Market Review and Outlook

April 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

April was a tough month for both equity and fixed income markets. A combination of hot US inflation data and a first quarter US GDP print that while weak on first – glance, showed resilient private demand, fuelled market fears that central banks would not ease monetary policy as quickly as previously hoped. Global equity markets gave back some of its recent gains, with the MSCI World Index falling by 3.85% mom, while the Dow Jones Index in the US declined 5.00% mom. The S&P Global US Manufacturing PMI fell from 51.9 in March to 50.0 in April. However, US advanced retail sales continued its upward momentum, with a +0.7% increase mom in March, as compared to a +0.6% increase in the previous month.

Over in Europe, the Stoxx50 Index declined 3.19% mom. In April, the Hamburg Commercial Bank Eurozone Composite PMI rose to 51.7 from March’s 51.4. Its March retail sales also improved to +0.7% yoy, as compared to a decline of 0.5% yoy in the previous month. Meanwhile, China's Shanghai Composite Index rose +2.07% mom. Its Manufacturing PMI slowed to 50.4 in April as compared to 50.8 in the preceding month, while Caixin's China Manufacturing PMI increased to 51.4 in March as compared to 51.1 in the previous month, signaling a positive trend.

Brent crude oil maintained its strength, rising by +0.43% mom to USD87.86/bbl in April, against a backdrop of easing tensions between Israel and Iran and anticipated delays in US rate cuts. Additionally, the price of crude palm oil fell by 10.71% mom to RM3862/MT, tapering off in tandem with market expectations of rising supply with the peak harvesting season just around the corner.

Back at home, FBMKLCI rose +2.60% mom to 1575.97 points. Foreign investors remained net sellers, with net sell flows of RM1.4bn in April, increasing cumulative net sell flows to RM2.2bn for the first 4 months of 2024. The S&P Global Malaysia Manufacturing PMI for April improved to 49.0 from March's 48.4, but Industrial Production fell to +3.1% yoy in February, as compared to +4.3% yoy in the previous month. On the other hand, Singapore’s Straits Times Index increased +2.13% mom, despite the S&P Global Singapore PMI falling to 52.6 in April as compared to 55.7 in the previous month. Retail sales also slowed to +2.7% yoy in March, a substantial drop compared to +8.4% yoy in February. Its Non – oil Domestic Exports, seasonally adjusted mom, also showed a bigger decline of -8.4% in March, as compared to a drop of -4.8% in February. Turning to Indonesia, the Jakarta Composite Index fell -0.75% mom. In April, Indonesia's CPI showed a slight decrease in yoy inflation, dropping to +3.00% as compared to +3.05% in March. Additionally, the S&P Global Indonesia Manufacturing PMI weakened in April, falling to 52.9 from 54.2 in March. Meanwhile, The Stock of Exchange of Thailand ended the month lower at 1367.95, -0.72% mom. In April, S&P Global Thailand Manufacturing PMI fell to 48.6, as compared to 49.1 a month ago. Similarly, its business sentiment index deteriorated to 47.3 in April, as compared to 49.6 in March. Conversely, its yoy Consumer Price Index experienced an increased, +0.19% in April, compared to -0.47% in March.

US Treasuries (UST) saw a selloff in April as yields increased by 42 – 50bps mom across the curve, bringing yields to YTD highs during the month. Economic data released during the month put upward pressure on yields and dampened the case for rate cuts this year. US March non – farm payrolls (NFP) rose 303k (Survey: 214k, February revised: 270k), led by stronger hiring in the healthcare, government, leisure/hospitality and construction sectors. US March CPI went up 0.4% mom (Survey: 0.3% mom, February: 0.4% mom). US March ISM manufacturing index expanded for the first time since 2022 to 50.3 (Survey: 48.3, February: 47.8) after 16 straight months of contraction, reflecting stronger production and orders while input costs accelerated. The market – implied total rate cuts for 2024 as of end – April 2024 then fell to 28bps from 67bps as of end – March 2024. In the April/May Federal Open Market Committee (FOMC) meeting, Fed kept rates unchanged for the sixth time. Chairman Powell said it would take longer than expected to become confident about returning inflation to the Fed's 2% goal, ruling out a rate cut in the near term.

Similar to the UST, the Malaysian Government Securities (MGS) yields increased 12 – 20bps mom across the curve. Foreign funds raised Ringgit bond holdings by RM0.6bn in April (March: +RM1.7bn). Foreign share of both MGS and MGS+MGII declined to 32.8% (March: 33.2%) and 21.4% (March: 21.7%) respectively. Malaysia's foreign reserves contracted by USD1.0bn to USD112.8bn as of end – April 2024 (March: USD113.8bn).

Market Outlook

Although the Federal Reserve held rates steady, the path toward rate cuts remains uncertain. Locally, Malaysia's investors would shift their focus towards the nation's resilient domestic demand and gradual implementation of policies as well as the upcoming economic data and results season.

For equities, we maintain our unwavering predilection for fundamentally sound investments over a suitably long – term investment horizon. That said, we may opportunistically engage in trading activities to further capitalize on any prevailing market volatility. Nonetheless, given the pervasive geopolitical risks as well as potentially easing global growth, we are cognizant of the need to adapt to new strategies as and when required to attune to new market conditions.

Bond market volatility in the fixed income market will persist for 2024. Although there are expectations of positive support for bonds over the Fed signaling that it has potentially reached the end of its tightening cycle, the policy rate may stay high for longer. The still firm job market, sticky inflation data, a resilient US economy, suggest that the Fed could push back the timing of its first rate cut. Locally, with the benign inflation, the market expectation is for BNM to stand pat on the OPR. The MPC statement highlighted that 2024 inflation is expected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures. However, risks to the inflation outlook will remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. We will 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?

- Value stocks somewhat recovered and performed favourably, benefitting our high dividend strategy.

What hurt?

- The Fund could not perform better than its benchmark.
- Quality and Trend Following names detracted after a very strong start into the year.

Market Review and Outlook

Global equities generally sold off over April, undermined by fears that the conflict in the Middle East may be spreading and concerns that the US Federal Reserve (Fed) may keep interest rates higher for longer to bring inflation back to target. The retreat was led by US shares, with euro-zone and Japanese stocks also falling over the month. In contrast, UK and emerging market equities advanced. At a sector level, Real Estate and Information Technology suffered the largest falls while Utilities and Energy were the only sectors to advance.

US equities declined over April. Sentiment was undermined by fears that the Fed would keep rates higher for longer and concerns over the forthcoming Q1 earnings season. While there was little difference in the performance of Growth versus Value, smaller companies trailed larger ones by a sizeable margin.

European equities retreated over April as hopes of a series of rate cuts from the European Central Bank (ECB) were dashed by signs of improving economic activity. At a sector level, Energy companies rose the most, while Consumer Discretionary were among the weakest. Information Technology companies also slumped after disappointing results from a semiconductor equipment maker raised fears of an industry-wide slowdown.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Equity markets in Asia Pacific ex Japan delivered mixed results over April. Chinese and Hong Kong stocks rallied as China's economic growth topped forecasts in Q1, while Australian stocks declined as stronger-than-expected domestic inflation data dashed hopes that the Reserve Bank of Australia (RBA) would cut interest rates soon. Shares also declined in the tech-heavy markets of Taiwan and South Korea as semiconductor stocks in general underperformed amid fears of an industry slowdown after disappointing results from a semiconductor equipment maker. Indian stocks rose modestly, reaching new all-time highs in early April, driven by optimism over the forthcoming domestic earnings season. In ASEAN markets, Singapore and Malaysia advanced, but markets retreated in the Philippines and Indonesia.

Market sentiment on Asian credits turned slightly negative in April, as a result of the increasing geopolitical risk in the Middle East and also more sticky inflation in the US. Performance was overall negatively affected by the rising US Treasury yield, but partially offset by the decent interest accrual. In April, JP Morgan Asia Credit Index (JACI) composite returned -1.2% with the investment grade sub-index returning -1.3% and high yield bonds returning -0.6%. Year-to-date, JACI composite has delivered 0.2% total return.

The Fund return was positive in USD terms in April.

In the equity portfolio, the top performance contributor was Entero Healthcare Solutions, a leading medical products distributor in India. We view the company as a beneficiary of rising domestic demand for health care services and it is well positioned to take market share from smaller players among a fragmented market.

Conversely, the top detractor came from a smartphone chip designer in Taiwan. Share price saw some profit taking after a strong Q1. We continue to see opportunities ahead for the company, particularly within the edge artificial intelligence (AI) space, which enables AI on smartphone and home devices locally without relying on cloud infrastructure.

The asset allocation at the end of the month was 67.5% invested in Asian equities and 29.7% in Asian fixed income, with the remainder in cash and others.

Over the month, we initiated a number of new positions across Australia, China, and India. This includes a medical device company, an education service provider, a gas distributor, an electrical equipment manufacturer, and a gaming company. On the other hand, we exited select positions in Australia and China, as well as a REIT in Hong Kong.

For the fixed income sleeve, we reduced exposure to subordinated debts of Chinese banks and invested the proceeds into Indian and Hong Kong issuers to enhance portfolio yield.

At the end of the month, we held 61 equities and 49 fixed income securities. The equity portfolio yield was 2.9% (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 2.0 years.

Market Outlook

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

Despite the push-back on rate cut expectations in the US and rising geopolitical risk in the Middle East, Asia credit markets continued to demonstrate resilience in April. We expect this to continue given favourable growth and inflation dynamics in the region, well-positioned credit cycle, as well as strong market technical with expected negative net supply. While Asia investment grade spreads are fair at best, the attractive total yield level and expected negative net supply should continue to attract buyers into the market. For high yield, it has outperformed other credit markets year-to-date by a large margin and remains reasonably attractive considering its higher rating composition. The favourable credit cycle of most of the sectors in Asian high yield space gives us comfort to build our core holdings with stable carry, while normalisation of default rate in China offers spread compression and credit repricing opportunities. That said, as certain sectors and corporates are navigating the downcycle, credit selection in those sectors is still key to outperformance.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

Malaysia government securities weaker by 4-19bps for the month on the back of selloffs in UST amid strong economic data, escalation in geopolitical tensions and strong dollar index, with 10y MGS yield crossed 4.00% for the first time since November before retreated back to 3.99% that increased by circa 14bps compared to last month. Sentiment remained cautious as market participants stayed defensive amid external uncertainties. Currency front, Ringgit weaker by 0.90% against USD to close at 4.7675 in April. PM Anwar Ibrahim announced that they will raise civil servants' salaries by more than 13% from 1 Dec, estimated more than RM10 billion p.a. Anwar said it expects the pay hike to have a 'manageable' impact on inflation. Fed Chair Jerome Powell signalled that the central bank may have to wait longer than earlier anticipated before cutting rates, pointing to a lack of progress recently in slowing inflation. Hawkish repricing continues with Fed Fund futures now implying around -40bps cut for this year as markets pared rate cut bets even further. UST yields surged 41-50bps across the curve for the month with 2y UST yields crossing 5%, increased by 41.5 bps to 5.03% and 10y UST yields rose by 48% to 4.681%. FOMC meeting was held crossing April, which is from 30th April to 1st May, the Fed is widely expected hold the Fed funds rate unchanged at 5.25-5.50%.

Equity markets went through some turbulence during the month as investors price-in the renewed 'higher-for-longer' narrative given the persistent high inflation data. This, in addition amidst the ongoing Middle East conflict. The threat of an escalation of Iran-Israel led to risk-off in equities and rotation to defensive stocks. Markets are now looking at fewer cuts for the year (vs. 5-7 cuts early in the year). Regionally, trade shifted from North to South and to some extent Asean given its defensiveness and as broadly, commodity exporter. Closer to home, Malaysia regained its positive trajectory, with the KLCI climbing 2.6%. Broadly, utilities, healthcare and industrials were the top performers while financials and construction were the at the bottom. Main news for the month came from the establishment of the Energy Exchange Malaysia (Enegem) to facilitate cross-border sales of electricity to neighboring countries. Elsewhere, Malaysia's headline CPI rose 1.8% yoy (estimates: +2.1%). The trade surplus expanded to US$2.7bn in March with exports declining 1.5% mom and 6.1% yoy led by the non-tech segment. Imports on the other hand rose 0.6% yoy and 6.5% yoy driven by capital goods. Regionally, Malaysia was best performer, with Singapore coming at second after gaining 2.1%. Philippines was the worst performer, sliding 2.9%, followed by Indonesia and Thailand which both 0.7%.

Market Outlook

Sukuk Outlook & Strategy

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

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

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

For Allianz Life Amanah Dana Ikhlas:

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

Equity Outlook & Strategy

The recovery in equity markets recently suggests that investors have shrugged off a wide conflict in the Middle East as well as fading expectations for any Fed cuts. As for now, we believe that any escalation expectations have died down. Hence remain optimistic outlook for Malaysian equities, supported by the government stability and the execution of the Madani Economic Initiatives. Given the bounce in April, as well as net outflow from foreigners, we continue to look for opportunities for names that we favor, be it having strong thematic trends, solid growth stocks, etc. In any case, the macroeconomic outlook suggests a 'soft-landing' in the US, while Malaysia's GDP growth is expected to be firmer in 2024.

We maintain our themes which are high-yielding companies will remain a cornerstone of the portfolio structure while we add on more growth stocks. In our pursuit of growth, we look for thematic investing for 2024 focusing on 1) Emphasizing NETR-related segments such as water, solar, and energy- efficiencies businesses (already with the announcement of Microsoft data center initiative and the Enegem), 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) Lastly, fostering a closer Malaysia-Singapore relationship which will directly benefit Johor State e.g. LRT, HSR, data centers.

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

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

Market Review

The Fund outperformed the benchmark in April. Stock selection in the Financials and Materials sectors were key contributors.

At a single stock level, a top contributor was a manufacturer of optical transceivers that allow high levels of data to be transmitted quickly across a network. These play an important role in areas such as the development of artificial intelligence (AI) applications, especially in data centres where high speed data transmission is required. The company delivered a good set of results during the month and should continue to benefit from rising AI-driven demand.

Conversely, a top detractor was a semiconductor equipment producer. Q1 results were slightly below expectations, partly due to higher levels of research and development (R&D) expenses as the company continues to invest heavily in future growth projects. It has been gaining market share given its technological edge over other equipment players in China and it should benefit from the increased localisation of semiconductor production over the longer term.

Market Outlook

China equities have continued their good run since Chinese New Year. Both onshore and offshore markets have notched up gains of more than 15% (USD) since early February.

The improved market performance is due to a number of factors. First, the decision in January to mobilise the "national team" through significant buying of onshore exchange-traded funds (ETFs) provided a significant confidence boost. The Q1 results season has also been reassuring with a number of high profile "beats". While top-line growth has generally been muted as expected, tighter control of costs has fed through into improved bottom-line profitability.

Alongside the improved earnings picture has been a notable increase in dividend payouts. These have been spurred by a recent regulatory push, but from a fundamental perspective there certainly appears to be room to increase dividends. The overall dividend payout ratio of around 30% is relatively low in a global context, despite the high levels of cash on many corporate balance sheets.

Enhancing shareholder returns was a key feature of the once-a-decade guidelines – known as the "Nine Measures" – issued by China's State Council in April. The 2024 Nine Measures concentrate mainly on improving the quality of capital markets in areas such as stricter regulation of initial public offerings (IPOs) through higher thresholds, more forceful de-listing mechanisms, better shareholder returns, enhancing investor protection through improved disclosure and encouraging long-term institutional equity ownership.

One particular area the measures address is the high level of equity issuance, which has long been a headwind for China markets. Mainland China and Hong Kong's combined stock market capitalisation has surged in the past two decades from less than USD 1 trillion in 2003 to currently around USD 14 trillion. Much of this has come about as a result of initial public offerings (IPOs) and secondary issuance. In contrast, the level of share buybacks, especially in onshore markets, has been quite limited.

The amount of equity issuance has declined significantly in 2024 while share buybacks have picked up. If this is the start of a more structural change which eases the earnings drag from equity dilution – combined with higher levels of share buybacks and dividend payouts – then the scene may be set for a more favourable balance of equity demand and supply going forward.

During the month, we initiated several new positions including a company that makes cooling systems for data centres. At month-end, the onshore/offshore allocation was around 41% in China A-shares. The portfolio continues to have relatively close-to-benchmark sector allocations. The largest sector overweight is Industrials (+1.8%), while the largest underweight is Financials (-4.6%).

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 generally sold off over April, undermined by fears that the conflict in the Middle East may be spreading and concerns that the US Federal Reserve (Fed) may keep interest rates higher for longer to bring inflation back to target. The retreat was led by US shares, with eurozone and Japanese stocks also falling over the month. In contrast, UK and emerging market equities advanced. More on the US, sentiment was undermined by fears that the Fed would keep rates higher for longer and concerns over the forthcoming Q1 earnings season. While there was little difference in the performance of growth versus value, smaller companies trailed larger ones by a sizable margin.

Hopes of a summer rate cut from the Fed were dashed given stronger-than-expected jobs growth and stickier-than-forecast inflation. Financial markets are now starting to consider that the Fed may not cut rates before the end of the year. While the European Central Bank (ECB) is widely expected to reduce borrowing costs in June, investors are expecting this to be followed by a pause as policymakers wait to see how inflation evolves. In contrast, the weakness of the Japanese yen led to speculation that the Bank of Japan (BoJ) may increase rates once again.

In the commodity markets, oil prices initially moved higher as Iran sent hundreds of rockets into Israel in retaliation for an alleged Israeli attack on Iran's embassy in Syria. Nevertheless, after the brief tit-for-tat exchange, tensions between the two countries appeared to calm a little, helping Brent crude to close the month slightly lower at just under USD 85 per barrel. Industrial metals surged on signs of improvement in China's manufacturing activity, with copper prices rising to a two-year high.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, the Utilities and Energy sectors were the top performers and the only sectors with positive returns. Conversely, the Real Estate and Information Technology sectors lagged broader markets.

During the period, the Fund outperformed the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). The Information Technology and Health Care sectors were the largest contributors to relative performance, while the Energy and Industrials sectors detracted. Artificial intelligence (AI) infrastructure and AI-enabled industries outperformed the blended index on security selection and strong earnings results. AI application underperformed as investors were cautious on the near-term demand trends for several software companies.

Contributors

The top contributor over the period was Alphabet Inc., which provided a wide range of internet products and services that include search, advertising and cloud infrastructure. Shares of Alphabet rallied as the company reported better-than-expected earnings results with strength from its advertising and cloud businesses. Alphabet's results alleviated many investors' fears that competition from generative AI would take share from Google's search business. Instead, the print proved that generative AI was a growth driver for Google and that competitor generative AI apps did not have a meaningful impact. We continue to have a constructive view on Google's growth trajectory, as trends are positive within Alphabet's advertising, YouTube and Google Could Platform (GCP) businesses. AI remains a key driver going forward for Alphabet. The GCP should be a beneficiary from greater AI research and development. Generative AI should be a complementary feature for the Google search business and could improve monetisation for mobile search.

Our position in electric vehicle (EV) producer Tesla Inc. was among the top contributors over the period. The stock rallied strongly after reporting earnings results, as management announced an accelerated timeline for a mass market vehicle and guided to a recovery in production for the rest of the year. Shares were also helped by Tesla receiving approval for its full self-driving software in China. 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 strong progress on each of these agendas in ways that can unlock significant shareholder value in the future.

Detractors

A project management software company is a detractor for the month. The company provides a no-code and low-code cloud-based platform that allows users to easily build application and work management tools that fits their needs. Shares underperformed as investors were cautious on near-term demand trends. We remain constructive on the company's growth trajectory, as it is well positioned to help customers centralise and digitalise their workflows. Its platform has incorporated AI through a collection of AI-powered automation applications.

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

Our underweight position in a technology hardware producer was also among the top detractors due to its significant weighting in the benchmark. The company had an average 10% weight in the benchmark, while the Fund had an average exposure of 0.8%. Shares outperformed broader markets on media reports of the company nearing production of its next generation AI processors.

New Buys and Sells

We re-initiated a position in the aforementioned technology hardware producer as the company is now taking a greater focus on bringing AI features to its smartphone platform. We believe investor focus will begin to shift as the company begins to make progress on its AI initiatives. The smartphone will likely be one of the primary devices that consumers will use to interact with AI. The company's large installed base could see an upgrade cycle, improving its earnings trajectory.

We had previously reduced shares of a software company that supplies computer-aided design and visualisation software at higher prices as the stock had relatively outperformed. This month, the company failed to file its annual 10-k with the Securities and Exchange Commission (SEC), given an ongoing investigation to ensure that cash flows are properly stated. With little visibility on the timing of this investigation, we sold the remaining small position.

We exited the position in a cybersecurity solutions company after shares recovered from weaker results in 2023. We believe the company continues to make efforts towards re-accelerating its business, but that the current valuation reflects higher expectations of near-term success.

While we like a health insurance and services provider in the longer term, we have become concerned regarding the recent antitrust case being brought against the company by the Department of Justice. Given the risks, we chose to exit the remaining position in the company at this time.

We exited a minor position in an electronic component manufacturer, a communications infrastructure solutions company, and a video game company as we do not anticipate adding to the names in near term. We wanted to free up the cash represented by these positions to potentially redeploy into higher conviction ideas.

Market Outlook

We continue to believe that the equity market recovery can extend from 2023 into 2024. Although inflation has trended lower over the trailing 12 months, inflation has moved sideways this year. The Fed will likely maintain the restrictive stance by holding policy interest rates at current levels. Despite tight monetary conditions, the US economy remains resilient, as labour markets remained healthy, corporate earnings trended higher, and consumer spending has been robust. As the Fed gets comfortable that inflation is moving towards its 2% target, we should see rate cuts, which are looking likely to happen closer to the latter end of 2024.

A normalised monetary policy backdrop should be conducive for economic strength to broaden. We are already seeing a broader recovery of earning growth that encompasses sectors outside of Technology and for mid-and small market capitalisation stocks. Even if there is more volatility ahead, we believe smaller companies have discounted more uncertainties, offering attractive risk rewards for companies that are well positioned for a recovery. Further, lower rates and easier financial conditions should help extend the broadening recovery. These conditions should translate to better demand across customer segments, easier access to capital and increased investment in high return-on-investment (ROI) projects like generative AI. There are likely bumps along the way, but we remain optimistic for the rest of 2024.

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

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.

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

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

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advances in – and the deployment of – AI. We believe these changes will drive meaningful growth for companies that can take advantage and drive disruption within their respective industries. Our view is that the compounding effect from AI disruption will create massive opportunities for innovative companies across every sector. 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

Equity markets across Asia Pacific were mixed in April. On the one hand, China equities continued their post-Chinese New Year rebound, spurred by a combination of state-led buying, a reassuring quarterly results season, and some significant dividend and share buyback announcements. After a brief period of consolidation in March, India also had a strong month. The Reserve Bank of India kept rates on hold as annual retail inflation dipped to 4.85%, its lowest level since May 2023.

Elsewhere, there was some profit-taking after strong moves earlier in the year. In particular, the tech-heavy markets of Taiwan and South Korea declined as semiconductor stocks pulled back, with a semiconductor manufacturing company providing somewhat lacklustre forward guidance, and disappointing results from a supplier of semiconductor manufacturing equipment. Japanese returns were quite stable in local terms but were weaker for foreign investors as the Japanese yen fell to a 34-year low against the US dollar. Smaller Asian markets were impacted by the higher-for-longer US rate narrative and the subsequent strength of the US dollar.

The Fund returned negatively in April, underperforming the MSCI AC Asia Pacific Index. The Technology area was a key source of relative detraction given the broad sell-off in the sector. Similarly, a number of Taiwan and South Korea holdings lagged given the portfolio's bias towards structural artificial intelligence (AI) trends.

At a single stock level, a top detractor was Koh Young Technology, a Korean company that is a global leader in inspection equipment for consumer and auto electronics. The share price saw some profit-taking after a strong Q1. We continue to see significant opportunities ahead for Koh Young's business in the semiconductor area and also future growth potential from AI-based smart solutions.

Conversely, a key contributor last month was a real estate developer in South India with a strong focus on premium residential projects and corporate office developments, especially with a technology services and consulting company as a key client. It has a reputation for quality and typically commands premium pricing as a result. The consumer-demand environment has been robust for the developer, and it is encouraging that management has continued to de-lever the balance sheet.

The overall positioning of the portfolio remains little changed. At a geography level, key overweight allocations are in Taiwan and Japan.

In Taiwan, we maintain a high exposure to Technology, especially in the semiconductor supply chain where we see an improving outlook both in demand and also in pricing power. Japan represents around 38% of the overall portfolio, compared to the benchmark level of 33%, and there were some new Japan names initiated during the month. We also took the opportunity to initiate select holdings in China, where we see upside potential amidst the market recovery from depressed valuation levels. We remain broadly underweight Hong Kong/China, along with India and Australia.

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

Market Outlook

We continue to have a constructive view on the regional outlook. In Japan, the combination of higher inflation as well as ongoing governance reforms should contribute both to improved earnings as well as a greater focus on shareholder value. There have been a number of high profile corporates increasing both dividends and share buybacks recently. Although the Japanese yen has been weaker year-to-date as a result of the negative real interest rate environment, fundamentally we believe the currency is significantly undervalued.

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

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Equity markets across Asia ex Japan were mixed in April. On the one hand, China equities continued their post-Chinese New Year rebound, spurred by a combination of state-led buying, a reassuring quarterly results season, and some significant dividend and share buyback announcements. After a brief period of consolidation in March, India also had a strong month. The Reserve Bank of India kept rates on hold as annual retail inflation dipped to 4.85%, its lowest level since May 2023.

Elsewhere, there was some profit taking after strong moves earlier in the year. In particular, the tech-heavy markets of Taiwan and South Korea declined as semiconductor stocks pulled back, with Taiwan Semiconductor Manufacturing Company (TSMC) providing somewhat lacklustre forward guidance and disappointing results from a supplier of semiconductor manufacturing equipment. Smaller Asian markets were impacted by the higher-for-longer US rate narrative and the subsequent strength of the US dollar.

The Fund performed ahead of the benchmark in April. Stock selection in the Financials area contributed at a sector level, offsetting weaker picks in Information Technology. At a market level, stockpicking in Hong Kong/China was also a source of relative outperformance.

At a single stock level, a top contributor was China Merchants Bank (CMB), a domestic leader in retail banking with an established footprint in the small and medium-sized enterprise (SME) space. Its margins and return on equity (ROE) are consistently better than most peers. CMB's provision coverage ratio also offers a reasonable earnings buffer. This has been reinforced by the company's recent decision to increase its dividend payout, in line with regulatory encouragement in China to improve shareholder returns.

In contrast, a key detractor was index heavyweight Samsung Electronics, the South Korea-based chipmaker and consumer electronics manufacturer. Its share price was down amidst a broader tech sell-off amid concerns around excess inventory levels in semiconductors and memory chips. We continue to view Samsung as a market leader with strong pricing power, along with a broader technology tailwind from artificial intelligence (AI) deployment.

During the month, we added several new names in India and South Korea where we see underappreciated growth potential. These include a mid-range hotel chain, a manufacturer of air conditioners and cooling solutions, a large global petrochemical and battery materials player, and a manufacturer of electrical equipment such as high voltage transformers.

We also selectively added to China in the Health Care space, as we are seeing some signs of market stabilisation. Overall, we remain slightly underweight in Hong Kong/China. Despite recent improvements, macro conditions continue to weigh on market sentiment. India continues to be a key market – the portfolio weight at the end of April 2024 was 24%, compared to the benchmark level of 21%.

At a sector level, Real Estate, Communication Services, and Financials are the primary overweight positions, while Industrials and Utilities are the main underweights. Top names in the portfolio at month-end include TSMC, Samsung Electronics, and Tencent.

Market Outlook

Across the Asia region, we are expecting some of this year's macro headwinds to ease as we move through the year. Within the region, our preference leans more towards South Asia where we are finding a number of attractively valued structural growth stories that are less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook across ASEAN markets and India. There are also signs of stronger momentum in the Technology sector, especially for companies with AI-related business exposure.

In China, our view is that the balance of risk and reward is looking considerably more favourable now than before. While near-term visibility on growth remains uncertain, any signals of macro stabilisation could trigger a market rally given the depressed valuations. Overall, from a regional standpoint, valuations remain at reasonable levels.

For Allianz Life Global Income Fund:

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

Market Review

Global equity, convertible security, and corporate bond markets declined in April, despite a solid start to the Q1 earnings season. Thus far, the percentage of S&P 500 companies reporting a positive earnings surprise was above the longer-term average, as was the magnitude of the earnings surprises. In aggregate, S&P 500 companies are pacing to report year-over-year earnings growth for a third straight quarter. Key economic data points released during the month were mixed. The labour market remained healthy, the manufacturing sector moved into expansionary territory, joining the services sector, retail sales surpassed projections, and home price indices rose. On the other hand, US gross domestic product (GDP) missed growth forecasts, consumer confidence declined, and some inflation measures were higher than anticipated. As a result, market expectations for the first interest rate cut were pushed out further, driving Treasury yields higher and pressuring investor sentiment.

In this environment, global equity markets, as measured by the MSCI World Index, returned -3.71%.* US equities underperformed their non-US counterparts, and growth stocks underperformed value stocks. Global convertible securities finished lower and new issuance decreased month-over-month. Global high yield bonds also declined with new issuance modestly lower versus the prior period. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -2.52% with non-US exposure narrowly outperforming US.^

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

Top contributors were led by Alphabet, which reported a beat-and-raise quarter on the back of solid cloud computing demand stemming from artificial intelligence (AI) adoption. A cyber security company finished higher on mergers and acquisitions (M&A) headlines and a software provider offered a bullish full-year outlook. In Energy, a supermajor oil company and a hydrocarbon explorer gained on better-than-expected guidance. A British food company reported strong operating profit growth and boosted its dividend, and an electric vehicle (EV) manufacturer advanced on better-than-feared results. Other contributors were exposed to testing & inspection, data services, and music streaming.

Top detractors included Microsoft and a social media company, both of which provided softer-than-expected guidance despite otherwise strong quarters. The digital payments space finished lower, weighing on several holdings, including Global Payments, and a trucking company declined after missing expectations. In Health Care, litigation concerns pressured a biotech holding and softer-than-expected guidance impacted a medical device company. Other detractors included a software company that fell on acquisition-related headlines, an off-price retailer that pared year-to-date gains, and a reinsurance company that announced a new CEO.

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

Market Outlook

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

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

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

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

For Allianz Life Global Income Fund:

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

Global investment grade corporate bond's risk/reward opportunity is also compelling. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains attractive given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering compelling total return potential and downside cushioning.

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

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

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

All data are sourced from Allianz Global Investors dated 30 April 2024 unless otherwise stated.
* Source: MSCI, as at 30 April 2024
^ Source: Bloomberg, as at 30 April 2024
** Source: ICE Data Services, as at 30 April 2024

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

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities generally sold off over April, undermined by fears that the conflict in the Middle East may be spreading and concerns that the US Federal Reserve (Fed) may keep interest rates higher for longer to bring inflation back to target. The retreat was led by US shares, with eurozone and Japanese stocks also falling over the month. In contrast, UK and emerging market equities advanced. At a sector level, Real Estate and Information Technology suffered the largest falls, while Utilities and Energy were the only sectors to advance.

Global bonds moved lower as investors dialled back their hopes for interest rate cuts in 2024. US bonds were among the worst performers, with the yield on the US Treasury closing the month just under 4.7%, a rise of almost 50 basis points (bps) over the month. European and Japanese bond yields also moved higher, albeit to a lesser extent, with 10-year yields in Germany and Japan rising around 30 bps and 15 bps, respectively. In general, corporate bonds outperformed government debt, with high yield bonds holding up the best.

Hopes of a summer rate cut from the Fed were dashed given stronger-than-expected jobs growth and stickier-than- forecast inflation. Financial markets are now starting to consider that the Fed may not cut rates before the end of the year. While the European Central Bank (ECB) is widely expected to reduce borrowing costs in June, investors are expecting this to be followed by a pause as policymakers wait to see how inflation evolves. In contrast, the weakness of the Japanese yen led to speculation that the Bank of Japan (BoJ) may increase rates once again.

After the brief tit-for-tat exchange, tensions between Israel and Iran appeared to calm a little, helping Brent crude to close the month slightly lower at just under USD 85 per barrel. Industrial metals surged on signs of improvement in China's manufacturing activity, with copper prices rising to a 2-year high.

Market Outlook

The Fund returned negatively (in EUR, gross of fees) in April.

Themes that have contributed well to overall performance have been Next Generation Energy, Clean Water and Land, and Digital Life. Next Generation Energy is currently seeing some turnaround due to an increase of copper producers which relates to the takeover of a mining company through a resources company. Negative contributors have been themes like Infrastructure and Generation Wellbeing. Infrastructure suffered slightly due to weaker market development overall, putting pressure on cyclical companies, while Generation Wellbeing was pressured by concerns regarding consumer spending trends which we see as unwarranted given the expected interest rate cuts.

From a sector perspective, the Fund benefitted from the overweight to Utilities which show some relative strength. Negative contribution occurs from the underweight to Communication Service sector which is mainly due to an index heavyweight technology conglomerate. Overall, the underweight to the big Technology stocks created a minor negative effect. An orthodontic company has also contributed weakly after it did not match ambitious market estimates.

On a single stock basis, the afore-mentioned mining company was the best contributor due to ongoing mergers and acquisitions (M&A) activity which also benefitted holdings in a molybdenum producer and a copper miner.

The portfolio continues to have a high degree of diversification. 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

After a positive month in March for both fixed income and risk assets, volatility returned in April as markets were impacted by a hotter US inflation print, which signaled a potential delay in rate cuts. As a result, there was a meaningful sell-off in fixed income markets and equities declined after a strong start to the year. US labor market data remained strong as the unemployment rate fell to 3.8% and non-farm payrolls rose by 303k, a sizable increase compared to expectations. On the inflation front, US headline CPI and core CPI rose by 3.5% YoY and 3.8% YoY respectively, exceeding market consensus, with traders paring back rate cut expectations closer to just one cut in 2024. In the Euro Area, headline inflation came in at 2.4% YoY, while core inflation came in at 2.9% YoY. In the UK, headline inflation came in at 3.2% YoY, while core inflation came in at 4.2%YoY.

Developed market fixed income sold off in April with fears of inflation flaring back up dominating the storyline, though US Treasuries underperformed with a slightly more concerning inflation picture. In the front end, US 2Y Treasury, German 2Y Bund and UK 2Y gilt yields rose +42bps, +18bps and +33bps, respectively. US 10Y Treasury, German 10Y Bund and UK 10Y gilt yields rose +48bps, +23bps and +41bps, respectively.

Equity markets suffered alongside bonds with. the S&P 500 and MSCI World both in the red, returning -4.08% and -3.67%, respectively. Japanese equities also sold off as the Nikkei Index fell -4.86%, while commodities ended the month as the top performing asset class. In credit, USD and EUR investment grade spreads tightened -3bps and -2bps, respectively. High yield underperformed, as USD and EUR high yield spreads widened+2bps and +10bps, respectively.

For Allianz Life World Healthscience Fund:

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

Market Review and Outlook

Market:

• Global equity markets retreated in April with the MSCI World Index returning -3.7% after strong economic data led investors to fear that interest rate cuts would be pushed out.

• In the US, the S&P 500 returned -4.1%, marking the first month of negative performance since October 2023. A hotter than expected March CPI print led yields to hit five-month highs, while the Bloomberg Global Aggregate Index fell -2.5%. As the expected timing and magnitude of rate cuts were adjusted, rate-sensitive areas of the market underperformed, with the Nasdaq Composite returning -4.4%.

• Geopolitical uncertainty, elevated interest rates, and rising energy prices led commodity prices higher, notably oil and gold. By the end of April, the price of crude oil reached $82/barrel.

• In the Eurozone, economic growth was evidenced by the higher flash composite PMI which led European equities to outperform. At the same time, year-over-year inflation remained flat while services prices cooled. In the UK, markets were buoyed by strong energy and commodities returns and robust corporate earnings.

• In Japan, equities pulled back after a positive first quarter with the Nikkei 225 Index returning -3.5%. The Bank of Japan (BoJ) left policy rates unchanged to support the weakening Yen. Elsewhere, Chinese markets began to rebound as investors priced in economic improvement in the region after several quarters of muted growth.

• Most global sectors had negative returns in the month with Utilities and Energy as the only sectors with positive returns. Real Estate and Information Technology were the worst performers.

• From a regional perspective, the UK had the highest returns in April, while Israel and Emerging Asia traded down the most.

Stocks:

• An overweight position in Boston Scientific was the single largest contributor to relative performance after the medical device company reported robust first quarter earnings and provided strong revenue guidance for cardiovascular devices.

• Further on, not holding a position in Bristol-Myers Squibb contributed to active returns. The pharmaceutical company announced disappointing financial results and anticipated headwinds within their product portfolio.

• Not holding a position in Koninklijke Philips was the largest detractor from relative returns. The medical device stock rose after finalizing the terms of a settlement connected to the recall of its sleep apnea breathing devices.

• An underweight position in Novartis also detracted from active performance in April. The pharmaceutical company reported improving earnings and raised full-year guidance due to growth within Cosentyx, a psoriasis and arthritis drug.

Changes:

• During the month, we rotated our exposure within medical devices & supplies to take advantage of attractive valuations and innovative product pipelines. At the same time, we took profit on select pharmaceutical names to allocate capital elsewhere within the portfolio.

For Allianz Life World Healthscience Fund:

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

Key Positioning & Outlook:

• Despite strong equity market performance in the first quarter of 2024, we continue to navigate an uncertain political and economic environment. We seek opportunities in segments of the health care sector with attractive valuations, stable growth, and promising product pipelines over the medium-to-long term. We also consider new innovations and technological developments for selective growth opportunities in the biotechnology, pharmaceuticals, and medical devices space.

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

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

For Allianz Life ESG-Integrated Multi-Asset Fund:

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

Market Review and Outlook

Market Review

• April was a tough month for financial markets, with persistent inflation and resilient economic data in the U.S. leading investors to lower their expectations for Federal Reserve interest rate cuts. This shift caused equities and fixed income to decline, while commodities provided positive returns.

• Developed market equities, except for the UK, had a negative month. The S&P 500 fell, while European equities, though also down, outperformed the U.S. due to a better inflation outlook and improved economic growth. UK Equities, delivered positive returns thanks to its energy and commodity exposure. Emerging markets fared better, driven by the outperformance of Chinese equities.

• Fixed income markets were broadly negative, with European high-yield bonds being an exception, ending flat. The Federal Reserve's expected rate cuts were pushed further out, causing U.S. Treasury yields to rise, leading to negative returns in global bonds. European bond yields rose to a lesser degree due to greater confidence in the European Central Bank's ability to deliver on rate cuts.

• Commodities performed well over the period due to higher energy prices and strong performance from precious metals including gold as a result of continuing tensions in the Middle-East.

Performance

• Against this backdrop, the ESG Multi-Asset Fund provided a negative return but importantly our strong focus on diversification and dynamic approach to asset allocation served to mitigate losses.

• Indeed, the Fund's exposure to Gold and Silver, equity hedging strategies, and Listed Alternatives all provided positive returns over the period. The exposure to Gold and Silver continued to act as an effective hedge against increased geopolitical risk, and protection on both European and US equities helped to cushion losses from structural equity exposures in the portfolio. It was particularly pleasing to see a strong rebound in our Listed Alternatives allocation given improved sentiment towards the UK, as well as increased levels of acquisition activity which sent a clear signal to the market that these high-quality exposures are trading at attractive valuations.

• The allocation to Developed Market Equities was the key detractor from returns, however decisive action to reduce the Fund's equity exposure prior to markets selling-off helped to mitigate losses. Structural equity exposure to strategies managed by BlackRock Equity specialists were the key detractors from returns, and three of the four strategies underperformed their opportunity sets, the exception being the Brighter Futures Strategy. Elsewhere, Thematic Equity baskets detracted in aggregate over the month, whereas the tactical allocation to Chinese Equities via options provided positive returns.

• The allocation to Fixed Income also detracted from returns, however the underweight to duration helped to offset losses. The Global Sustainable Credit Strategy, which has exposure to Investment grade corporate credit was the key detractor whilst the direct allocation to US Government Bonds also weighed on returns.

Positioning

• During the month, we managed risk dynamically to better navigate the heightened volatility in markets. We reduced Equity beta ahead of markets selling-off significantly, helping to mitigate downside and then acted quickly to re-risk the Fund into the end of the month in order to capture the market upside.

• We continued to run cautious duration positioning of c. -1.2 years underweight relative to our risk benchmark, which also served to offset losses in a challenging environment for interest rate sensitive assets.

• We added a tactical "reflation" strategy to the portfolio, which we expressed through a relative value trade consisting of going long materials and real estate sectors against a short position against the health care and consumer staples sectors. As market began to reduce the number of expected interest rate cuts, and inflation prints remained sticky, we found that a 'reflationary' scenario was not being priced in to the same degree, so while our base case remained "soft" or "no" landing, we saw an opportunity for a "catch up" trade.

For Allianz Life ESG-Integrated Multi-Asset Fund:

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

Outlook

• Market pricing of Fed rate cuts has been dialed back thanks to a persistently tight labor market and sticky services inflation. We continue to have conviction in our view that, whilst the rate of inflation will continue to moderate in the US, the final steps in the path to the Federal Reserve's 2% target remain less certain and we are closely monitoring reflationary risks. Whilst market pricing for interest rate cuts by the ECB has mirrored that of the Fed, we still believe the weaker economic growth picture and more positive disinflation backdrop in Europe suggests the likelihood of the ECB delivering on expectations of rate cuts compared to the Fed is higher.

• The US economy remains on strong footing as labor markets remain tight with little sign of breaking, and consumer spending is expected to remain robust. Ultimately, we expect that the US economy will see real GDP growth in 2024 that is close to its long-term trend. Though there are significant risks to that view which we continue to monitor, including the lagged consequences of higher interest rates, significant global geopolitical tensions, and the presidential election at the end of the year.

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

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

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

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

Disclaimer:

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