Market Review and Outlook

August 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

For the month of August, the MSCI World Index and Dow Jones Index rose by +2.51% and +1.76% mom, respectively. In the US, August continued July's volatility and uncertainty, but at the annual Jackson Hole Economic Symposium, Federal Reserve Chairman Powell said that "the time has come" for rate cuts, leaving investors to speculate when they would be, and by how much. Consensus says that there will be a rate cut at the next meeting on 18 September 2024, but whether that cut would be 0.25% or 0.50% remained to be seen. August's S&P Global US Composite Purchasing Managers' Index (PMI) reading of 54.6 indicated that it was still expansionary, and +0.5 points higher compared to the prior month.

In Europe, the Euro Stoxx 50 Index was also up +1.75% mom, despite the August HCOB Eurozone Composite PMI Index reading of 51.0, which was down from 51.2 in the previous month. Meanwhile, the Eurozone unemployment rate remained stable at 6.4% in July (June: 6.5%). However, the Shanghai Composite Index in China tumbled by 3.28% mom on some weak economic data releases such as the August Manufacturing PMI which fell to 49.1, down from 49.4 in July. The Industrial Production in July also grew at a slower pace of 5.1% yoy, compared to the previous month's 5.3% yoy growth rate. Its August Caixin China PMI Composite Index was flat at 51.2, similar from the previous month. Furthermore, China kept its 1-year and 5-year Loan Prime Rates unchanged in August 2024.

In August, Brent crude oil declined 2.4% mom to USD78.80/bbl on the back of a weakened demand outlook for China and an expected production increase by the OPEC which suggested high supply going into the winter months. On the other hand, crude palm oil price rose +1.2% mom to RM4075/MT largely due to drawdown in Malaysian palm oil inventories (1.73m MT in July vs 1.83m MT in June) and potential lagged impacts of the 2023-2024 El Niño event on Indonesian production which could impact production in 4Q24.

On the ASEAN front, equity markets were generally positive in August 2024. For us at home, the FBMKLCI rose +3.3% mom to 1,678 points, driven by strong buying interest from foreign investors, particularly in banks. This increased the Year-To-Date gain for the KLCI to 15.4% as at end August. This was despite August starting the month with the FBMKLCI falling sharply by 4.6% to 1,536 points on 5th August alongside several regional indices. The violent collapse that day was precipitated by the Bank of Japan raising interest rates that sparked a reversal of the yen carry trade which also coincided with some negative US employment datapoints, thus stoking fears of a hard landing recession. However, it quickly recouped all the losses within the next few days and rallied towards the end of the month. Foreign investors were net buyers for the second straight month in August, with a net buy of RM2.6b, raising their Year-To-Date net buy to RM3.1b. Over in Singapore, the STI Index fell slightly by 0.38% mom despite its July Non – Oil Domestic Exports (NODX) surging by 15.7% yoy, compared to a 8.7% yoy contraction in the previous month. Its July Industrial Production also grew by +1.8% yoy, compared to a 3.9% yoy decline in June. The Stock Exchange of Thailand rose +2.89% mom as investors believed political uncertainty has eased following the election of Ms Paetongtarn Shinawatra as the new Prime Minister on 16 August, which was only two days after Mr Srettha Thavisin was dismissed for appointing an unqualified person to his cabinet by the Constitutional Court. Finally, the Jakarta Composite Index surged +5.72% mom, as expectations of potential Fed easing drove foreign investors into buying Indonesian equity as reflected by its net foreign equity inflow of IDT13.6tr, +338.7% mom, during the month under review. However, from an economic standpoint, its August S&P Global PMI Manufacturing sunk to 48.9, as compared to 49.3 in the previous month.

Apart from that, Bank Indonesia kept its policy rate unchanged at 6.25% in August to stabilize the rupiah exchange rate and to ensure that inflation remains controlled within the target range of +1.5 – 3.5% for 2024 and 2025.

In August, the US Treasuries (UST) yield curve declined across the tenors in a steepening manner by 10 – 28 bps mom, with the shorter end rallying the most. On 2nd August, yields rallied after the weaker – than – expected July employment data. July Non Farm payroll increased by 114k, less than the 175k forecast, while the unemployment rate unexpectedly climbed to 4.3%, higher than the 4.1% forecast. As of end – August 2024, the market – implied total rate cuts by December 2024 increased to 100 bps from 73bps as of end-July 2024.

Malaysian Government Securities (MGS) yields rallied in tandem with UST during the beginning of the month supported by inflows on the short to belly of the curve. Subsequently, the earlier gains were reversed upon profit taking, with MGS yields up by 2 – 5bps MoM on the 7y to 30y. 2Q24 GDP of 5.9% YoY (Survey: 5.8% YoY, 1Q24: 4.2% YoY), supported by stronger household spending, business investments and exports, brought 1H24 GDP growth to 5.1% YoY. July CPI remained unchanged from June at 2.0% YoY, slightly below the consensus estimate of 2.1% YoY, despite some economists' view that the blanket diesel subsidy removal in June could impact the July CPI. June IPI grew by 5.0% YoY (Survey: 4.2% YoY, May: 2.4% YoY), sustaining its positive momentum for six straight months, largely due to the consistent growth in the manufacturing sector.

Foreign funds net bought Ringgit bond holdings in August with net inflows of RM9.0bn (July: +RM7.8bn). Foreign share of both MGS and MGS+MGII rose to 34.6% (July: 34.2%) and 22.7% (July: 22.2%) respectively. Malaysia's foreign reserves expanded by USD2.1bn to USD116.8bn as of end – August 2024 (July: USD114.7bn).

Market Outlook

Globally, investors will be keeping an eye on Federal Reserve meeting on 18 September to see if the rate easing cycle would start and would continue monitoring the developments surrounding the US Presidential elections. Domestically, we believe that investors would continue to focus on the government's gradual implementation of policies, the upcoming budget 2025 in October after the conclusion of the recent 2Q24 results season.

As always, we have been steadfast in being partial towards fundamentally sound investments over long – term investment horizons. Furthermore, we might partake in a modicum of trading activities to capitalize on any prevailing market volatility. Even so, omnipresent geopolitical risks as well as potentially easing global growth would dictate that we should be mindful of the necessity to adapt to new strategies as and when required to acclimatize to new and volatile market conditions.

Bond market volatility in the fixed income market would likely persist. The Fed's comment at the Jackson Hole Symposium came at a time when other central bankers were also mulling over lower interest rates. While the direction of monetary policy seems to be becoming clearer and rates likely to move lower, there remains a level of uncertainty around the pace and extent of any future rate changes as they would be subjected to incoming data. The Federal Open Market Committee (FOMC) acknowledges that inflation risks and employment must be balanced. US election uncertainty can also come into greater focus in the following months. In Malaysia, with inflation under control and with the latest indicators pointing towards sustained strength in economic activity in the second half of 2024, the market expectation is for Bank Negara Malaysia (BNM) to stand pat on the overnight policy rate (OPR) for 2024. However, inflation is expected to trend higher depending the spillover effects of further domestic policy measures on subsidies and price controls, as well as global commodity prices. 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?

- During a volatile start into August, the markets turned into positive territory.

What hurt?

- The Fund lagged the benchmark Index MSCI World in August.
- The defensive dividend concept could not contribute positively during a month where Growth and Quality related stocks and market leaders were ahead.

Market Review and Outlook

August was a volatile month for global equities. Wall Street's "fear gauge", the CBOE Volatility Index, hit a four-year high of 65 early in the month when stocks suffered a steep sell-off as weaker-than-expected US job growth sparked recessionary fears in the world's largest economy. This was followed by a swift rebound as subsequent data confirmed these fears were likely overblown. On balance, global stocks closed the month slightly higher. At a sector level, Energy stocks were the weakest while companies in sectors that are seen as defensive (Health Care and Consumer Staples) or bond proxies (Real Estate) outperformed.

US stocks tumbled in early August as weaker-than-expected economic data, particularly job growth, sparked fears of a recession and caused the biggest sell-off in nearly two years amid thin trading. The correction proved short lived, however, with stocks subsequently rebounding sharply to more than recoup their earlier losses as later economic data proved more reassuring. In political news, Vice-President Kamala Harris secured the Democrat's nomination and continued to make ground versus Donald Trump in the opinion polls.

Euro-zone equities rose modestly over August, closing near record highs as they recovered from a sharp reversal early in the month when global stocks took fright over fears of an imminent US recession. At a sector level, Real Estate, Health Care and Communication Services rose the most, while Energy companies were the weakest as oil prices weakened.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

It was a volatile month for equity markets in Asia Pacific. The strongest performance in the region came from ASEAN markets such as Thailand, the Philippines, and Indonesia, which benefitted from the weaker US dollar. Taiwan was also a notable performer, with tech stocks bouncing back from the early month sell off as part of the broader unwinding of the Japanese yen carry trade. Conversely, China remained a weak spot, undermined by ongoing concerns over the trajectory of the domestic economy. South Korea also lost ground, dragged lower by index heavyweight Samsung Electronics. Australian stocks closed the month flat. While the Reserve Bank of Australia kept rates on hold at 4.35%, sticky consumer prices mean the central bank remains alert to upside inflation risks.

On the fixed income side, Asian credit markets delivered positive returns led by Investment Grade credits despite the market volatility. The JACI Investment Grade Index returned 1.8% while the JACI High Yield index increased by 0.5%. Overall, market performance was helped by favourable US Treasury movements and high carry.

The Fund return was positive in USD terms in August.

In the equity portfolio, a top contributor was Charter Hall Group, a diversified REIT in Australia. The stock has been strong in recent weeks, partly related to corporate activity and also because of expectations of lower future discount rates.

Conversely, a top detractor was Samsung Electronics, the smartphone and memory chip maker. Along with global technology names, share price was weaker in August as investors took profit after a strong rally over the last year. There have also been market concerns on the weaker smartphone demand which can potentially put pricing pressure on Samsung's products. We have reduced our position size and will continue to monitor the stock.

The asset allocation at the end of the month was 66.9% invested in Asian equities and 31.0% in Asian fixed income, with the remainder in cash and others.

In terms of portfolio activity, over the month we trimmed some of our technology exposure in Taiwan and Korea, and rotated the proceeds across ASEAN, India, and Australia. For example, we initiated a position in a property developer in the Philippines and a healthcare company based in Australia.

For the fixed income sleeve, we slightly reduced our high yield exposure and continued to focus on short term carry by adding bonds with decent yield and short duration.

At the end of the month, we held 64 equities and 60 fixed income securities. The equity portfolio yield was 2.8% (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

Notwithstanding the recent market volatility, we continue to hold a constructive view on the regional market outlook. 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 more favourable demographics, rising consumption power, and reordering of supply chains associated with 'China +1', are boosting the growth outlook. In China, the outlook remains quite fragile. The weaker Property sector continues to weigh on the broader macro environment, and recent policy initiatives have so far been insufficient to change the fundamental outlook. Overall, from a regional standpoint, valuations are generally at reasonable levels.

On the fixed income side, with investors pricing in higher probability of a hard landing on US economy and political noises still hovering around, we expect volatility to remain in the markets over the near term. However, Asian credits should continue to benefit from the resilient credit fundamentals and supportive negative net bond supply for the rest of the year. With credit spreads staying at the tighter end of historical trading range and the decent performance of Asian credits year-to-date, we expect carry to contribute more to performance in the near term.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

Malaysian yield curve bear steepened for the month, with yields rising 0 to 4bps across the curve. The short-end curve was relatively well supported as foreign inflow likely to lend support in the short to belly parts of the curve. Meanwhile, 10y MGS rose 3b to close the month at 3.77%. The softer performance in August is likely due to lack of catalyst after a strong rally in July. The cooling labour market in the US as well as the inflation in recent data have boosted the chance for a 50bps cut on Sept 24. Domestically, 2QGDP came in 5.9%, beating consensus again, after rising 4.2% in 1Q24, given the robust growth in almost all sectors. Local inflation in July remained unchanged at 2.0%, after a few months of below 2% prints. On the currency front, Ringgit grossly outperformed major and regional currencies. Against USD, MYR stronger by 6/7% MoM to 4.32. The UST curve bull-flattened, stronger by 10-21bps across the curve for the month. 2y and 10y UST yield settled the month at 3.93% and 3.91%.

Global equity markets started the month with a sharp sell-off driven by the weaker-than-expected US labour market and raising recession fears while the surprise BOJ rate hike led to a carry trade unwind. However, markets recovered as concerns of the US recession fears were met with better growth and inflation data. Although technology stocks rebounded after the plunge in the first week of the month, it was still well below previous highs which suggests investors have looked at other sectors for performance.

Closer to home, the KLCI closed the month higher by 3.3% bringing year-to-date to 15.4%. Notable performance considering the tumultuous global equity markets especially early of the month. In fact, the KLCI touching to the low of 1,530 before ending the month at 1,679 pts. MSCI rebalancing also helped with flows. However, the gain was on a narrow breadth, concentration mostly on financials. On the broader market, only plantation was the other gainer for the month with information technology, construction and property were the worst performer in August. Like global tech stocks, local names also saw large corrections due to the recent weak earnings showing with valuations still elevated. Similarly, construction and property mostly due to profit taking as investors switch to financials. In macroeconomic news, the month was largely focused on the result season, but key notable was Malaysia's 2Q GDP, which was better than expected, gaining 5.9%. CPI rose 4.4% in July (June: +3.7%) driven mainly by utilities. Lastly, the manufacturing PMI fell to 51.2 in July (June: 51.3).

In regional equities, in local currency, Indonesia was the best performer climbing 5.7%, followed by Philippines, Malaysia, and Thailand which gained 4.2%, 3.3% and 2.9% respectively. Singapore underperformed, being the sole decliner of 0.4%. Indonesia also so the biggest jump in net foreign buying of US$1.9bn. Malaysia and Philippines also had net foreign inflows of US$587m (RM2.55bn) and US$143m respectively. Thailand had a net foreign outflow of US$170m.

For the month, the DXY Index was weaker which led the strengthening of emerging market currencies. In currencies, the Ringgit strengthened (+5.9%), making it the best trajectory in 14 years to settle at 4.32. The stronger-than-expected GDP, positive net foreign flows, and expectations of the Fed cuts helped with the performance. The Baht, Rupiah and Pesos also strengthen, rising 5.0%, 5.08% and 3.8% respectively. In commodities, oil prices fell as expectations that the OPEC+ will raise supply in addition to the still weak data from China. Elsewhere, CPO closed higher ~1.8% ahead of Diwali. In precious metal, gold gained 2.3% exceeding US$2,500/oz. Likewise, industrial metals rebounded 3.0% during the month.

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 against potential mark-to-market losses. We prefer strong AA-rated and A-rated papers for yield pickup, while our holdings

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

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

Global equity markets again saw volatile movements although coming off-lows ending the month higher. Moving forward, despite the decent showing last month, September has historically been another volatile period, especially as we approach 4Q. Hence, we do expect volatility to continue given the geopolitical concerns as well as the upcoming US elections with questions on policies and tariffs. As at writing, we have already seen the market underperforming 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. Given the recent correction in recent weeks in technology stocks, we may reposition this sector for the second half recovery although we admit, it still lacks any meaningful catalyst at this juncture.

There has been concerns on the oversupply of the build of capex but with Amazon announcement to commit US$6bn (until 2038) in Malaysia for its new AWS region, gives some relief and confidence of foreign investments and the data center boom remain firm. 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 outperformed the benchmark in August. Stock selection in the Industrials sector was the main contributor.

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

Conversely, a leading detractor was a maker of optical transceivers that allow high levels of data to be transmitted quickly across a network. These play an important role in areas such as the development of artificial intelligence (AI) applications, especially in data centres where high speed data transmission is required. Along with other AI-related names, the stock has seen some profit taking after a strong rally earlier in the year.

Market Outlook

China equity markets were relatively stable in August. China A-Shares were close to flat in USD terms, while offshore markets were slightly firmer, supported by internet platform stocks which generally delivered quarterly results ahead of expectations.

One feature of last month has been the strength of the Chinese currency, which rallied by around 2% against the USD dollar. This also mirrors the strength of the Japanese yen. Indeed, for the last two years, the renminbi and the yen have moved in a broadly similar pattern versus the dollar, the main reason being the meaningfully lower interest rates in China and Japan compared to the US. That, of course, is what funded the yen carry trade which so vigorously unwound in recent weeks.

China's capital controls mean the renminbi is not a traditional carry-trade funding currency. However, the rate gap to the US still matters because of the size of China's export sector. Chinese exporters can choose when to convert their foreign earnings back into renminbi. So far this year, they have converted less than usual, as they looked to benefit from the higher returns on US dollar assets.

With markets moving to price in a peak in the US rate cycle, as well as potentially a weaker dollar, it is likely that China's exporters will opt to convert more of their holdings into renminbi. This could put some modest upward pressure on the Chinese currency in coming months. For the People's Bank of China (PBoC), this currency strength provides considerably more flexibility to further reduce interest rates.

Indeed, given the ongoing weakness of the Property sector, the economy will very likely need a further injection of government policy support to rebuild momentum if this year's economic growth target of 'around 5%' is to be met. Accordingly, we expect to see further announcements of both fiscal and monetary stimulus quite soon.

There have not been significant changes to portfolio positioning over the last month. We initiated a position in a leading semiconductor design company, where the share price has pulled back significantly. Overall, we expect growth in this sector to be supported by China's ongoing push for greater self-sufficiency. This was funded by reducing exposure to a networking and cloud service equipment company. As such, the overall Information Technology weighting was little changed.

At month end, the portfolio has around 42% in China A-shares. Sector weightings continue to be relatively close to the benchmark allocations. The largest sector overweight was Information Technology (+3.1%), while the largest underweight was Financials (-3.0%).

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

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

Market Review

US stocks tumbled in early August as weaker-than-expected economic data, particularly job growth, sparked fears of a recession and caused the biggest sell-off in nearly two years amid thin trading. Wall Street's "fear gauge", the CBOE Volatility Index, hit a 4-year high of 65 early in the month when stocks suffered a steep sell-off. The correction proved short-lived, however, with stocks subsequently rebounding sharply to more than recoup their earlier losses as later economic data proved more reassuring. On balance, August was a volatile month for global equities, which closed the month slightly higher. In political news, Vice President Kamala Harris secured the Democrat's nomination and continued to make ground versus Donald Trump in the opinion polls.

Recessionary fears resurfaced when the US economy added just 114,000 jobs in July, far weaker than the expected 175,000. Additionally, US job growth for the 12 months to March 2024 was revised down by 818,000. The data boosted hopes that central banks would pivot to a more dovish stance, a view that was reinforced by positive news on inflation. In July, US inflation fell below 3% for the first time since March 2021, while eurozone inflation declined to a 3-year low of 2.2%.

Oil prices eased back below USD 80 per barrel as higher-than-forecast US inventories and speculation of higher output from the Organization of the Petroleum Exporting Countries Plus (OPEC+) offset concerns over escalating tensions in the Middle East and fears of a shutdown in Libya. Gold continued to advance, breaching USD 2,500 an ounce for the first time on record. Copper initially slumped amid worries the US could fall into recession, but later recovered to end the month little changed.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, performance was led by the Real Estate sector, which was helped by lower rates. The Health Care sector was another outperformer given its defensive characteristics. Conversely, the Energy and Consumer Discretionary sectors were laggards during the month.

From a sector perspective, Information Technology and Consumer Discretionary were the largest relative detractors. The Communication Services and Health Care sectors were slightly offsetting. Artificial intelligence (AI) applications was the primary detractor to performance because of stock selection headwinds and mixed earnings results. Both the AI-enabled industries and AI infrastructure generated positive absolute returns but were slightly under custom benchmark.

Contributors

Monday.com Ltd. 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 outperformed as the company reported better-than-expected earnings results and raised guidance, as it continues to execute well and win new customers in a choppy macro environment. We remain constructive on its growth trajectory, as the company is well positioned to help customers centralise and digitalise their workflows. Monday.com's platform has incorporated AI through Monday AI, which is a collection of AI-powered automation applications.

Social media operator Meta Platforms Inc. was among the top contributors. Shares were higher on strong quarterly earnings as advertising demand trends appeared healthy heading into H2. The infusion of AI capabilities into the company's recommendation engines and advertising tools helped drive better results. The company continues to work on new ways that generative AI can improve experiences across Facebook, Instagram, Messenger and WhatsApp – spanning search, social discovery, advertisements, messaging and more. This includes a generative AI personal assistant with robust functionality that rivals other co-pilot AI applications. We believe these new innovations can help drive greater user engagement and stickiness, as well as improvements with advertisement targeting and monetisation.

Detractors

The top relative detractor over the period was Elastic NV, which provides a cloud-based data analytics platform. Shares underperformed after the company reported mixed quarterly results. Although top-line revenue and earnings beat expectations, shares fell after management reset guidance lower because of a recent sales team reorganisation that caused sales execution slippage. Looking forward, the company's vector search offering continues to experience strong interest from customers looking to build their own generative AI solutions. This opportunity remains in the early innings and should allow Elastic NV to capitalise on the rapid adoption and development of generative AI.

Our position in electric vehicle (EV) producer Tesla Inc. was another detractor over the period. The stock fell on general softness in the EV market. Mixed earnings results from the prior month may have weighed on shares as well. 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.

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)

New Buys and Sells

We started a position in an electronics components maker following the sharp pullback in shares. The company's advanced sensors, specialty cables and high technology power interconnect products are critical across a broad array of end markets that includes AI data centres.

Another new position is a global technology platform that focuses on creating a seamless and secure payment experience for consumers and merchants. By aggressively investing in AI technology and talent, the company aims to maintain its competitive edge in the fintech industry and continue to innovate in the digital payments space.

We exited the remaining small position in an identity and access management company, which we had been reducing, after the company reported mixed results. We were concerned the recovery was proving to be more elongated than we had hoped.

Lastly, we sold the remaining stub position in a technology conglomerate as we are concerned that the recent antitrust rulings brought regarding its search dominance and a pending antitrust suit on its advertising keyword business could prove to be a distraction.

Market Outlook

We continue to have a constructive mid- to long-term outlook for equity markets given the earnings growth potential from 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 recently introduced additional volatility, although concerns have subsided as most expect the Bank of Japan (BoJ) to be slow with future rate hikes if needed. Overall, corporate earnings have been relatively resilient, as most companies reported better-than-expected earnings and revenues for Q2. 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 US Federal Reserve's (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 Jackson Hole Economic Symposium meeting in August, Fed Chair Jerome Powell indicated that the future direction of monetary policy is for interest rate cuts starting in September after a period of tight financial conditions. The timing and pace of such cuts will still depend on upcoming economic data. The market is now pricing in a 25 basis points (bps) cut for the upcoming September meeting, followed by additional 25 bps cuts at remaining meetings in 2024. 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 adoption 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.

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

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

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

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

AI applications: A new wave of AI applications is emerging that infuse generative AI capabilities into their software to drive greater value and create more monetisation opportunities. 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 which 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

It was a month of extreme volatility, especially in Japan. At one point, the TOPIX lost more than 10% in one day, its worst daily performance since Black Monday in 1987. However, the market recovered through the month, helped by the strength of the yen. The Japanese economy expanded by a stronger-than-expected 0.8% in Q2, reversing Q1's 0.5% contraction. Headline inflation held steady at 2.8% for the third consecutive month in July, although core inflation ticked up to a year-on-year rate of 2.7%.

The strongest performance in the region came from ASEAN markets such as Thailand, the Philippines, and Indonesia, which benefitted from the weaker US dollar. Taiwan was also a notable performer, with tech stocks bouncing back from the early month sell off as part of the broader unwinding of the yen carry trade. Conversely, China remained a weak spot, undermined by ongoing concerns over the trajectory of the domestic economy.

Stock selection in the Industrials sector added value during the month, although this was offset by weaker picks in the Health Care area. At a market level, stock selection effects in Japan boosted returns, whereas South Korea names were a relative drag.

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

Conversely a top detractor was Unimicron. The company is a global leader in the production of Ajinomoto Build-up Film (ABF) substrate, which is a specialised material used in semiconductor packaging and interconnection processes. Unimicron is also a high-end printed circuit board (PCB) manufacturer. The stock was weak in line with the pullback in the tech space, especially companies potentially impacted by the delay in a graphics processing and related software maker's new architecture for advanced AI capabilities. Longer term, we see Unimicron as a beneficiary of next generation AI servers, given its specialised ABF and PCB capacity.

The overall positioning of the portfolio remains little changed over the month. We added to high conviction names in Japan during the sell off in early August and also used the opportunity to reposition somewhat. Accordingly, we maintain a high weighting in Japan, which represents around 45% of the portfolio.

Taiwan also remains high conviction and at month end was 22% of the portfolio. Despite an environment of volatility over the last few months, we maintain our exposure to technology stocks, especially in the semiconductor supply chain. Underlying this, we believe the AI story is a structural market driver that has the potential to deliver productivity gains across nearly all sectors of the economy. We remain broadly underweight Hong Kong / China, along with India and Australia.

At the sector level, Financials remains our largest underweight, along with the Consumer Discretionary area.

Market Outlook

Notwithstanding the recent market volatility, we have a constructive longer-term view on the regional outlook. We are encouraged by the resilience of the Japan market since the extreme volatility in early August and believe that structural drivers remain in place for a more positive outlook. 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. Despite the near-term rally in the Japanese yen, we continue to see the currency as fundamentally undervalued.

Elsewhere in the region, we also see the pullback in technology stocks as a longer-term opportunity. In our view, the early August decline represented a healthy consolidation after the strong rally over the last year. In China, the outlook remains quite fragile. The weaker property sector continues to weigh on the broader macro environment and recent policy initiatives have so far been insufficient to change the fundamental outlook. Overall, from a regional standpoint, valuations generally 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

In August, the strongest performance in the region came from ASEAN markets such as Thailand, the Philippines, and Indonesia, which benefitted from the weaker US dollar. Taiwan was also a notable performer, with tech stocks bouncing back from the early month sell off as part of the broader unwinding of the Japanese yen carry trade. Conversely, South Korea lost ground, dragged lower by index heavyweight Samsung Electronics.

China equity markets were relatively stable during the month. China A-shares were close to flat in USD terms, while offshore markets were slightly firmer, supported by internet platform stocks which generally delivered quarterly results ahead of expectations. One feature of the last month has been the strength of the Chinese currency, which rallied by around 2% against the USD dollar. However, given the ongoing weakness of the Property sector, the economy will very likely need a further injection of government policy support to rebuild momentum if this year's economic growth target of 'around 5%' is to be met.

The Fund underperformed the benchmark in August. Stock selection in the Information Technology sector was a key detractor from a sector standpoint, while weak selection effects in the India and Taiwan markets offset better picks in China and Malaysia.

Conversely, a key detractor was a market leader in India's mid-priced hotel category with a portfolio of hotels across India and international expansion plans. The recent share price weakness was the result of some near-term renovation costs and room closures. We maintain conviction in the name and have conducted a Grassroots Research® study on the company to inform our views. At a macro level, we expect the company to be able to benefit from growing consumer travel demand. Additionally, bookings for its hotels are generally above other mid-range and economy hotels due to its good value-for-money offering and benefits of being a preferred, professionally-managed brand.

In contrast, CIMB from the Malaysia market was a top contributor. CIMB is a regional banking group with established exposure in ASEAN markets, especially Malaysia, Indonesia, Singapore, and Thailand. CIMB has an extensive branch network and an important digital presence. The business strategy to pivot the business towards more stable commercial banking clients represents a positive development for the overall loan book. On the back of a favourable macro backdrop in Malaysia, we believe CIMB can sustain return-on-equity (ROE) improvement and deliver upside earnings surprises, which should help its share price to re-rate.

In H1, we repositioned the portfolio somewhat by trimming select positions to fund our conviction ideas in Taiwan, South Korea, and India. During August, we rotated into selective new names in Taiwan, India, and Thailand. This includes one of Taiwan's largest financial services groups and an Indian generic drug manufacturer, with a growing footprint in consumer health care products.

Despite the recent volatility, we are focusing on artificial intelligence (AI) beneficiaries with strong earnings visibility, reasonable valuations, and attractive dividend yields like Taiwan server names and South Korea memory makers. Taiwan remains a key overweight market. We have a more neutral position in India, where corporate earnings momentum remains strong, but valuations look high in some areas. We are broadly underweight Hong Kong/China, as macro conditions are still challenging, and recovery is heavily reliant on stronger policy support.

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

Market Outlook

Notwithstanding the recent market shake out, we have a constructive longer-term view on the regional outlook. We see the pullback in technology stocks as an opportunity. In our view, the recent decline represents a healthy consolidation after the strong rally over the last year, especially in the Taiwan market. In China, the outlook remains fragile. The weaker Property sector continues to weigh on the broader macro environment, and recent policy initiatives have so far been insufficient to change the fundamental outlook.

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. Overall, from a regional standpoint, valuations generally remain at reasonable levels.

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 despite a volatile August, which saw intra month stock market declines as large as -6%, driven by a strong finish to earnings season, balanced economic data, a dovish US Federal Reserve (Fed), and anticipated monetary policy easing. On the earnings front, blended growth for Q2 exceeded expectations by nearly 3%, helped by above-trend margin expansion. August saw another month of mixed economic data. Lower-than-expected monthly employment and contracting manufacturing data contrasted favourable consumer spending and additional evidence of decelerating inflation. Investor confidence broadened following dovish comments from Fed Chair Jerome Powell, stating that "the time has come for policy to adjust" at the annual Jackson Hole Economic Symposium. As such, markets are firmly anticipating a rate cut of at least 25 basis points (bps) at September's Federal Open Market Committee (FOMC) meeting.

In this environment, global equity markets, as measured by the MSCI World Index, returned +2.64%.* Non-US equities outperformed their US counterparts, and value stocks outperformed growth stocks. Global convertible securities and global high yield bonds finished higher, though new issue volumes declined. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +2.37% with non-US exposure outperforming US.^

The portfolio was positively impacted by strength across global risk assets.

Top contributors in the period were led by Eli Lilly, which rallied after beating top- and bottom-line estimates by double digits and boosting its full-year outlook. Its results and guidance were key drivers for the Pharmaceutical space in the period, prompting several portfolio holdings higher, including AstraZeneca. Additionally, a biotechnology company surpassed forecasts and raised guidance on strong volumes and successful partnerships. Walmart advanced on market share gains, an online retailer finished higher on core business acceleration, and a power systems manufacturer outperformed after topping estimates and reinstating its dividend. A property and casualty insurance provider and a digital infrastructure provider announced an asset sale and capacity expansion, respectively. Other top contributors were holdings in aerospace and technology hardware.

Top detractors included technology companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, including an e-commerce giant and a mega-cap internet services provider. Multiple banking positions consolidated year-to-date gains. An industrial technology company was lower after reporting softer orders growth, and an apparel producer saw deceleration in its direct-to-consumer offering. Other detractors from performance in the period were holdings in discount retail, consumer electronics, and oilfield services.

Exposure increased the most in Communication Services, Materials, and Industrials, and decreased in Consumer Discretionary and Financials. Covered call option positioning increased month-over-month.

Market Outlook

Global economic growth has been mixed, with some central banks reducing interest rates to support their mandates. The US economy has been resilient, however, continuing to expand above historical average growth rates despite restrictive monetary policy. Going forward, growth may be more moderate and inflation should decelerate further, allowing the Fed to begin easing.

Apart from an accommodative shift in monetary policy, economic tailwinds include steady consumption and government spending, elevated household net worth, and accelerating earnings, as well as the proliferation of AI. Risk to the economy may increase if these trends weaken. Other potential headwinds could include prolonged labour market softening or manufacturing sector contraction. In addition, global equity volatility could increase pre- and post-US election, but any such volatility should 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.

For Allianz Life Global Income Fund:

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

The global high yield market, yielding more than 7%**, 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.

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

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

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

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

All data are sourced from Allianz Global Investors dated 31 August 2024 unless otherwise stated.
* Source: MSCI, as at 31 August 2024
^ Source: Bloomberg, as at 31 August 2024
** Source: ICE Data Services, as at 31 August 2024

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

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

August was a volatile month for global equities. Wall Street's "fear gauge", the CBOE Volatility Index, hit a four-year high of 65 early in the month when stocks suffered a steep sell-off as weaker-than-expected US job growth sparked recessionary fears in the world's largest economy. This was followed by a swift rebound as subsequent data confirmed these fears were likely overblown. On balance, global stocks closed the month slightly higher. At a sector level, Energy stocks were the weakest while companies in sectors that are seen as defensive (Health Care and Consumer Staples) or bond proxies (Real Estate) outperformed.

Recessionary fears resurfaced when the US economy added just 114,000 jobs in July, far weaker than the expected 175,000. Additionally, US job growth for the 12 months to March 2024 was revised down by 818,000. The data boosted hopes that central banks would pivot to a more dovish stance, a view that was reinforced by positive news on inflation. In July, US inflation fell below 3% for the first time since March 2021, while euro-zone inflation declined to a three-year low of 2.2%. Global bonds gained as fears of a sharp slowdown in US economic activity boosted hopes that the US Federal Reserve (Fed) would cut rates multiple times in 2024, starting in September.

The British pound surged as UK economic activity surprised on the upside and the Bank of England indicated that its decision to cut rates in August was not expected to be the start of a series of swift reductions. The euro also strengthened against the US dollar. While the European Central Bank (ECB) is widely expected to reduce rates again in September, wage pressures may mean that it takes a cautious approach thereafter. In contrast, the US Dollar Index continued to weaken as investors started to price in multiple rate cuts by the Fed before year end. Meanwhile, although the Japanese yen initially depreciated, it recovered to end the month little changed against the British pound and the euro.

Oil prices eased back below USD 80 per barrel as higher-than-forecast US inventories and speculation higher output from the Organization of the Petroleum Exporting Countries Plus (OPEC+) offset concerns over escalating tensions in the Middle East and fears of a shutdown in Libya. Gold continued to advance, breaching USD 2,500 an ounce for the first time on record.

Market Outlook

The theme selection contributed positively to overall performance while stock selection among the themes has been a slight drag. Intelligent Machines has been weaker due to the market correction that overly burdened Technology and artificial intelligence (AI) related stocks. Next Generation Energy has been the best performer from a theme perspective.

In anticipation of lower interest rates, several stocks performed well as this could create a turning point for the industry making new projects more affordable. From a sector perspective the overweight to Utilities has been a positive contributor to overall performance while the underweight to Financials created a burden.

Stock selection among the themes has been a neutral contributor to overall portfolio performance. On one hand, the underweight to index heavyweights like a graphics processing and related software maker and a technology giant has been a positive contributor. A home solar panel and battery storage company (Next Generation Energy) continued its strong run after the strong set of numbers the company released in July. A cybersecurity solutions company (Digital life) has a massive spike after the company reported quarterly results well ahead of market expectations. Companies like a manufacturer of equipment servicing multiple applications in the clean energy and industrial gas markets (Clean Water and Land) as well as a producer of aggregates and heavy building materials for the construction industry (Infrastructure) underperformed due to lower industrial und business activity. A semiconductor equipment producer (Intelligent Machines) corrected after a strong run.

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

Despite some volatility, risk assets moved higher in August, as markets priced in more aggressive policy easing by the Fed. In the US, labour markets added 114k jobs in July, well below a downwardly revised 179k in June, and forecasts of 175k. On the inflation front, data released in August showed headline CPI rising 2.9% y/y in July, below the consensus forecast of 3.0% and the June reading of 3.0%. In the Euro area, the annual inflation rate came in at 2.2% in August, down from 2.6% the previous month and in line with market expectations. In the UK, headline inflation edged higher to 2.2% y/y from 2% in June, but below forecasts of 2.3%.

Global fixed income markets posted positive returns in August, as concerns over the health of the global economy led to a repricing in rate cut expectations. In the US, Treasury yields declined in response to weak economic data. Meanwhile, short dated gilt yields fell modestly as the Bank of England cut its policy rate by 25bps to 5% on the first of August. Over the month, US 2-year Treasury, UK 2-year Gilt, and German 2-year Bund yields rallied 34bps, 5bps, and 11bps, respectively. Further out the curve, US 10- year Treasury yields rallied 13bps, while UK 10-year Gilt and German 10- year Bund yields rose 4bps and 1bp, respectively.

The S&P 500 posted positive returns of 2.4%, supported by a broadening of earnings growth outside of the technology sector. In the UK, the FTSE 100 recovered early August losses and ended the month up 0.1%, marking its second consecutive monthly gain. In Japan, despite a steep sell-off at the beginning of the month driven by hawkish remarks from Bank of Japan members, the Nikkei 225 recouped some losses and closed the month just 1.2% lower. In credit, US investment grade spreads tightened 1bp while Euro investment grade spreads widened by 4bps. Meanwhile, US and Euro high yield spreads tightened by 9bps and 17bps, respectively.

During the month, the PIMCO GIS Income Fund returned 0.73% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '24 performance to 4.90%.

For Allianz Life World Healthscience Fund:

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

Market Review and Outlook

Market:

• Global equity markets rose in August, with the MSCI World Index returning 2.6%, despite elevated volatility at the start of the month.

• In the US, stocks fell at the start of the month on weaker than expected economic data, including the July jobs report, ISM manufacturing print, and an increase in the unemployment rate, which led to concerns of an economic slowdown. Equity markets rebounded by the end of the month after a robust Q2 earnings season and anticipated rate cuts by the Federal Reserve supporting market sentiment. The S&P 500 ended the month up 2.4%.

• Concurrently in Asia, the Bank of Japan (BoJ) raised its policy rate to 0.25% at July end, leading to an abrupt unwinding of carry trade positions and contributing to a spike in global market volatility. In China, economic data was mixed with increased year on year retail growth but weakened industrial output.

• In Europe, inflation fell in-line with expectations to 2.2%. In the UK, the Bank of England (BoE) cut its base interest rate by 25bps to 5.0%.

• From a sector perspective, Real Estate and Health Care were the strongest performing sectors while Consumer Discretionary and Energy were the weakest.

• Regionally, Asia ex Japan and Europe were among the top performers while Japan underperformed.

Stocks:

• An overweight position in Boston Scientific was the top contributor to performance over the period. The medical device stock continued to rise following strong Q2 earnings results where the company reported revenue growth in both its cardiovascular and medical surgery segments.

• Not holding a position in CVS was another top contributor to returns as the diversified health care provider revised down its full-year outlook, citing elevated medical utilization rates.

• An underweight position in Eli Lilly was the top detractor from performance. The pharmaceutical company beat Q2 earnings expectations and raised 2024 revenue guidance on the back of strong sales of its GLP-1 treatments.

• An overweight position in McKesson also detracted from active returns. The drug distributor reported disappointing quarterly revenues due increased competition from biosimilar treatments and decreased demand for Covid related products.

Changes:

• During the month, we increased our position in two medical device companies based on the view positive growth opportunities and favourable valuations. Elsewhere, we sourced capital from a pharmaceutical stock and decreased exposure to a healthcare equipment company due to risk from an ongoing proxy dispute.

For Allianz Life World Healthscience Fund:

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

Key Positioning & Outlook:

• 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. 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 in the 2024 election season, it does not appear to be a central focus for regulatory reform, and therefore, we anticipate a relatively stable policy environment.

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

For Allianz Life ESG-Integrated Multi-Asset Fund:

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

Market Review and Outlook

Market Review

• Over the month global equities and bonds delivered positive returns. This was despite significant volatility as disappointing US economic data and a 25bps interest rate hike by the Bank of Japan at the start of the month led to equity markets selling off. However, most markets recovered as expectations for more aggressive policy easing from the Fed and solid Q2 earnings alleviated investor concerns.

• Both Developed and Emerging Market equities experienced positive performance over August, with the US continuing to drive performance within DM. S&P 500 returns were driven by earnings growth which broadened out beyond the technology sector. UK and European equities were also positive, though they lagged behind the US due to softening economic activity in the region.

• Fixed income assets performed well over the month as the market began to price in cuts over the coming months from a number of major central banks driving yields lower. Credit was also positive over the quarter, with high yield bonds continuing to outperform investment grade bonds. Emerging market debt also performed well on the back of a weaker US dollar.

• Commodities displayed mixed performance with soft commodities performing strongly. Gold delivered another month of positive performance and remains one of the top performing assets year-to-date. Meanwhile, the performance of Oil was negative due to concerns around demand.

Performance

• Against this backdrop, the ESG Multi-Asset Fund delivered a positive return. A laser focus on diversification and portfolio construction, as well as a flexible approach to asset allocation were required to navigate the heightened volatility in markets. From an asset class perspective, Developed Market Equities, Non-Government Bonds, Government Bonds and Cash & FX all contributed positively. The allocation to Commodities was also positive albeit to a lesser extent. Contrarily, the allocation to Listed Alternatives was negative, Emerging Market Equities and Volatility Strategies also detracted marginally over the period.

• The allocation to Developed Market Equities was one of the key drivers of returns. We monetised US Equity hedging strategies as the S&P 500 sold off, which finished the period as one of the top contributors to return highlighting the importance of being dynamic. The allocation to US Small Cap Equities continued to contribute positively to performance as the rally in US equity stocks broadened out. More defensive strategies also performed positively including our ESG Value Long-Short Equity Basket and Healthy Living Equity Basket.

• Fixed Income allocations to both Government bonds and corporate credit added to returns as the prospect of rate cuts later in the year saw yields broadly moving lower. Elsewhere, the allocation to precious metals contributed marginally in aggregate with the exposure to Gold continuing to provide positive diversification as geopolitical risks remain elevated. However, the exposure to Listed Alternatives detracted in aggregate over the period due to idiosyncratic selling pressure on some of the renewable names.

Positioning

• Having dynamically managed the Fund's equity exposure over the course of the month, we took profits on hedging strategies as markets sold off and added options strategies to capture the rebound in markets.

• Within Fixed Income we also adjusted portfolio positioning dynamically, opportunistically taking profits on our Yield Curve Steepener strategy following market moves.

• We also launched a High Yield portfolio, which is managed by Corporate Credit specialists at BlackRock thereby providing the Fund with actively managed and selective credit spread exposure. Accessing High Yield in this way takes advantage of the security selection expertise available to us, something that we believe is particularly important in a period of slowing, yet robust global growth is identifying high quality issuers. Another advantage of implementing via direct securities is that the portfolio is compliant with the Fund's ESG screens.

• Elsewhere, we added VIX futures to protect against any volatility in markets around the US election.

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

Outlook

• Whilst US economic data has weakened, it is more in line with a slowdown, rather than a recession. The unemployment rate is rising, but unlike ahead of past recessions, the main driver is not layoffs – it is an immigration-driven increase in labour supply. Job creation is slowing though still robust whilst consumer spending, despite cooling, remains healthy. Corporate earnings have also beaten expectations. In the near-term, inflation is likely to reach the Federal Reserve's 2% target allowing for rate cuts at the September meeting, though we believe current market pricing around the number of rate cuts to be excessive.

• 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. A constructive disinflation backdrop suggests that further rate cuts from the European Central Bank are likely into 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, preferring the UK and Canada given our view that markets are not fully pricing in the required rate cuts to bring rates to neutral, unlike in Europe and 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.

• 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 at the end of the year. 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 and slowing growth environment.