%, with 1.3% coming from credit spread and 0.6% from US Treasury movements.

The Fund return was positive in USD terms in September.

In the equity portfolio, key contributions came from our China positions given the strong market rebound in the final days of the month in response to significant policy stimulus. For example, a top contributor was Ping An Insurance, one of the largest insurance groups in China. Ping An Insurance outperformed the broader Financials sector given the weakness in the property market has previously weighed on share price. Fund flow has also been supportive as many investors view the company as a proxy to China's macro and market recovery.

Conversely, the top detractor was an index-heavyweight – a Korea-based chipmaker and consumer electronics manufacturer. Its share price has been weak on fears that excess inventory levels in semiconductors and memory chips will lead to weaker pricing power. Overall, we believe longer-term artificial intelligence (AI) demand will accelerate the need for high bandwidth memory, where the company is a key global provider. However, given the weaker near-term outlook, we have reduced the position size.

The asset allocation at the end of the month was 66.7% invested in Asian equities and 30.1% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity, over the month we added to the portfolio an automobile component maker and a pharmaceutical company in India. We also added selectively to our positions in China, including initiating a position in a smartphone camera lens producer. On the other hand, we exited a number of positions including a global bank based in Hong Kong and a power project company in India as sources of funding and to take profit.

For the fixed income sleeve, we slightly reduced our HY exposure and focused on short-term carry by adding bonds with decent yield and short duration.

At the end of the month, we held 63 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 5.3%, with an average credit rating of BB+ and average duration of 1.6 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, especially if accompanied by a weaker dollar. Overall, valuations generally remain at reasonable levels. In our view, the recent pullback in the Technology sector represents a healthy consolidation after the strong rally over the last year, especially in the Taiwan market. Across India and ASEAN, growth stories are overall less impacted by geopolitical risks, while the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook. In China, the outlook 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.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

On the fixed income side, the market sentiment continues to be buoyant by policy support from China and the likelihood of a soft-landing scenario for the US economy. We expect most of the returns from Asia credits would likely come from lower rates and yield carry. We like the outlook on Asian HY credits given the wider credit spreads and stable to improving fundamental outlook. However, given the strong performance of the asset class, prudent credit selection is increasingly important. On Asian IG credits, we expect spreads to remain relatively resilient going into year-end. We would focus on risk optimisation in anticipation of higher volatility due to uncertainty of the upcoming US elections and risk averse behaviour.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

Malaysian yield curve bull steepened for the month, with yields falling 0 to 6bps across the curve, after receiving a boost from lower UST yields and benign domestic inflation figure. 10y MGS outperformed with yield falling 6bps while short to belly of the curve was relatively muted. Local corporate bonds did well in September, with yields declining across different credit ratings and tenures. BNM stood pat on OPR in September's MPC meeting, retaining its neutral stance on forward assessment. UST yields plunged in September, falling for fifth straight month, with front ends outperforming the longer ends. Treasury yields fell initially on softer job data, but the jumbo 50bps rate cut by Fed in mid-September accelerated the fall in yields. 2y and 10y UST closed the month lower by 12 and 28bps to 3.64% and 3.78%. On the currency front, Ringgit grossly outperformed major and regional currencies. Against USD, MYR stronger by 4.41% MoM to 4.12.

September's main story was the Fed commencing easing with a 50bps cut, double market expectations and boosted overall market. This led EM central banks including China's PBOC to implement monetary easing. In addition, the Politburo meeting caught the market by surprise with a focus on key economic issues and urgent policy action. This drove China as one of the best performers for the month, with the CSI up 21% while the HSI was up 17.5%. The shift in sentiment was substantial given the abysmal performance last year and was the top avoid markets amongst investors. However, the geopolitical risks have recently risen given the recent conflict in the Middle East.

Regionally, in local currency, Thailand was the best performer, climbing 6.6% on stimulus and reform progress. This was followed by Philippines and Singapore which gained 5.4% and 4.1% respectively. Indonesia and Malaysia underperformed the region, falling 1.9% and 1.8% respectively.

In foreign flows, Philippines flows flipped into net positive on year-to-date basis to US$22.2m after a net inflow of US$346m for the month. Indonesia remains a favourite with a net inflow of US$1,418m, followed by Thailand's US$867m. Malaysia had the third consecutive net inflow of US$110m (RM509m), bringing year-to-date net inflow of US$806 (RM3.6bn). Foreigners mainly bought Tenaga and the financial sector with also decent flow into newly minted 99 Speed Mart.

The closer to home, the KLCI partially driven by quarterly profit taking and switching into stronger Ringgit beneficiaries. Financials, construction, and REITs took top spot while we say decliners in energy, technology and telecommunications. News was scarce for the month with the major one being BNM's monetary policy committee maintain the OPR at 3.00%. In the terms of sectors, the office of the United State Trade Representative (USTR) announced tariff action on China, increasing the import tariff on Chinese glove to 50% in 2025 (from 7.5%) and 100% in 2026 (from 25%). In macro, Aug CPI came in below expectations at 1.9% yoy (street's: +2.0%) and up 1.0% mom, while trade surplus narrowed marginally to US$1.3bn in Aug, coming below consensus expectations, driven by strong imports (+31.8% yoy) even as exports (+17.1%) were higher.

In commodities, oil prices fell 8.9% in September, falling the lowest since 2021. The drop could be due to anticipation of lower prices for next year as concerns that OPEC could hike production into a surplus. However, the decline was met with rising demand especially from China's stimulus news flow and macro tailwinds because of the Fed easing cycle. Hard commodities rallied with the LME Metal Index up 6.1% in September while iron ore jumped 7.2% to US$114.3. In precious metals, Silver and gold gained 9.5% and 5.2% respectively.

Market Outlook

Sukuk Outlook & Strategy

We expect the recovery in Malaysia's fixed income market to continue towards the end of 2024, as central banks around the world have peaked on interest rate hikes and are signaling a shift towards more accommodative monetary policy. The end of the central bank hiking cycle would present a more positive dynamic to yield movements globally, positively impacting MGS 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, Malaysia's GDP growth is projected to expand by 4–5% in 2024. This justifies a continuation of the current monetary policy stance. We believe that government bond yields are likely to decline in 2024, allowing for advantageous trading positioning.

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

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

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

Despite the last month setback and barring a higher escalation in geopolitical risks, we think the outlook for the region and Malaysia remains positive. Signals from the US of a soft landing are positive for the global economic outlook. Furthermore, with the Budget 2025 (18 Oct), we do expect some positive developments and initiatives to further drive the economy and markets. Having said that, we do expect volatility on the upcoming US elections with questions on policies and tariffs. As at writing, we again have seen the profit taking on selected winners early in the month, with generally, the same theme applies from the previous month, shift to laggards. In any case, we think that fundamentals remain resilient, especially in the context of the Malaysia market. We will take the opportunity to reposition or buy back stocks that were oversold, albeit not aggressively. Technology and energy sectors for the second consecutive month have taken a hit. We may reposition this sector although the stronger Ringgit is not helping with this case, although we note that the Ringgit movement has recently reversed somewhat.

We maintain diversified with balance exposure in cyclical and defensive segments of the market, and crucially we are focus 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

The Fund underperformed the benchmark in September, with previously resilient stocks generally lagging the strong market rebound. Stock selection in the Financials and Materials sectors were the main detractor.

At a single stock level, a leading detractor last month was China Construction Bank (CCB), one of the largest banks in China. Share price lagged the broader market rally. This is one of our favoured financial holdings because of its higher return on equity (ROE) and stronger capital ratios than peers. The stock also has a high dividend yield, and with the easier monetary policy and lower government bond yields, this should continue to provide valuation support.

Conversely, a leading contributor was a clinical-stage biotech company with a focus on oncology. The share price has rebounded strongly following positive results from a key clinical trial. We believe the company has a strong product pipeline and as it enters into the commercialisation phase, this should help to de-risk the growth outlook.

Market Outlook

Towards the end of the month, China launched a series of wide-ranging policy initiatives designed to provide support both to the real economy and, perhaps more eye-catchingly, to domestic equity markets.

The initiatives, amounting to a significant and coordinated package of easing measures, were a significant "policy beat" in our view. They included lower interest rates, reduced rates on existing mortgages (note: mortgage refinancing is only permitted in China in special circumstances approved by the central bank), and the provision of significant liquidity for share buybacks and stock purchases. There was also an unscheduled top cabinet meeting which, for the first time during the current downturn, called for property market stabilisation.

The timing and extent of these measures were triggered by two recent developments. First, the strong rally in US bond markets and the 0.5% US Federal Reserve (Fed) rate cut. With lower rate differentials between China and the US, the risk of capital outflows from China and a weaker currency were also reduced. In other words, the People's Bank of China (PBoC) had significant additional flexibility.

The second development has been the weakness of China economic data in recent months. This is, to a large extent, because of the sustained downturn in the property market, and the associated erosion of the biggest component of household wealth. The monthly macro data was consistent with gross domestic product (GDP) growth well below the official 2024 target of "around 5%". With just over three months to go, there was increasing urgency to take action to boost economic growth.

Equity markets reacted positively and vigorously following the announcements. China A markets rallied by around 15% in the final week of the month alone and are now in positive territory year-to-date. It was a broad-based advance with all sectors in positive territory and on high volumes.

Looking ahead, the key question for equity investors is whether this rally marks a change or will turn out to be another false dawn. Our view is this announcement should at worst provide a floor to China A markets and, in a more optimistic scenario, potentially sets the scene for a more sustained market rally.

Certainly, Beijing seems determined to reignite animal spirits in China's onshore equity markets. The policy tools announced, including a RMB 500 billion swap facility (that could be increased to RMB 1 trillion) and a RMB 300 billion relending programme (that could be doubled if warranted) to support share buybacks and equity purchases from eligible institutions, are unprecedented measures. An equity market stabilisation fund is also under consideration.

Whether the measures have a meaningful impact on the macro situation is more questionable, with the key issues of weak consumption and the property market remaining unresolved. A key issue is whether the door is now open to further policy initiatives, and especially if they end up being the prelude to more stimulative fiscal policy which is needed to spur a more robust economic environment.

In summary, the policy initiatives undoubtedly provide important support for market valuations. The next step is to build greater confidence in the outlook for corporate earnings which has been the major drag on equities over the last year.

In terms of portfolio activity, we added selectively to Financials including initiating a position in the Hong Kong stock exchange where the share price has derated significantly. We also added to insurance exposure, where we expect the higher dividend yields should provide support, especially as China's bond yields have continued to decline. Conversely, we trimmed some exposure to artificial intelligence (AI)-related stocks. At month end, the portfolio has around 40% in China A shares. Sector weightings continue to be relatively close to the benchmark allocations. The largest sector overweight is Industrials (+2.8%), 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 rallied over September, buoyed by the US Federal Reserve's (Fed's) larger-than-usual cut in interest rates, its first reduction in four years. The S&P 500 Index closed the month at a fresh record high, while the Nasdaq Composite Index remained below its July peak. With only five weeks to go until the presidential election, Vice President Kamala Harris remains ahead of Donald Trump at a national level, but the race is neck-and-neck in the seven swing states that will decide who wins the most electoral college votes. In late September, a raft of further stimulus measures from the People's Bank of China (PBoC) and the Chinese government further boosted sentiment, particularly towards Chinese stocks which surged over the month.

Headline inflation eased to 2.50% in August, from 2.90% the previous month. At its September meeting, the US central bank cut rates for the first time in more than four years, implementing a bigger-than-usual 50 basis point (bps) reduction, the first cut of this size since the early pandemic days of March 2020. Policymakers indicated rates were likely to be reduced by another 50 bps in total before year-end, with further cuts likely in 2025. The European Central Bank (ECB) also reduced borrowing costs, marking its second cut this year, while the Bank of England (BoE) kept rates on hold, but indicated that borrowing costs were likely to be reduced later this year. While the Bank of Japan (BoJ) also kept rates on hold, the PBoC announced a package of measures aimed at supporting the economy and the property sector, including lowering the reserve requirement ratio for banks and cutting some loan rates.

Oil prices fell, briefly moving back below USD 70 per barrel amid ongoing concerns over the health of the US economy. Saudi Arabia also signalled that it was planning to raise production in December as it seeks to reclaim market share. Elsewhere, industrial metals such as copper surged following China's announcement of massive stimulus measures, while gold, which is often seen to be a safe haven in times of uncertainty, rallied, with the precious metal breaching USD 2,600 an ounce for the first time on record.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, performance was led by the Consumer Discretionary and Materials sectors. Soft-landing optimism and China stimulus news were constructive for these sectors. Energy and Health Care were the top laggards over the period.

From a sector perspective, Consumer Discretionary and Communication Services were the largest relative contributors. The Information Technology and Health Care sectors were the largest detractors. Artificial intelligence-enabled (AI-enabled) industries outperformed the blended benchmark from positive stock selection. Both AI Applications and AI Infrastructure generated positive absolute returns but were slightly under the custom benchmark.

Contributors

Our position in electric vehicle (EV) producer Tesla Inc. was the top contributor over the period. The stock rallied amid rising optimism for Q3 delivery numbers and for the upcoming Robotaxi unveiling event in October. Looking forward, Tesla has some of the most ambitious innovation agendas of most any public company, spanning EV, energy transition, AI and advanced robotics. We believe the company is making progress on each of these agendas in ways that can unlock significant shareholder value in the future.

Shares of a Chinese internet and ecommerce company were higher alongside the rest of China equities, as Beijing launched a multitude of stimulus measures to support its struggling economy. Looking forward, the company is positioned to benefit from a recovery in gross merchandise value as macroeconomic conditions improve, greater penetration into lower-tier cities and new monetisation opportunities on its platform.

Detractors

The top detractor over the period was AstraZeneca Plc., a biopharmaceutical company. Shares underperformed over the period on disappointing data readout from its lung cancer drug. Looking forward, the company possesses a peer-leading oncology pipeline with multiple attractive and underappreciated blockbuster drugs across a wide range of wholly-owned programmes and collaborations that can drive both material mid- and long-term upside. AstraZeneca's incredibly diversified pipeline is unique amongst peers and carries lower patent risk. Also, it is a first mover amongst large pharma peers to implement AI and data analytics in every step of the drug research and development (R&D) process.

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

Our position in a cloud security company was another top detractor during the period. While the company reported strong quarterly financial results with revenue and earnings exceeding expectations, shares fell as management provided a conservative guidance for fiscal 2025. Big picture, we continue to believe the company remains well positioned on a longer-term basis. It is a first mover in cloud security that has created a new market in the cyber security world with an innovative product suite and strategic focus, which should disrupt the competitive landscape for years to come.

New Buys and Sells

A new purchase for the period was a reinitiation of a leading global financial services provider. The company has made substantial investments in AI to enhance various aspects of its business. The key AI benefits to the company include cost reduction through automation, and improved accuracy in areas like data processing, decision making, projections and fraud detection. From a client experience perspective, AI-driven personalisation and customer service improvements contribute to higher client satisfaction and retention.

Another new buy is a software company that provides a comprehensive customer relationship management (CRM) platform. It recently launched its AI offering, which is an integrated suite of AI tools designed to enhance marketing, sales and customer service functions across its platform. Moreover, management raised the company's intermediate-term profitability goals, demonstrating confidence in its underlying business.

We exited the remaining position in a cell phone, computer and communications equipment giant as early reports suggest more muted demand for the new smartphone release. While the company promoted many new AI features coming to its operating system software later this year, the newest smartphone model has only small physical upgrades and the initial version of the AI software capabilities have been underwhelming to consumers but could improve in time.

Despite having a very financially efficient business model, a software and data company has suffered from weak demand trends in the technology vertical and been a little slow rolling out new innovations. Management has been overly optimistic about improving trends for some time and we have lost confidence in their forecasts and decided to exit the position.

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 expect higher market volatility in the near term as markets digest some additional risks.

Investors are paying close attention to the potential for slower US economic growth given later timing of interest rate cuts and recent softer employment numbers and consumer spending trends. A closer race in the upcoming US elections may also add to volatility, especially around geopolitics and global supply chain. An unwind of the Japanese yen carry trade in August introduced additional volatility, although concerns have subsided as most expect the BoJ to be slow with future rate hikes if needed. Overall, corporate earnings have been relatively resilient year-to-date and investors will be closely analysing upcoming Q3 earnings and guidance. Amid the volatility, we are opportunistically looking 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. From the most recent Federal Open Market Committee (FOMC) meeting in September, the Fed started its cutting campaign by reducing the federal funds rate by 50 bps. Chair Jerome Powell highlighted that the decision reflects a recalibration of policy stance in order to maintain the labour market, which continues to grow albeit at a slower rate, while inflation continues to ease towards the target of 2%. 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. While markets may see some volatility in the US elections, we remain optimistic in the resiliency of the US economy, corporate earnings growth and AI innovation in the years ahead.

Separately, a key characteristic of the equity market strength over the past year is that returns have been concentrated among a handful of large technology companies. Coming into 2024, investors were worried over the risk of recession, timing of interest rate cuts and geopolitical tensions, so preferred larger caps, higher quality stocks. Also, the large technology giants were the early beneficiaries of this first phase of AI given their large infrastructure investments and data-driven business models that could quickly capitalise on generative AI. However, we believe some caution is warranted when mega-cap technology earnings begin to slow, compared to other sectors as interest rates moderate and the market broadens out more.

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)

As for what is 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.

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. 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

Asia Pacific equities rallied over September, but market returns were mixed. Regional markets enjoyed a particularly strong end to the month following the Chinese authorities' announcement of the biggest stimulus package since the pandemic, as they attempted to kick the economy out of its doldrums and boost equity valuations. Additionally, sentiment was lifted by the US Federal Reserve's (Fed's) first cut in interest rates in more than four years, and a weaker tone to the US dollar.

In Japan, equities were broadly flat in USD terms. On the political front, Shigeru Ishiba unexpectedly became Japan's next prime minister. The market initially reacted negatively given his reputation as an advocate for fiscal discipline and being a backer of the Bank of Japan's (BoJ's) ongoing shift away from its decade-long unorthodox monetary policy. However, Ishiba subsequently signalled his opposition to further interest rate hikes which led to a jump in the equity market, as well as a weaker Japanese yen.

Elsewhere, Taiwanese shares were broadly flat, but South Korean shares lost ground as corporate reforms appeared to stall, and a bellwether stock delivered results below expectations. Meanwhile, ASEAN markets advanced, benefitting from both Chinese stimulus measures and currency appreciation versus the US dollar. Australian stocks rose modestly, with the ASX 200 Index reaching fresh highs mid-month, buoyed by gains from its heavyweight banks.

The Fund lagged the MSCI AC Asia Pacific Index in September. Stock selection in the Information Technology sector was a key source of detraction, with several Taiwan stocks impacted by the broad pullback in the Technology space related to concerns on artificial intelligence (AI) adoption and commercialisation. Generally, we see the weakness as continued profit taking, particularly as investors look to use their previous "winners" as a source of funds to cover light China positioning.

At a market level, an underweight position in China detracted, given the sharp rally in the market although stockpicking in China contributed positively, led by Financials and ecommerce exposure. Stock selection in Thailand, South Korea, and Japan also boosted relative returns.

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 recently added a major oil and gas producer. The stock has lagged significantly in recent months, bringing it back to attractive valuations, and as a large index constituent it should also benefit from flow of funds in a more risk-on environment.

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, especially if accompanied by a weaker dollar. Overall, valuations generally remain at reasonable levels.

The outlook in China also seems 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 Japanese yen as fundamentally undervalued.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Asia ex Japan equities rallied strongly over September. Markets enjoyed a particularly strong end to the month following the Chinese authorities' announcement of the biggest stimulus package since the pandemic, as they attempted to kick the economy out of its doldrums and boost equity valuations. Additionally, sentiment was lifted by the US Federal Reserve's (Fed's) first cut in interest rates in more than four years, and a weaker tone to the US dollar.

Elsewhere, Taiwanese shares were broadly flat, but South Korean shares lost ground as corporate reforms appeared to stall. Meanwhile, ASEAN markets advanced, benefitting from both Chinese stimulus measures and currency appreciation versus the US dollar. Singapore led the advance, with the Straits Times Index touching a 17-year high, followed by Thailand and the Philippines – the country's central bank started cutting rates in August. In contrast, Indonesia and Malaysia lost ground slightly.

The Fund modestly underperformed the benchmark in September. Stock selection was the key source of detraction, with specific names in the Information Technology sector offsetting some of the gains from Financials. At a market level, stock selection in South Korea detracted, while Hong Kong and Thailand stock picks contributed positively.

A top detractor was index-heavyweight Samsung Electronics, the Korea-based chipmaker and consumer electronics manufacturer. Its share price has been weak on fears that excess inventory levels in semiconductors and memory chips will lead to weaker pricing power. Overall, we believe longer term artificial intelligence (AI) demand will accelerate the need for high bandwidth memory, where Samsung is a key global provider. However, given the weaker near-term outlook, we have reduced the position size.

Conversely, a key contributor was a banking group in Thailand. The bank's turnaround strategy looks to be on track with management executing their plan to improve shareholder returns, capital management and return on equity (ROE), with a particular focus on improved control of asset quality. As an outcome of this, we anticipate a higher dividend payout going forward, which should help support valuations.

The main activity during the month was to increase exposure to China/Hong Kong. Most of this occurred before the announcement of the new policy measures, through initiating positions in the Hong Kong Stock Exchange and a property developer. Both stocks share similar characteristics of having previously derated significantly, seen sharply lowered earnings expectations, and have strong dividend support backed by resilient balance sheets. These additions were funded by reduced exposure to Korea, mainly through selling down part of the position in Samsung Electronics.

At a sector level, Financials, Real Estate, and Health Care are the primary overweight positions, while Consumer Discretionary, Materials, and Industrials are the main underweights. Top names in the portfolio at month-end include Taiwan Semiconductor Manufacturing Company, Tencent and Hon Hai Precision.

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, especially if accompanied by a weaker dollar. Overall, valuations generally remain at reasonable levels.

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 finished higher in September, driven by a dovish shift in US monetary policy that stemmed from an array of new economic data. Multiple inflation measures continued to ease, consumer spending surprised to the upside, and the service sector remained in expansionary territory. However, some labour market measures were weaker, the manufacturing sector continued to contract, and consumer confidence declined. The simultaneous deceleration of inflation and jobs growth proved to be the catalyst for the first monetary easing campaign in four years, as the US Federal Reserve (Fed) cut interest rates by 50 basis points (bps) at the September Federal Open Market Committee (FOMC) meeting. Markets responded favourably, with risk assets moving broadly higher into the end of the month to solidify monthly gains.

In this environment, global equity markets, as measured by the MSCI World Index, returned +1.83% with non-US equities underperforming their US counterparts.* Global convertible securities, as measured by the ICE BofA Global 300 Convertible Index, returned +2.26% with non-US issues outperforming US issues.** Global high yield bonds, as measured by the ICE BofA Global High Yield Index, returned +1.55% with non-US issues underperforming US issues.** Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +1.70% with non-US exposure outperforming US exposure.^

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

Top contributors included select Chinese ecommerce and travel services positions that rallied on economic stimulus optimism. Technology-related companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, such as Meta, Microsoft, Nvidia, and Amazon were also sources of strength. A US electric vehicle (EV) manufacturer gained after expanding its product offerings, as did a logistics software provider positioned to benefit from new customer wins and a growing addressable market. The other top contributors were an industrial REIT focused on data centre development, and a heating, ventilation and air conditioning (HVAC) company profiting from improved demand visibility.

Top detractors were led by multiple pharmaceutical companies, one of which consolidated year-to-date gains and another that fell on competitive concerns. The move lower in crude oil pressured an energy producer, and an enterprise software provider declined on growth and pricing concerns. The stock of an aerospace company expected to benefit from integration synergies continued to trade range bound. The other top detractors in the period were a major US bank and a British food company that released a weaker-than-expected trading outlook.

Exposure increased the most in Financial, Materials, and Utilities, and decreased in Technology, Consumer Staples, and Health Care. Covered call option positioning increased month-over-month.

Market Outlook

Global economic growth could begin to stabilise as central banks worldwide reduce interest rates or implement stimulus to boost spending.

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.

For Allianz Life Global Income Fund:

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

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 continue to prioritise debt reduction. 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 30 September 2024 unless otherwise stated.
* Source: MSCI, as at 30 September 2024
^ Source: Bloomberg, as at 30 September 2024
** Source: BofA Merrill Lynch, as at 30 September 2024
^^ Source: ICE Data Services, as at 30 September 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 rallied over September, buoyed by the US Federal Reserve's (Fed's) larger-than-usual cut in interest rates, its first reduction in four years. In late September, a raft of further stimulus measures from the People's Bank of China (PBoC) and the Chinese government further boosted sentiment, particularly towards Chinese stocks which surged over the month. Sectoral performance was mixed, with Consumer Discretionary, Utilities, Real Estate and Communication Services rising the most, while Health Care and Energy were the weakest.

Concerns over the health of the labour market finally persuaded the Fed to start cutting rates. The Fed's larger-than-usual 50-basis point (50-bps) cut was accompanied by forecasts of further cuts this year and in 2025. The European Central Bank (ECB) also reduced borrowing costs, marking its second cut this year, while the Bank of England (BoE) kept rates on hold but indicated that borrowing costs were likely to be reduced later this year. While the Bank of Japan (BoJ) also kept rates on hold, the PBoC announced a package of measures aimed at supporting the economy and the property sector, including lowering the reserve requirement ratio for banks and cutting some loan rates.

Global bonds rallied as the Fed joined an increasing number of developed market central banks in starting to ease monetary policy. The US dollar weakened as the Fed cut rates by more than usual and signalled further cuts were likely. While the euro rose against the US dollar, it lost ground against the British pound and the Japanese yen. The ECB reduced borrowing costs by 25 bps in September, while both the BoE and BoJ kept rates on hold.

Oil prices fell, briefly moving back below USD 70 a barrel amid ongoing concerns over the health of the US economy. Saudi Arabia also signalled that it was planning to raise production in December as it seeks to reclaim market share. Elsewhere, industrial metals such as copper surged following China's announcement of massive stimulus measures.

Market Outlook

The Fund returned positively in September, slightly outperforming global equity markets as represented by the MSCI AC World Index. The theme selection contributed slightly negatively to overall performance, while stock selection among the themes has been a major driver. While Infrastructure and Digital Life showed decent relative performance compared to global markets, themes like Health Tech and Clean Water and Land contributed negatively, as the themes slightly consolidated after a strong year-to-date performance.

Stockpicking worked very well among the Digital Life theme, mainly driven by Chinese ecommerce companies and digital finance companies that benefitted from the massive boost in Chinese markets after the government announced several stimulus activities to boost economic activity in China. Next Generation Energy companies like Iberdrola and a renewable energy company benefitted from falling interest rates, which boosts profitability for new projects in the renewables area, which is also a positive driver for companies like a solar panels manufacturer, which also performed well.

Negative performance occurred from a semiconductor contract manufacturing and design company and a semiconductor manufacturer, both suffered from negative news flow from the overall semiconductor area. Having no exposure to an electric vehicle (EV) maker and the underweight to companies like a social technology company and an ecommerce company also created a minor burden. 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 remained resilient in September, with the S&P 500 closing the quarter at a record high spurred by the Fed’s 50bps rate cut. In the US, labour markets added 142k jobs in August, more than a downwardly revised 89k in July but below forecasts of 160k. On the inflation front, the headline rate slowed for a fifth consecutive month to 2.5% year on year in August, slightly below the estimate for 2.6% and its lowest level in 3 ½ years. In the Euro area, the annual inflation rate fell to 1.8% in September, the lowest reading since April 2021, compared to 2.2% in August and below forecasts of 1.9%. In the UK, the annual inflation rate was steady at 2.2% in August, the same as in July and in line with expectations.

Global fixed income markets were buoyant as the Fed launched a new easing cycle on the back of a gradually softening labour market. In the US, Treasury yields declined as an increase in market volatility pushed yields lower along with the Fed’s jumbo rate cut. Meanwhile, UK Gilts underperformed other markets as the BoE held rates steady and amid fears of a potential overhaul of the UK fiscal regime ahead of the Budget scheduled for late October. Over the month, US 2-year Treasury, UK 2-year Gilt, and German 2-year Bund yields rallied 28bps, 13bps, and 32bps, respectively. Further out the curve, US 10-year Treasury, UK 10-year Gilt, and German 10-year Bund yields rallied 12bps, 1bp, and 18bps, respectively.

The S&P 500 posted positive returns of 2.0%, buoyed by continued disinflation, heightened rate cut expectations, and a broadening of stock market leadership. Elsewhere, the UK FTSE 100 closed 1.7% lower as markets continued to assess the outlook for the British economy, with UK GDP growth revised down by 0.1% to 0.5% in Q2. In credit, US investment grade spreads tightened 3bps while Euro investment grade spreads widened by 2bps. Meanwhile, US and Euro high yield spreads tightened by 10bps and 19bps, respectively.

During the month, the PIMCO GIS Income Fund returned 1.39% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '24 performance to 6.35%.

For Allianz Life World Healthscience Fund:

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

Market Review and Outlook

Market:

• Global equity markets experienced notable intra-month volatility but ended in positive territory with the MSCI ACWI returning +2.3% in September.

• In the US, markets were influenced by mixed economic data such as easing inflation and weakening growth. On the growth front, manufacturing contracted for the fifth consecutive month in August, as evidenced by the Institute of Supply Management (ISM) report, which led to an equity market sell-off. Later on, August's CPI report showed that headline inflation had decreased to +2.5%, the lowest YoY rate since February 2021. In response, the Fed delivered a 50 basis points (bps) cut to interest rates, citing both progress on inflation and a softening labour market. The combination of easing inflationary pressures and positive guidance from the Fed supported risk assets and drove the S&P 500 Index to record highs.

• In Europe, economic growth was muted, as suggested by the Hamburg Commercial Bank's (HCOB) flash PMI. The manufacturing sector has struggled, with an August PMI reading of 45.8. In response, the European Central Bank (ECB) cut interest rates by 25 bps in September, in line with expectations.

• In the UK, inflation was steady at +2.2% over the 12 months leading up to August, slightly exceeding the Bank of England's (BoE) target. Despite expectations that the print would prompt the BoE to cut interest rates, rates were left unchanged.

• In Asia, equity markets were challenged by rising concerns over an economic slowdown in the US. However, equities rebounded later in the month as China introduced unexpected stimulus measures designed to support the economy and aid the property sector.

• Commodity indices were volatile over the period as geopolitical concerns in the Middle East escalated. By the end of September, the price of WTI crude oil was $68/barrel.

• Global sectors had mixed returns in the month. Energy and Health Care were the only sectors with negative returns, while Consumer Discretionary was the top performer.

• From a regional perspective, the United States and China were among the top performers. In contrast, Europe and the UK underperformed.

Stocks:

• An overweight position in Boston Scientific was the top contributor to relative performance over the period. The medical device stock continued to rise following Q2 earnings results which were better-than-anticipated. Additionally, the firm announced positive clinical trial data for their leadless pacemaker.

• An overweight position in Sanofi was another top contributor to active returns as the French pharmaceutical company received expanded approval for Dupixent, their flagship drug for COPD.

• Conversely, an overweight position in McKesson was the single largest detractor from active performance. The drug distributor remained under pressure in September following weak quarterly earnings.

• Lastly, not holding a position in CVS Health detracted from active returns after the health care services stock rallied on speculation that the firm would spin-off select business units.

Changes:

• During the month, we increased our exposure to select pharmaceutical and biotechnology companies where valuations are attractive, and product pipelines appear robust. As a source of capital, we trimmed positions in select medical device companies in an effort to take profits and manage risk.

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 healthcare rhetoric may intensify amidst the 2024 Presidential Election, it does not appear to be a central focus for regulatory reform, and therefore, we anticipate a relatively stable policy environment.

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:

• Financial markets saw predominantly positive performance over the third quarter of 2024. Increased volatility over the summer was driven by disappointing US economic data fuelling recession fears, which combined with concerns over the return on capital from the huge spend on artificial intelligence led to a rotation out of growth and quality stocks. An interest rate hike by the Bank of Japan exacerbated the selling pressure as carry trades were unwound, these had relied on borrowing cheap Japanese yen to fund investments in higher yielding assets.

• Markets recovered towards the end of the quarter, expectations of more aggressive easing from the Federal Reserve were realised as interest rates were cut by 0.5%. Solid economic growth numbers and stimulus measures in China also led to improved investor sentiment.

• Emerging market equities outperformed developed market equities driven by the Chinese government's aggressive stimulus measures to boost the economy. Following the announcement, Chinese equities experienced its largest single-day rally since 2008. Within developed market equities the US outperformed Europe. The S&P 500 saw a broadening out of returns beyond the technology sector as the average stock return outperformed the index.

• As well as the rate cut from the Federal Reserve, over the quarter the European Central Bank cut rates for the second time and the Bank of England also started its rate cutting cycle, both reducing rates by 0.25%. Against this backdrop fixed income assets performed strongly, led by US treasuries and investment grade credit. High yield also performed strongly as credit spreads continued to tighten.

• Elsewhere, precious metals outperformed with Gold continuing to be a standout performer over the quarter as geopolitical risks continue to remain a tail risk for markets. Notable was the performance of Oil, which was the worst performing asset class given lingering concerns around the global economy.

Performance:

• Over the period, the ESG Multi-Asset fund delivered positive returns driven primarily by the exposure to Fixed Income, however sources of returns were diversified as all asset classes were additive to returns.

• Within Fixed Income, the exposure to Investment Grade Credit via the BlackRock ESG Fixed Income portfolio was the key contributor to returns, however the recently added BlackRock ESG High Yield portfolio was also additive. Exposure to Global Rates yielded positive return contributions, with the allocation to US Treasuries contributing most significantly as the market priced in further rate cuts from the Federal Reserve into the end of the year. The tactical allocation to Argentina Bopreal Bonds were also additive, however the geopolitical tail risk hedge, our Sovereign CDS Basket, detracted from returns in the context of lower yields.

• Equities also delivered positive returns throughout the period. Performance of underlying managers was mixed. Key contributions to returns were driven by the BlackRock Systematic Active Equity portfolio and the BlackRock Global Sustainable Infrastructure Equity portfolio. The fundamentally managed equity strategies had a more challenging period with the BlackRock Brighter Future DM Equity portfolio generating positive absolute returns but underperforming the opportunity set, whereas the BlackRock Global Unconstrained portfolio delivered negative returns driven mainly by high conviction positioning in a semiconductor company and a weight loss drug manufacturer.

• Thematic Equity baskets detracted in aggregate with the mega cap tech completion basket the main detractor, however consumer focused namely the Healthy Living and Global Brands baskets also underperformed. Contrarily, it was pleasing to see a continued rebound in sustainability focused baskets.

• Diversifying exposures added to returns, with key contributions stemming from the allocation to Gold amidst rising geopolitical tensions, as well as from our exposures to listed renewable wind and solar infrastructure assets. The exposure to battery storage offset some of this, however we maintain high conviction in our allocation and the role batteries will play in the low carbon transition. Tactical FX alpha positions also added to returns in aggregate with key contributors stemming from the short Taiwan Dollar vs US Dollar position and long EM FX carry trades.

For Allianz Life ESG-Integrated Multi-Asset Fund:

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

Positioning:

• Throughout the period we remained constructively positioned on Equity markets however tactically managed exposure to hedging strategies throughout the period to manage potential downside risks. As markets sold off early-August, for example, we took profits on the S&P 500 put spread, we then added exposure to US small cap equities through US Russell 2000 futures, increasing the cyclical exposure of the portfolio. Towards the end of the period, we added a new put spread on US equities, and VIX futures to protect against any increase in volatility in the run up to the US presidential elections.

• We implemented the "Investment Trust Basket", building on our successful recent experience with the listed Private Equity basket, which we took profits on last quarter. We believe that there are high-quality Investment Companies trading at significant discounts which can benefit positively from the expected recovery of the UK midcap market.

• Within Fixed Income, we maintained a cautious allocation to duration, preferring Corporate Credit to Government Bonds. We remained focused on Investment Grade Credit, however we added exposure to High Yield via a new actively managed High Yield portfolio managed by our Global Fixed Income team as direct securities. We see Credit as a compelling area to add risk to portfolios as yields are still attractive. Despite recent spread compression, corporate balance sheets remain healthy and economic growth, whilst slowing, is still resilient and recession risk appears low.

• In FX, we took some profits on our short Taiwan Dollar position given strong performance. In addition, given our more positive view on Emerging Market Local Currency Debt, we implemented a long Brazilian Real relative to Japanese Yen trade and added to the Chilean Peso relative to the Hungarian Hungarian Forint, which will be further supported by the China stimulus given the sensitivity to Copper.

• With the announcement of government stimulus in China, we re-entered our Luxury Goods Basket given the constituents' notably high sales exposure to China, benefiting from the anticipated increased consumer spending in the region. In addition, we added a tactical options strategy on German equities to further capitalise on these price moves.

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 immigrationdriven 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.

For Allianz Life ESG-Integrated Multi-Asset Fund:

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

• 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.