Market Review and Outlook

June 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 June, the MSCI World Index continued its rally, having posted a +1.93% mom gain. The Dow Jones climbed +1.12% mom on improving investor confidence, while the Nasdaq advanced another +5.96% mom, indicating the preference for growth centric sectors such as technology remained. USA economic data showed signs of resiliency with the American economy adding 206k jobs in June and S&P Global US Manufacturing Purchasing Managers’ Index (PMI) having recorded 51.6 in June, up from 51.3 in May. On the other hand, its June 2024 unemployment rate worsened to 4.1%, +0.1 ppt mom, which was slightly worse than consensus estimates and its highest level since November 2021. In addition, the Labor Department's Bureau of Labor Statistics sharply revised down its May 2024 new jobs data to 218k from 272k. Consequently, the unemployment rate uptick and job growth moderation led to rising market belief that the Federal Reserve (Fed) could soon be able to start normalising its interest rate.

Over in Europe, Stoxx50 pulled back -1.80% mom partly on France having announced snap elections. The Hamburg Commercial Bank (HCOB) Eurozone Composite Purchasing Managers’ Index (PMI) fell to 50.9 in June 2024 (vs May’s 52.2), a 3-month low, suggesting some weakness. As for unemployment rate in the Eurozone, it came in at 6.4% in May 2024, stable mom compared to April 2024. As for the Chinese equity markets, the Shanghai Composite Index was down -3.87% mom. The Caixin China PMI Composite Output Index posted a lower reading of 52.8 in June, as compared to 54.1 in May. Meanwhile, its June 2024 Manufacturing PMI came in flat at 49.5.

During the month under review, Brent oil price recovered some ground having posted a +5.87% mom gain into June (-7.10% mom in May) as OPEC+ extends oil output cuts into 2025. In contrast, crude palm oil (CPO) price eased by -2.29% mom to RM3976/ MT, giving up some gains mom partly attributable to higher-than-expected output.

In the month of June, ASEAN equity markets took a breather in general. Back at home, the FBMKLCI slid -0.41% (1H24: +9.30%) mom partly due to profit-taking. Foreign investors were net sellers in June (RM61m) compared to its net buy position of RM1.5b in May. Elsewhere, average daily trading value in Bursa remained buoyant at RM4b (+1.70% mom). Among sub-sectors, the construction sector was the best performer while the consumer sector was the worst performing, possibly due to concerns of inflationary impact following a diesel price hike. Onto KLCI constituents, Sunway Berhad replaced AMMB Holdings Berhad following a mid-year review. Turning to Singapore, its Straits Times Index closed -0.11% mom, hampered by the industrial, capital goods, utilities and consumer discretionary sectors. May 2024 Non – Oil Domestic Exports (NODX)’s decline moderated, having posted -0.1% yoy (-9.3% in April) due to better-than-expected non-electronic exports. Singapore’s headline CPI was up +3.1% in May, up 40bps from April, driven mainly by higher private transport costs.

On the other hand, Indonesia’s Jakarta Composite Index rose +1.33% mom in the month of June (-3.64% mom in April). This was achieved despite net outflow of equities to the tune of USD291m during the month. In terms of sub-sectors’ notable movements, cement, healthcare and telecommunication were gainers while metals, technology and construction were down. During the June meeting, Bank Indonesia held its benchmark rate at 6.25%. Elsewhere, Indonesia’s CPI moderated to +2.84% in May (3.00% in April), driven by declining food and energy prices. Last but not least, the Stock Exchange of Thailand fell 3.32% mom to close at 1,300.96 pts in June 2024 largely on the back of political uncertainties. Thailand’s headline inflation

rose +1.5% yoy in May (+0.2% yoy in April), having returned to its 1% - 3% target range for the first time since May 2023. On policy rate, it was held at flat 2.50% in June 2024.

The US Treasuries (UST) yield curve declined across the tenors by 9 – 14 bps mom as US May inflation cools to +3.3% yoy (April: +3.4% yoy, Survey: +3.4% yoy), bringing most UST yields to its lowest level since April. The Federal Open Market Committee (FOMC) on 12 June updated its "dot plot," with policymakers now expecting just one rate cut this year compared to three rate cuts in March's "dot plot". They however forecast four rate cuts in 2025 compared to three back in March. Chairman Powell commented that while recent inflation readings have been more favorable than earlier in the year, the Fed would still be data driven when it pertained to the possibility of rate cuts. As of the end of June 2024, the market – implied total rate cuts rose to 44 bps from 36 bps as of the end of May 2024 by December 2024 and fully pricing in one rate cut in November.

Malaysian Government Securities (MGS) yields were largely down but at a lesser quantum of 1 – 5 bps across the tenors. May CPI increased by +2.0% yoy (Survey: +1.9% yoy, April: +1.8% yoy), mainly due to higher utility costs despite declining food inflation. April IPI meanwhile accelerated 6.1% yoy (Survey: 6.5% yoy, March: 2.4% yoy), which was the highest growth since September 2022 as all sectors saw expansion during the month, and the most significant contributor came from the manufacturing sector.

The recovery of foreign demand in March-April extended into May as foreign funds net bought RM5.5b, the largest increase since July 2023. The foreign shares of GII and MGS+GII increased to 9.1% (April: 8.8%) and 21.7% (April: 21.4%), respectively.

Market Outlook

With inflation easing, we note that some developed markets have started their rate cutting cycle to support growth. The pace of policy easing however remains to be seen. Externally, post - election outcomes and developments are to be monitored. Domestically, we believe that investors would continue to focus on government's gradual implementation of policies. Aside our resilient consumption growth story, on supply-chain diversification efforts, Malaysia appears well positioned to attract investments.

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

Bond market volatility in the fixed income market would persist. Although the Fed has signaled that it has potentially reached the end of its tightening cycle, the policy rate might stay high for longer as the target 2% inflation rate would remain a challenge. While there have been signs of moderation in the recent US data releases, a firm job market, stubborn inflation and a resilient US economy could push back the timing of its first rate cut. Meanwhile, the US election is back on the market radar with polls showing former president Trump leading in most swing states. Locally, with inflation under control and stronger than expected GDP growth, the market expectation is for BNM to stand pat on the OPR for 2024. The MPC statement highlights that 2024 inflation is expected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures. However, risks to the inflation outlook would remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. We would continue accumulating bonds at favorable valuations while prioritizing good quality names.

For Allianz Life Global High Payout Fund:

Target Fund Manager's Comment (For Allianz Global High Payout Fund)

What helped?

- Stocks with positive earnings revisions, strong growth and quality features could hold up inJune, benefitting the high dividend strategy.

What hurt?

- The most relevant factors for the High Dividend Strategy ie, Value, Dividend Yield as wellas Dividend Growth detracted from active performance in June.

Market Review and Outlook

Global stocks advanced over June, driven by a further rally in technology companies. The tech-heavy US equity market was among the strongest performers. Japanese stocks also rose slightly, while European and Chinese shares fell. Political risk re-emerged in Europe after France called surprise elections. At a sector level, Information Technology was the standout sector, while Utilities and Materials stocks declined the most.

US equities rallied, with the S&P 500 Index and Nasdaq Composite Index hitting fresh highs driven by further strong gains from technology stocks. It was another strong month for growth stocks which outperformed value ones by the largest margin in over a year, while large companies also outstripped small-cap stocks.

Euro-zone equities fell modestly over June as sentiment was undermined by an unexpected stagnation in euro-zone economic activity and rising political uncertainty. French president Emmanuel Macron unexpectedly called a snap parliamentary election: a victory for the far-right could threaten the integrity of the European Union and lead to a sharp increase in government spending, further increasing France's already large budget deficit. As a result, French stocks declined sharply to a five-month low, underperforming the broader region.

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 were mixed over June. Mainland Chinese indices slumped to a 4-month low, and Hong Kong shares also weakened as investors appear underwhelmed with official measures to stimulate the economy and restore confidence in the Real Estate sector. Taiwanese equities were boosted by strong returns from semiconductor stocks, which benefitted from robust demand from generative artificial intelligence (AI). South Korean stocks also advanced strongly. Elsewhere, Australian stocks rose slightly although gains were capped by a stronger-than-expected monthly inflation reading for May. Indian equities closed the month with notable gains, overcoming a sharp sell-off at the start of the month when Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) unexpectedly failed to achieve an outright parliamentary majority.

Asia Pacific credits delivered positive returns in June, primarily driven by carry as spreads widened moderately across the board. In particular, US rate volatility and a busy new issue calendar put some pressure on Asian investment grade credit spreads. It was a very active month for the issue market, with the new issues coming from a wide range of sectors and geographies both in the investment and high yield space. This is encouraging, as the reopening of high yield issuance and overall decent new issue debut performance highlights favourable liquidity dynamics in the region.

The Fund return was positive in USD terms in June.

In the equity portfolio, key contribution to performance came from our positions in the semiconductor value chain where the outlook has strengthened both in demand and in pricing power, driven by increasing interest in AI-enabled applications and the bottoming out of inventory levels. For example, a leading contributor was chipmaker Taiwan Semiconductor Manufacturing (TSMC).

Conversely, a top detractor was a global uranium resources company based in Australia. Uranium is a key component in nuclear energy production, playing an important role in the global carbon and renewable energy transition. There was limited company specific news flow in June. We continue to like the company's leading industry position, which is furthered by a recent acquisition of a new mining facility in Canada.

The asset allocation at the end of the month was 70.5% invested in Asian equities and 30.5% in Asian fixed income, with the remainder in cash and others.

Over the month, we initiated positions in companies relating to the power and infrastructure build-out in India, as well as a pharmaceutical company in Australia. On the other hand, we exited our position in an online food delivery platform in India, an insurance company based in Hong Kong, and a data centre REIT in Singapore.

For the fixed income sleeve, we continued to focus on short-term carry by adding bonds with decent yield and short duration.

At the end of the month, we held 61 equities and 53 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 1.9 years.

Market Outlook

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

For fixed income, as political noises are set to increase around the globe, we expect overall credit beta to have higher volatility than in H1, particularly given much tighter spread levels across global credit markets. Nonetheless, we continue to expect Asia credit to deliver a resilient and stable return, thanks to the region's decent corporate fundamentals, robust technicals, as well as attractive carry. On the high yield side, the favourable credit cycle of most of the sectors 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 key to outperformance.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

Malaysian yield curve bull steepened for the month, stronger by 1-5bps across the front end up to 15y while the longer end was little changed. The Malaysian yield remains stable despite some volatility in UST with the 10y MGS traded mostly within a tight range of 3.85-89% throughout the month, it closed the June at 3.86%, settling at around the midpoint of the YTD range of between 3.73% and 4.00%. On the currency front, the Ringgit weakened by 0.23% MoM against the USD.

The UST curve bull-steepened, stronger by 9-13bps across the curve for the month. The Fed kept the Fed Funds Rate (FFR) unchanged at 5.25-5.50% last week as widely expected. Fresh dot plots saw policymakers revising down their 2024 25bps rate cut expectations to four (Mar dot plots: three) while seeing four cuts in 2025 (Mar: three). Fed Chair Powell noted that it still sees elevated inflation in non-housing services as well as wage increases that are running above a sustainable path, and that more good inflation readings is needed before the Fed can think of cutting rates. Fed officials continued to urge patience on rate cuts, citing the need for more evidence of cooling inflation.

Global equity markets were mixed but the AI driven Tech rally made a comeback with gains in the US main indices reaching new highs with the Nasdaq outperforming. The Fed median dot now suggests for a one rate cut in 2024. Better-than-expected US CPI, albeit slightly, helped US bonds rally while the US dollar strengthen. In the same vein, this led the rally in Taiwan and Korea. The former saw stocks rallied on the AI frenzy while the latter had Samsung gaining some 10%. Within commodities, oil prices jumped 5.9%, fuelled by strong underlying physical market and the seasonal uptick in oil demand, refinery runs and as OPEC+ extend production cuts at least until 3Q of this year. Elsewhere, metal prices reversed with Industrial Metal Spot index declined 4.9%, led by the decline in copper (-12.3%), aluminium (-4.8%), copper (-4.4%) while precious metal gold was flat, and silver declined 4.2.%.

Closer to home, the KLCI slipped 0.4% mom in June to close at 1,591pts, bringing year-to-date gains to 9.3%. On the broader market sectors, construction, technology and healthcare were the top gainers while consumer, plantation and REITs were the underperformers. There was a slew of announcements during the month, starting with the KLCI adding Sunway Berhad replacing AMMB, Malaysia Airports privatisation deal going ahead and PMX's wish to join BRICS. On the development side of things, the Government has announced incentives for AI DC, with already ongoing discussions with ByteDance for a further RM10bn into Malaysia for AI. This follows a few deals recently, by Crescendo Corp, Eco World, UEM Sunrise and TM/Singtel. The high-speed rail also made a return in terms of headlines with newly minted Singapore PM said that he is open to the proposal for the project to be a 'win-win' to both countries. Lastly, targeted subsidy for diesel was implemented with the retail price set at RM3.35/litre.

Regionally, Indonesia was the outlier in the region as the sole gainer for the month (+1.3%) driven by financials and telecommunications. The rest slipped with Thailand as the worst performing falling 3.3%, followed by Malaysia (-0.4%), Philippines (-0.3%) and Singapore (-0.1%). In foreign flows, June turned net sell of US$12.5m (RM61m) from May's net buying of US$314m (RM1.5bn), bringing the half year of net outflow of US$174m (RM0.8bn). Selling was across the region, with Thailand suffering the worst net outflow amounting to US$950m, followed by Philippine's US$104m and Indonesia's US$92m. Asian currencies were broadly lower with the DXY Index closed 1.1% higher. The Baht gained 0.2% was the best performer whereas, the Rupiah, Sing Dollar, the Ringgit and the Pesos declined 0.7%, 0.4%, 0.2% and 0.1% respectively.

Market Outlook

Sukuk Outlook & Strategy

We expect the recovery in Malaysia's fixed income market to continue into 2H2024, 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 rationalisation exercises.

In term of growth prospect, Malaysia GDP growth is projected to expand by 4-5% in year 2024. This justifies a continuation of current monetary policy stance. In addition, MGS/GII duration remains an important hedge in MYR portfolio allocation as global rates dynamics may descend unexpectedly from late cycle to end of cycle pricing. As such, we maintain our positive outlook for Malaysia's fixed income market. We believe that government bond yields are likely to decline in 2024, allowing for advantageous trading positioning.

For Allianz Life Amanah Dana Ikhlas:

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

Strategy wise, we will continue to trade opportunistically and realise profits, reinvesting into longer-duration and higher yield accretive bonds while also considering new primary issuances with higher yields to increase returns. We will maintain our Neutral to long-duration stance as we find current bond yields to be attractive. We continue to Overweight corporate bonds over sovereign bonds to anchor the Fund's income, as corporate bonds are less volatile and provide higher yields to buffer against potential mark-to-market losses. We prefer strong AA-rated and A-rated papers for yield pickup, while our holdings in AAAs and GIIs will be primed for trading and ROI (return on investment) purposes. We will continue to trade opportunistically to realise profits.

Equity Outlook & Strategy

Equity markets saw some weakness in profit taking and de-risking during the month. Net foreign outflows returned after last month's net buying. Despite the slip, we did see further encouraging news, which centered largely on Data Center/Hyperscale related developments. This brought the gains we saw in construction and technology. While the subsidy on diesel has been implemented, the next on the petrol agenda may not be in the near-term. Already, electricity tariff increases were also said not to be implemented this year. We think these could help alleviate concerns about sharp increases in inflation and input prices. In any case, these initiatives are expected to result in savings north of RM4bn for the government.

Moving forward, despite the recent correction, we are maintaining a positive view on the market with emphasis on thematic investing for 2024 focusing on 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 June. Stock selection in the Information Technology sector was the key contributor, with a number of stocks performing well on the back of improving business momentum ahead of the upcoming quarterly results season.

As an example, a leading contributor 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. After a brief period of profit taking in May, the stock has subsequently moved higher on expectations of strong order growth related to AI-driven demand.

Conversely, a detractor last month was a producer of thermal control components which are primarily used in electric vehicles (EV). The share price has corrected on concerns regarding pricing pressure and volume uncertainty in the EV supply chain. Over the longer term, we believe the company has good growth prospects and valuations have come back to more attractive levels. In addition, the company has been expanding into humanoid robot development and will likely be a key supplier for the robot of an EV maker.

Market Outlook

The last month or so has been a period of consolidation for China equities from their year-to-date peak in mid-May. Although returns overall so far in 2024 are quite muted, nonetheless markets have held on to significant gains from their low point. Since Chinese New Year, China A-shares are up around 14% and H-shares more than 20% (USD).

The big question now, of course, is whether this rally is for real or just another "head fake" similar to what occurred last year. In our view, we see considerable differences this time around. Most notably, there has been an important shift in policy direction, in particular with a focus on containing downside risks in both the property market and also domestic equities.

Real Estate stocks were some of the biggest winners of the market rally post-Chinese New Year. And they have also pulled back in recent weeks. This reflects the initial market hope that the property market is getting closer to a turning point. And subsequent concerns about how policy rhetoric will translate into reality. Our perspective is that the recent policy measures, especially government support for buying up housing inventories, is an important turning point that sends a strong message about intentions to put a floor under the housing market.

Further measures are certainly needed – the oversupply of property remains high in many areas and the RMB 300 billion (approximately USD 42 billion) quota provided by the China central bank for local governments to purchase existing housing inventory makes a somewhat modest dent in the overall oversupply situation. As such, there is continued weakness in the housing market which, more broadly, is still pressuring broader macroeconomic data.

Nonetheless, financial markets appear to indicate that tail risks for property developers have eased. Reflecting this, the iBoxx USD Asia ex Japan China Real Estate High Yield Index bottomed in November 2023 and has moved steadily higher since then.

In terms of equity markets, while the direct government support was most apparent in January when the "national team" stepped in to buy onshore exchange-traded funds (ETFs) in size, since then the main focus has been the securities regulator, the China Securities Regulatory Commission (CSRC), taking other actions to restore confidence in markets. There has been a swathe of announcements relating to the level of new listings, challenging the use of funds raised from equity issuance and increasing dividend payouts.

In our view, reducing the supply of equity is a key issue. Secondary issuance and initial public offerings (IPOs) combined have typically averaged around 1-2% of total capitalisation of the China A-shares market over the last decade. This far outweighs the level of share buybacks (0.2% in 2023, for example).

In years when there has been a strong investor appetite for equities, this excess supply can be absorbed. But when confidence is low – as in recent years – then the supply weighs heavily on the market. So far in 2024, the level of share buybacks is similar to the level of equity supply. If this pattern continues, then the impact of one of the equity market's major headwinds should be significantly reduced.

In terms of portfolio activity, we have typically been adding to positions where we see an improvement in operating momentum. One example in the last month has been in the smartphone supply chain, where we expect orders to pick up after a challenging period. At month-end, the onshore/offshore allocation was around 38% in China A-shares. The portfolio continues to have relatively close-to-benchmark sector allocations. The largest sector overweight is Information Technology (+2.2%), while the largest underweight is Financials (-2.8%).

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 stocks advanced over June, driven by a further rally in technology companies. US equities rallied, with the S&P 500 Index and Nasdaq Composite Index hitting fresh highs, driven by further strong gains from technology stocks. It was another strong month for growth stocks, which outperformed value ones by the largest margin in over a year, while large companies also outstripped small-cap stocks. Japanese stocks also rose slightly, while European and Chinese shares fell. Political risk re-emerged in Europe after France called a surprise election.

Economic news was mixed. Surveys of economic activity suggested that growth was stagnating in Europe and Japan and slowing in China, but US economic momentum picked up. Inflation eased in the US and UK, but central banks in these markets kept rates on hold. In contrast, Canada became the first G7 nation to cut rates, swiftly followed by the European Central Bank (ECB). The Bank of Japan (BoJ) maintained rates at 0-0.1%, but suggested it would soon start to reduce its monthly bond purchase programme.

In the commodity markets, oil prices rose modestly over the month. Brent crude hit a 4-month low on news that the Organisation of the Petroleum Exporting Countries Plus (OPEC+) was to phase out voluntary production cuts, but prices subsequently rebounded to a 7-week high, closing the month around USD 85 per barrel. Gold prices eased a little over June, but copper prices plunged to their lowest level since mid-April on growing concerns of slowing industrial demand, particularly in China.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, performance was led by the Information Technology sector with performance driven by the larger cap names. The Communication Services sector was another outperformer. Conversely, the Utilities sector pulled back from a strong prior month. The Materials sectors also lagged broader markets.

During the period, the Fund underperformed on both a gross- and net-of-fees basis versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). From a sector perspective, Information Technology was the largest relative detractor, as performance concentration among the mega-cap technology companies continued from the previous month. The Fund's underweight in those names represented a headwind. The Health Care sector was another detractor, while the Consumer Staples and Financial sectors were offsetting. Stock selection within the artificial intelligence-enabled (AI-enabled) industries was a key performance headwind, as our renewable energy names pulled back alongside the rest of the space due to policy uncertainty. On balance, both AI infrastructure and AI applications outperformed the custom benchmark, helped by strong earnings results and a recovery in our software-related holdings.

Contributors

The top contributor over the period was cyber security provider Palo Alto Networks Inc. Shares were higher over the period alongside peers in the cyber security space who reported strong earnings results. Looking forward, Palo Alto continues to have an industry leading network security platform and a broad range of cyber security solutions, positioning the company to consolidate market share onto its platform and penetrate adjacent markets. The company also made progress in enhancing its cost structure and product portfolio through AI, while also leveraging AI to streamline its operations. This setup should enable Palo Alto to deliver on growth, profitability and free cash flow generation.

Another contributor was a cloud-based data monitoring and analytics platform. It offers a monitoring platform that provides software engineers real-time observability across the entire technology and application stack. This platform enhances user experiences and avoids downtime through automated problem detection. Shares were higher following the company's User Conference. The company made many product announcements that were well received by investors, including a monitoring solution for large language models powered applications made available broadly. The company has an attractive growth trajectory given a large addressable market, its strong product offering, and the ongoing trend of digital transformation. It is also a beneficiary of increased AI-stack workloads. The company has also integrated generative AI into its platform, including natural language prompts to surface intelligent insights from their observability data, generate key assets like tests and post mortems and streamline incident response and remediation.

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

Detractors

First Solar Inc. is a vertically integrated solar manufacturer and specialises in the production of high-performance cadmium telluride (thin film) based solar photovoltaic panels. The company is implementing AI across its value chain to drive innovation, enhance efficiency and improve customer service. Shares pulled back from the previous month because of some near-term policy uncertainty and profit taking. Looking out, First Solar remains well positioned to capture the growth potential of US utility scale solar. The company will be the clearest beneficiary of the Inflation Reduction Act (IRA) guidelines for domestic content. Also, First Solar has strong visibility with orders extending through 2027 and margins being set to trend sharply higher, while the announcement of additional manufacturing capacity in the US could provide another catalyst.

Among the largest detractors on a relative basis was Nvidia Corp. Although the stock was a meaningful position in the Fund, we were underweight relative to the benchmark. The benchmark had an average allocation of 11.5% during the quarter, versus the Fund's average weight of 5.0%. Shares were higher during the period due to a combination of factors, including a follow through from the previous month's strong earnings results, positive read-throughs from other companies in the supply chain, and upward earning revisions from Wall Street analysts. For additional context during the year-to-date (YTD) period as of 30 June 2024, shares of Nvidia rose 149% and we opportunistically took profits during its rise. We still favour the holding as one piece of a diversified exposure to the AI infrastructure opportunity.

New Buys and Sells

We re-initiated a position in a cloud security company after shares reached a valuation range where the reward-to-risk ratio became more favourable. It continues to innovate its products by incorporating more AI capabilities into its offering.

Also, we started a new position in a computer technology company, which has been leveraging AI in its products for some time. Specifically, the company's cloud infrastructure segment likely reached a growth inflection. It provides services that support the growth of AI, including functionality that helps develop, train and deploy AI models.

As for complete sells, this included a design platform for video game and 3D content. Although the company retains an impressive technology foundation that should benefit in many ways from AI, recent turnover of key personnel increases the risk of continued missed execution.

We exited our position in a cloud-based data storage and analytics company, as it is entering into a period of higher investments and spending. This may put some near-term pressure on margins, and it will take some time for the company to realise revenue acceleration and margin improvement from this investment initiative.

Lastly, we sold a digital communications technology conglomerate as we have become increasingly concerned about its ability to win networking opportunities tied to AI data centre workloads. We previously moderated the position given the softening backdrop and chose to ultimately exit the remaining amount to fund other ideas.

Market Outlook

We continue to believe that the equity market recovery can extend from 2023 into 2024. Inflation has trended lower over the trailing 12 months but has moved sideways so far this year. As a result, the US Federal Reserve (Fed) likely maintains the restrictive stance by holding policy interest rates at current levels. Despite tight monetary conditions, the US economy remains healthy, as labour markets, corporate earnings and consumer spending have been resilient.
Expectations for Fed rate cuts have been lowered from six to under two, over the YTD period. Amid this backdrop, equity markets have demonstrated resilience, especially for AI and cloud infrastructure companies. From the most recent Federal Open Market Committee (FOMC) meeting, Fed Chair Jerome Powell indicated that rates likely stay elevated for the time being. As the Fed gets comfortable that inflation is moving towards its 2% target, we should see rate cuts, which are looking likely to happen closer to the latter end of 2024.

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

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'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.

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 data sets that could yield differentiated AI models and applications that are difficult to replicate and can handle tasks better than general purpose AI. We believe this is just the tip of the iceberg as companies become more comfortable with AI's potential to drive greater efficiencies and automation across every part of their business.

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

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

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

Market Review

Equity markets in Asia Pacific were mixed in June. Japanese stocks advanced modestly, as the Bank of Japan (BoJ) kept rates on hold at a range of 0-0.1% but announced it would start to scale back its bond buying programme. However, with the Japanese yen falling to a 38-year low against the US dollar, officials stepped in to defend the currency and speculation mounted that the BoJ could soon raise rates further.

Meanwhile, Taiwanese stocks soared, hitting a fresh all-time high, boosted by exceptionally strong returns for semiconductor stocks which benefitted from robust demand from generative artificial intelligence (AI). South Korean stocks also advanced strongly on similar market dynamics. In the Australia market, shares rose slightly although gains were capped by a stronger-than-expected monthly inflation reading for May which sparked concerns the Reserve Bank of Australia (RBA) could raise interest rates again as soon as its next meeting in August.

Returns were more muted in Hong Kong/China as investors balanced concerns over the strength of the Chinese economy against hopes that easing inflation could open the door to the US Federal Reserve (Fed) cutting rates. Investors appear underwhelmed with official measures to stimulate the economy and restore confidence in the Real Estate sector. Trade tensions between China and the US also stepped up a gear, further hurting equity markets and sentiment.

The Fund underperformed the MSCI AC Asia Pacific Index in June. Stock selection was the primary driver, with positive stock selection in Japan and Hong Kong being offset by some weakness in Taiwan and South Korea.

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 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 Mitsui, a large trading company in Japan with a footprint in natural resources, machinery, infrastructure and chemicals. Management has become more focused on shareholder returns, which we believe should benefit minority shareowners. This is evidenced through increased share buybacks. We view the recent share price weakness as temporary and continue to maintain conviction in Mitsui given its strong cash generation, improving shareholder returns and attractive product mix.

The overall positioning of the portfolio remains little changed over the month. We rotated into a couple of new ideas in South Korea, including a top global laser maker that is set to benefit as more advanced equipment is needed to manufacture semiconductor chips at smaller nodes, as well as an equipment manufacturer for semiconductor chipmakers. At a geography level, key overweight allocations are in Taiwan and Japan.

In Taiwan, we maintain a high exposure to Technology, especially in the semiconductor supply chain where we see an improving outlook both in demand and also in pricing power. Japan represents around 41% of the overall portfolio, compared to the benchmark level of 32%. 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

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

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Equity markets in Asia ex Japan were mixed in June. Returns were more muted in Hong Kong/China as investors balanced concerns over the strength of the Chinese economy against hopes that easing inflation could open the door to the US Federal Reserve (Fed) cutting rates. Investors appear underwhelmed with official measures to stimulate the economy and restore confidence in the Real Estate sector. Trade tensions between China and the US also stepped up a gear, further hurting equity markets and sentiment.

Meanwhile, Taiwanese stocks soared, hitting a fresh all-time high, boosted by exceptionally strong returns for semiconductor stocks which benefitted from robust demand from generative artificial intelligence (AI). Indian equities closed the month with notable gains, overcoming a sharp sell-off at the start of the month when Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) unexpectedly failed to achieve an outright parliamentary majority. Nevertheless, the BSE Sensex Index subsequently rebounded to trade at a fresh all-time high amid hopes for policy continuity as Modi secured his third term as prime minister.

The Fund underperformed the benchmark in June. Stock selection in the Hong Kong/China market was a key detractor, offsetting better picks in India and South Korea.

At a single stock level, a key detractor was AIA, the regional life insurer. Overall, we view AIA as one of the best quality insurers in Asia with continued long-term growth potential. The market was previously disappointed by the shareholder return policies, although in its most recent results the company increased its share buyback programme as well as the payout ratio target. We see the recent stock weakness as mainly reflecting overall equity market sentiment.

In contrast, a new portfolio initiation, a rolling stock manufacturer, was a top contributor. It is an industry leader in India's railway manufacturing industry, with expertise in wagons, coaches, and propulsion systems. The company is well-positioned to benefit from significant growth tailwinds, particularly given the Indian government's substantial investment in railway modernisation. We particularly like the company's strong visible growth prospects with broader product offerings and growing capabilities (higher value-add) on the back of a strong industry outlook and order backlog.

We have been trimming some positions to fund our conviction ideas in Taiwan and South Korea, which remain key focus areas, in addition to India. This is where we see strong growth and better earnings visibility. Our ASEAN weighting is relatively neutral to the index.

In Taiwan, we are focusing on AI beneficiaries with strong earnings visibility. While the India weighting has remained unchanged over the month, we repositioned somewhat into new Industrials names like the afore-mentioned rolling stock manufacturer and an Indian airport. We also rotated into a new idea in South Korea – a Korean beauty and cosmetics company with strong traction and brand recognition.

At a sector level, Information Technology, Financials, and Energy are the primary overweight positions, while Industrials and Materials are the main underweights.

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, 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. India's recent general election process has seen heightened market volatility. The weaker-than-expected election outcome for Prime Minister Modi caused an initial negative market reaction, but this proved short-lived. We see India's robust equity market being driven by continued economic growth policies from Mr. Modi's coalition government.

For Allianz Life Global Income Fund:

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

Market Review

Global equity, convertible, and corporate bond markets advanced in June. Key macroeconomic and company reports were mixed over the period. On the positive, several inflation measures continued to show signs of cooling, Q1 gross domestic product (GDP) growth was revised upward, and monthly payrolls were above expectations. On the other hand, manufacturing remained in contractionary territory, home and retail sales missed estimates, the unemployment rate ticked up, and continuing claims reached their highest level in nearly three years. In addition, the US Federal Reserve (Fed) kept rates unchanged at June's Federal Open Market Committee (FOMC) meeting. The market's expectation for the first interest rate cut moved to September, with another expected by year-end.

In this environment, global equity markets, as measured by the MSCI World Index, returned +2.03%.* US equities outperformed their non-US counterparts, and growth stocks outperformed value stocks. Global convertible securities and global high yield bonds finished higher and new issue volumes were steady. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +0.14% with US exposure outperforming non-US.^

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

Top contributors were primarily technology companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, including Amazon and Alphabet, as well as multiple semiconductor and software companies led by Nvidia and Microsoft, respectively. Additionally, Apple gained after unveiling new AI capabilities, and a pharmaceutical company advanced after an Alzheimer's drug received a positive opinion from the US Food and Drug Administration (FDA).

Top detractors included BAE Systems, which consolidated after strong year-to-date gains, a European bank on mergers and acquisitions (M&A) headlines, and a pharmaceutical company after an unfavourable regulatory ruling. Political risk weighed on a waste management company, partnership concerns pressured an automobile manufacturer, and commodity price weakness negatively impacted a miner. Other top detractors were issues in discount retail, automotive parts, energy services, and insurance.

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

Market Outlook

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

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

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

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

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.

For Allianz Life Global Income Fund:

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

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 June 2024 unless otherwise stated.
* Source: MSCI, as at 30 June 2024
^ Source: Bloomberg, as at 30 June 2024
** Source: ICE Data Services, as at 30 June 2024

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

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global stocks advanced over June, driven by a further rally in technology companies. The tech-heavy US equity market was among the strongest performers. Japanese stocks also rose slightly, while European and Chinese shares fell. Political risk re-emerged in Europe after France called a surprise election. At a sector level, Information Technology was the standout sector, while Utilities and Materials stocks declined the most.

Economic news was mixed. Surveys of economic activity suggested that growth was stagnating in Europe and Japan and slowing in China, but US economic momentum picked up. Inflation eased in the US and UK, but central banks in these markets kept rates on hold. In contrast, Canada became the first G7 nation to cut rates, swiftly followed by the European Central Bank (ECB). The Bank of Japan (BoJ) maintained rates at 0-0.1%, but suggested that it would soon start to reduce its monthly bond purchase programme.

The US dollar continued to appreciate as the US Federal Reserve (Fed) left rates on hold. The British pound also strengthened against the euro and the Japanese yen as the Bank of England (BoE) also maintained borrowing costs at a 16-year high. While the ECB cut rates for the first time in five years, it continued to outperform the Japanese yen as Japan's monetary policy remained far more accommodative than in other markets.

In the commodity markets, oil prices rose modestly over the month. Brent crude hit a 4-month low on news that the Organisation of the Petroleum Exporting Countries plus (OPEC+) was to phase out voluntary production cuts, but prices subsequently rebounded to a 7-week high, closing the month around USD 85 a barrel.

Market Outlook

The Fund lagged global equity markets as represented by the MSCI AC World Index. Over the course of the month, the theme Digital Life contributed well to overall performance, while themes like Infrastructure and Generation Wellbeing contributed negatively.

From a sector perspective, the overweight to Industrials and Utilities created a major burden, just as the underweight to Information Technology did. Summed up, this resulted in an overall negative impact from a sector perspective. Stock selection has been the largest detractor to overall portfolio performance. This is mainly due to the underweight to stocks like a graphics processing units manufacturer; a cell phone, computer and communications equipment giant; a technology conglomerate, as well as other index heavyweights from the Information Technology sector. A health and safety sensor technology group (Clean Water and Land) and two cyber security companies (Digital Life) have been the top contributors to overall performance from a single stock perspective.

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

We see several turning points for infrastructure-related themes. After the shakeout of the theme last year, we are seeing a stabilisation across utilities, as well as electric vehicles (EV) and renewables within the Next Generation Energy theme. Water engineering consultancy and engineering companies we recently met mentioned an increase in order activity, with funding now becoming available from infrastructure acts, etc.

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

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

Target Fund Manager's Comment (For PIMCO GIS Income Fund (Accumulation))

Market Review

Risk assets continued their positive momentum into June, with the Magnificent Seven for example, delivering another blockbuster performance. In the U.S., labor markets added 206k jobs in June, slightly below a downwardly revised 218k in May, pointing to a strong, albeit cooling labor market. On the inflation-front, headline CPI rose by 3.3% YoY in May, below the consensus forecast of 3.5% and the April reading of 3.6% YoY. In the Euro area, the inflation rate came in at 2.6% YoY in May, up from 2.4% in April and exceeding the forecast of 2.5%. In the U.K., the annual core inflation rate slowed for a fourth consecutive month to 3.5% in May, its lowest print since October 2021 and matching market forecasts.

Government bond yields generally fell across developed markets, with U.S. Treasury yields declining in response to softer-than-expected economic data. Elsewhere, U.K. 10-year gilts moved lower supported by a favorable inflation reading. In the front-end, U.S. 2-year Treasury, U.K. 2-year gilts, and German 2-year Bund yields rallied 12bps, 16bps, and 25bps, respectively. Further out the curve, U.S. 10-year Treasury, U.K. 10-year gilt, and German 10-yr Bund yields rallied 10bps, 15bps, and 17bps, respectively.

June saw a continuation of the equity rally, with the S&P 500 posting seven new closings highs, as soft economic data abated fears of an overheating U.S. economy and bolstered hopes for a soft landing. Japanese equities also delivered positive returns, with the Nikkei 225 up 2.9%, while European equities posted negative returns, as the Stoxx 50 finished June down -1.7%. In credit, U.S. and Euro investment grade spreads widened by 8bps and 13bps, whilst U.S. and Euro high yield spreads widened by 1bp and 36bps, respectively.

During the month, the PIMCO GIS Income Fund returned 0.29% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '24 performance to 1.92%.

For Allianz Life World Healthscience Fund:

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

Market Review and Outlook

Market:

• Global equity markets advanced in June, with the MSCI World Index returning 2.0%. The index ended the first half of 2024 up +11.7%, led higher by mega-cap tech stocks exposed to the artificial intelligence (AI) theme.

• In the US, the S&P 500 Index gained +3.6% in June, while the tech-heavy Nasdaq Composite Index returned +6.0%. May's US jobs report exceeded expectations for new job additions and renewed optimism around a soft landing. Headline CPI came in cooler than expected, leading yields to fall and growth to outperform value. At the same time, uncertainty regarding the upcoming Presidential election led to higher volatility towards the end of the month.

• In Europe, the European Central Bank (ECB) delivered its first rate cut since 2019, despite resilient inflation and wage growth. Contrastingly in the UK, the Bank of England (BoE) held interest rates steady. National elections across the UK and EU drew investor attention over the period.

• In China, equities traded down as the government's proposed capital market reform was interpreted as a potential challenge for investors.

• From a sector perspective, Information Technology and Communication Services were the strongest performing sectors while Materials and Utilities declined.

• Regionally, the US had the highest returns while Europe and emerging markets underperformed.

Stocks:

• An overweight position in Novo Nordisk was to the top contributor to returns over the period. The pharmaceutical company continued to benefit from elevated demand for GLP-1 drugs and announced further expansion in international markets.

• An overweight position Intuitive Surgical also contributed to active performance. The medical device stock rose as market participants improved their macroeconomic outlook, leading growth equities to outperform over the month.

• An underweight position in Eli Lilly was the top detractor to returns over the period as the pharmaceutical company continued to benefit from positive sentiment towards GLP-1 medications.

• An overweight position in Cooper Companies was another detractor from performance as the medical device company declined on muted consumer demand for discretionary products.

Changes:

• During the month, we increased exposure to pharmaceutical companies with promising GLP-1 product pipelines and sourced capital from select names within the sub-sector lacking near term catalysts. We also trimmed exposure within the managed health care sub-sector due to elevated utilization rates.

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.

For Allianz Life World Healthscience Fund:

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

• 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 second quarter of 2024, financial markets saw mixed performance. Economic momentum seen over the first quarter continued into the second, leading to another positive period for equity markets. Stickier, though moderating, inflation numbers meant that returns from fixed income assets were broadly negative as expectations for rate cuts from the Federal Reserve were pushed out. The more positive disinflation backdrop in Europe led to the European Central Bank cutting rates, though political uncertainty towards the end of the quarter led to yields rising.

• Developed market equities delivered a positive return over the quarter. US equities outperformed Europe, as strong earnings from the US technology sector, particularly companies focused on Artificial Intelligence, continued to drive market returns. Underperformance of European equity market returns was driven by the announcement of a snap election in France which led to increased market volatility

• Emerging Market equities ended the quarter outperforming their Developed Market counterparts thanks to strong performance from Chinese and Indian equities. Government support for the real estate sector, and investors perceiving Modi's extended term as beneficial to economic policy were positive catalysts for their respective markets.

• In fixed income returns were mixed with robust economic data leading to riskier areas such as high yield delivering positive returns. As the Fed held rates, and now only anticipates only one cut this year, yields rose and more interest rate sensitive areas such as government bonds and investment grade credit delivered negative returns. Despite the ECB being among the first of major central banks to cut rates European government bonds still delivered a negative return as yields rose.

• Precious metals continued to outperform amid ongoing geopolitical tensions, with strong performance from both gold and silver.

Performance

• The ESG Multi-Asset fund delivered a positive return over the quarter, effectively navigating the downside of April, where both Equities and Bonds delivered a negative return, and capturing strong market upside throughout May and June. Performance has strengthened significantly relative to competitors within the Morningstar Global Allocation Moderate Sector over recent months delivering top decile performance in June, as our strengths in managing faster paced market dislocations has come to the fore, and exposure to diversifying assets amidst positively correlated equity and bond returns has proved additive.

• From an asset class perspective, the key contributor to returns was the exposure to Developed Market Equities, however it was pleasing to see diversifying sources of positive returns stemming from the allocation to Listed Alternatives and Commodities. Contrarily, the exposure to Fixed Income marginally offset returns in the face of continued policy uncertainty. Elsewhere, the tactical allocation to Emerging Market Equities marginally detracted as did the newly implemented volatility strategy.

• Within the allocation to Developed Market Equities, the key contributor to returns was the Mega Cap Tech Completion basket, evidencing the necessity of having a laser focus on portfolio construction to manage the concentration of equity market returns. We have developed a quantitative framework to effectively monitor our exposure to the "Mega Cap 7" at the aggregate portfolio relative to global equities. Through this process we can help our clients stay invested in high conviction active equity strategies that we believe will deliver alpha over the longer-term but are underweight mega cap tech which can impact their near-term active performance. Indeed, the Developed Market Brighter Future and the Global Unconstrained Equity portfolios both delivered positive absolute returns yet have underperformed their opportunity sets due to underweight positioning in mega cap tech. The Systematic Active Equity portfolio, that has a lower tracking error relative to our fundamental portfolios, has also been amongst the top contributors to portfolio returns and has outperformed its opportunity set, aided by constructive positioning in A.I. stocks such as Nvidia, and innovative healthcare companies such as Novo Nordisk.

• Elsewhere, our customised thematic equity baskets added strongly to returns in aggregate with top contributions coming from the US Enterprise Technology and Internet of Things baskets, which benefitted from constructive exposure to the A.I. theme. The Global Brands basket has also contributed strongly, as companies with strong brands continue to display persistent pricing power in the face of stickier inflation. European Equity market hedges also proved additive over the quarter whereas the US equity hedging strategy detracted given the positive environment for US risk assets. Given the significant

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

downside risks presented by geopolitics and policy uncertainty, we continue to seek out hedging strategies where pricin looks attractive in order to smoothen returns for our clients.

• Our allocation to fixed income has detracted over the period, however we have been expressing a cautious level of duration in the portfolio, with a preference for credit over government bonds, which has helped to mitigate losses. Our allocation to the BlackRock ESG Fixed Income Strategy, with its allocation to Investment Grade Credit, has detracted from returns given the Investment Grade opportunity set has been negative so far this year, and the allocation to Government bonds has also detracted from returns, primarily due to the allocation to US Treasuries.

• Diversifying assets, such as commodities, played a key role in providing diversification over the quarter against a backdrop of ongoing geopolitical risk. Precious metals benefitted as the safe haven asset class of choice as opposed to bonds, which have been more sensitive to the inflation and policy backdrop. Our well-timed allocations to Gold and Silver have therefore contributed positively, underscoring the benefits of our truly broad toolkit.

• The exposure to listed Alternatives, also added to returns in aggregate over the quarter with “green energy transition assets” and “growth and income opportunities” delivering positive contributions, whilst the allocation to life sciences sold off over the period. Over recent months, we have seen a marked recovery in the UK investment trust sector due to encouraging signs of merger and acquisition activity and proactive steps from company management teams to close share price discount levels to net asset value via share buybacks, for example.

Positioning

• The market environment in the second quarter has required a heightened need for diversification, a laser focus on portfolio construction, and a highly dynamic approach to asset allocation.

• We came into the quarter constructively positioned in Equities yet reflecting a cautious duration profile. Over the period we managed risk dynamically to better navigate the heightened volatility in markets. We reduced Equity exposure ahead of markets selling-off significantly in April, helping to mitigate downside and then acted quickly to re-risk the Fund into May and June to capture Equity market upside. We implemented a new customised thematic equity basket namely the “Healthy Living Basket”, which seeks to isolate companies that focus on medical breakthroughs in weight loss drugs and companies focused on healthy lifestyle changes. We also rebalanced the Resource Efficiency basket leaning into the grid infrastructure theme as demand for energy increases as a result of transition power demand, as well as increasing demand from data centers.

• We continued to run cautious duration positioning over the period 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 closed out of Australia Government bonds given recent strong performance and limited scope for significant rate cuts, and added an allocation to Argentina Government Bonds given the highly attractive level of yields.

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

• We allocated to Silver at the beginning of the May ahead of a significant rally took some profits towards the end of the month, trimming the position back to its original size showing strong market timing and portfolio discipline as the precious metal retraced some if its gains over June.

• In FX, we closed out of a tactical long US Dollar trade and implemented a tactical EM carry trade in the form of long Brazilian Real and Mexican Peso relative to the US Dollar. We added a new volatility strategy to hedge against an increase in single stock volatility, which is currently trading at an attractive price relative to our expectations for it to move higher over the coming months. The strategy is weighted towards more cyclical sectors such as, consumer discretionary, materials, energy, and financials that face more uncertainty going forward amid higher rates for longer, decelerating growth and elevated geopolitical risk.

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

Outlook

• Market pricing of Fed rate cuts has been dialed back significantly as a result of upside inflation surprises over the first half of the year. We continue to have conviction in our view that, whilst the rate of inflation has moderated in the US, the final steps in the path to the Federal Reserve's 2% target remain less certain and we are closely monitoring reflationary risks. Inflation in Europe has also proved stickier than anticipated, however we still believe the disinflation backdrop is more favourable than that of the US, supporting further rate cuts from the European Central Bank.

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

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

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

• 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.

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