

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 August

August was a volatile month for global equities. Wall Street's "fear gauge", the CBOE Volatility Index (VIX), hit a 4-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 that 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 fewer jobs in July than expected (114,000 versus the expectations of 175,000). Additionally, US job growth for the 12 months to March 2024 was revised down. 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 3-year low of 2.2%.

The British pound surged as UK economic activity surprised on the upside and the Bank of England (BoE) 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 US Federal Reserve (Fed) before year-end.

Oil prices eased back 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, whilst copper initially slumped amid worries the US could fall into recession, but later recovered to end the month little changed.

Portfolio Review

The Fund lagged the Dow Jones Sustainability Index benchmark.

Stock selection was detrimental over the month, whilst sector allocation was positive.

Contributors

London Stock Exchange performed well over August after publishing a solid set of H1 results and was the top contributor to performance over the month. The results were still heavily impacted by the acquisition of Refinitiv, but came in ahead of expectations. We are still positive on the prospects for the company as it continues its transformation into a global leading market infrastructure and financial data provider.

A cyber security company rebounded after the weakness of the previous month.

A multinational pharmaceutical and biopharmaceutical company performed strongly over the month in a buoyant sector.

Detractors

Shares of a manufacturer of non-wood decking alternative products faced pressure after revised sales guidance for H2. While softer end markets played a role, management attributed some of the decline to an anticipated inventory rebalancing across its channel partners. Despite this, its underlying fundamentals remain strong, showcased by the company's year-on-year sales growth, margin improvement driven by operating leverage, and continued product innovation. These factors ensure the company stands in good stead to penetrate its end markets while navigating short-term challenges.

A semiconductor capital equipment maker also detracted as their sales guidance failed to impress.

Significant Transactions

We recently acquired a new position in a French industrial group, switching out of a manufacturer of high-performance insulation and building envelope technologies. The former specialises in the production and distribution of construction materials. The valuation is attractive, and the company is improving its profitability and provides exposure to the long-term theme of increased energy renovation rates linked to decarbonisation goals. It has divested underperforming assets and acquired synergistic and high margin businesses, particularly in construction chemicals. Additionally, it has increased its market exposure largely to Asia and America, where growth momentum is much stronger due to a structural need for new builds and renovations in these markets. Despite record cash generation and margins, a rerating has not yet occurred, offering us the opportunity to buy the shares at a discount to their fair value.

Market Outlook

Interest rates direction is likely to carry on weighing on markets performance with macro data release being scrutinised. In the next few months, volatility is likely to remain higher as the US election draws closer – while Kamala Harris enjoys a slight lead, the election remains too close to call – and the escalations in the Middle East as well in the Ukraine continue to rage. We have been adding strong new ideas which we expect to deliver alpha. The Fund is also well positioned as market concentration broadens, which it inevitably will.

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