

Allianz Global Sustainability

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets of developed countries in accordance with the Sustainable and Responsible Investment Strategy (SRI Strategy). The Investment Manager may engage in foreign currency overlay and thus assume separate foreign currency risks with regard to currencies of OECD member states, even if the Sub-Fund does not include any assets denominated in these respective currencies.

What Happened in April

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

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

The US dollar strengthened, with the dollar index rising to levels last seen in early November 2023, amid signs that US rates would stay higher for longer.

In the commodity markets, oil prices initially moved higher as Iran sent rockets into Israel in retaliation for an alleged Israeli attack on Iran's embassy in Syria. Nevertheless, after the brief tit-for-tat exchange, tensions between the two

countries appeared to calm a little, helping Brent crude to close the month slightly lower. Industrial metals surged on signs of improvement in China's manufacturing activity, with copper prices rising to a 2-year high.

Portfolio Review

The Fund performed broadly in line with the Dow Jones Sustainability Index benchmark over the month (In EUR, gross of fees), both returning negatively. Stock selection within Health Care, Basic Materials and Financials was a positive, whilst stock selection in Technology and Industrials detracted.

Contributors

A biopharmaceutical company performed strongly over the month as it produced a solid set of quarterly earnings with revenues ahead of expectations and strong guidance.

Some of our holdings that had been poor performers in the last few months fared better over April such as a producer of aluminium and hydroelectric power, and an Asia-Pacific focused insurance and financial services company that featured amongst the top contributors to performance over the month. The former has rallied from the lows. The shares have benefitted from the recent commodities rally which has taken up the price of aluminium.

The latter reported a strong Q1 performance led by robust growth in the value of new business that came in ahead of analysts' expectations. This, coupled with news of an enlarged share buyback, lifted the shares. Despite the share price reaction, the valuation remains low compared to peers especially given it has stronger growth prospects.

Detractors

Our underweight position in Alphabet detracted as the stock was strong over the month – it is a top position in the Fund but is an even larger index constituent. A telecommunication tower company was caught off in the weakness of the REIT sector given the change in interest rates expectations despite reporting solid numbers for the quarter. An IT services and consulting company also underperformed over the month on the back of disappointing results.

Significant Transactions

Main transactions over the month include the purchase of a company providing animal health solutions, and the sale of a manufacturer of pharmaceutical and biotech solutions; and a provider of door opening solutions.

The new animal health position performed well over the month on the back of good results and already features in top contributors to performance. The company is the undisputed leader in the global animal health industry, and we believe it possesses the widest moat of all the competitors. It is well positioned to continue delivering above-market growth driven by secular trends as well as its internal innovation engine. In the longer term, there is also potential upside from additional accretive tuck-in acquisitions as it continues to expand their addressable market opportunities. The recent underperformance provided a good entry point, whilst we exited the afore-mentioned manufacturer of pharmaceutical and biotech solutions after the strong performance.

Market Outlook

The global economic environment is still supportive of the global equity markets in general. However, while the growth outlook is certainly encouraging, inflation figures have deteriorated and the US labour markets remain tight. This will

probably make the Fed more cautious about cutting rates. As equity valuations appear quite high in many instances and prices have risen strongly over the last few months, setbacks cannot be excluded if corporate earnings trends weaken, the economic environment deteriorates or geopolitical shocks occur.

We have strong conviction in our portfolio which is full of good investment cases trading at attractive levels and we have been very active in managing position sizes and bringing in new investments that will enhance the returns of the Fund going forward. In April and May, we see the majority of our companies report their Q1 earnings and this often leads to expectations for the full year being revised. We have had a good earnings season and this is beginning to show in performance as we go into May.

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