Market Review and Outlook

October 2023

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

October 2023 saw the continuation of global equity market's weakening with the MSCI World Index dropping 2.97% mom due to renewed heightening of geopolitical risks stemming from the Hamas – Israel conflict in the Middle East. In US, the Dow Jones Index tumbled 1.36% mom as investment appetite was dampened by geopolitical concerns. It was further compounded by strong economic data underpinning the resiliency of the US economy which in turn postured that the Fed Fund rate could remain 'higher for longer'. Amongst the robust data releases included the 3Q23 GDP growth which grew by +4.9% qoq which was above expectations while the September 2023 Retail ex – auto sector growth of +0.6% mom outpaced consensus' +0.2% mom. Consequently, inflation in the form of the September 2023 Consumer Price Index (CPI) grew by +3.7% yoy whilst consensus was looking forward to having a slight moderation to +3.6% yoy. The European Stoxx 50 slumped 2.72% mom due to sluggish economic data as the September 2023 HCOB Eurozone Composite Purchasing Managers Index (PMI) still registered a contractionary reading at 47.2 while the August 2023 Eurostat Producer Price Index (PPI) Eurozone Industry Ex Construction was down 11.5% yoy. Apart from that, the stubborn September 2023 Eurozone CPI Core proved hardy at +4.5% yoy, which was the same as the previous month's reading. While China did enjoy some robust economic data such as 3Q23 GDP growth which rose +4.9% yoy and was above consensus estimate, its equity as evinced by the Shanghai Composite Index, plunged 2.95% mom. Its equity market was hampered by its languishing property market which experienced its 3rd consecutive month of new home prices declines despite its government's efforts to support the sector. The weak property sector had also served to exacerbate the distressed former Chinese top developer Country Garden which was struggling to meet its payment obligations. Meanwhile, US had also intensified the tech battle with China when it further restricted the types of semiconductors able to be sold to China.

The month under review saw Brent oil price ease 8.3% mom to USD87.41/ bbl. However, it rebounded above its month low of US84.07/ bbl in the earlier part of the month as fear was brewing that the Hamas – Israel risked escalating into a regional war which could disrupt oil supply from that region. Crude palm oil (CPO) price had also declined by 3.4% mom as US soybean oil price fell on the back of poor biofuel demand while Malaysia's inventory rose +9.5% mom in September 2023.

On the ASEAN front, the Stock Exchange of Thailand continued its dive by plummeting 6.09% mom. In its October 2023 Global Economic Outlook, the International Monetary Fund (IMF) reduced Thailand's GDP 2023 and 2024 forecasts to 2.7% from 3.4% and 3.2% from 3.6% respectively. Apart from that, there were also a slew of policy concerns such as the postponement of its digital wallet cash handout from 1Q24 to September 2024, the cutting of electricity tariffs, diesel, and gas prices. There were apprehensions that these initiatives, while positively received by the public, could push Thailand's 'public debt to GDP level' of 62% as at August 2023 closer to its ceiling of 70%. Singapore's Straits Times Index had also dropped by 4.65% mom, weighed down by the US Fed's 'higher for longer' stance and the threatening Middle East conflict. Its September 2023 Non – Oil Domestic Exports (NODX) remained subdued, contracting 13.2% yoy but at a lesser pace as compared to consensus estimates. In Indonesia, the Jakarta Composite Index too continued its downward trend by tumbling 2.70% mom. During the month under review, Bank Indonesia elected to raise its 7 Day Reverse Repo Rate by 25bps to 6.00%, while also raising the Deposit Facility and Lending Facility rates by 25bps to 5.25% and 6.25% respectively. The surprise move was purportedly aimed stabilizing the IDR whilst also acting as a pre – emptive measure to mitigate the potential impacts of imported inflation. On the other hand, Malaysia's FBMKLCI rose +1.26% mom as our government reaffirmed its 2023 GDP growth forecast of

+4.00 – 5.00% yoy and rolled out a well – balanced Budget 2024 which espoused fiscal prudence whilst appropriately realigning allocations for development. Additionally, Malaysia's 3Q23 GDP growth of +3.3% yoy came in higher than its previous quarter's +2.90% yoy.

US Treasuries (UST) yield curve steepened mom as yields continued to rise as the Fed signaled that rates would stay higher for longer. The 30yr UST weakened the most, up 39bps mom to close at 5.09%. As widely expected, the Fed unanimously voted to keep the federal funds target rate unchanged at 5.25 – 5.50% at the 2nd November 2023 Federal Open Market Committee (FOMC) meeting, unchanged since July 2023. The decision to stay put comes with inflation slowing from its rapid pace in 2022 and a labor market that has been surprisingly resilient despite all the interest rate hikes. Fed Chair Jerome Powell said that the FOMC was "proceeding carefully" with respect to future policy rate decisions and acknowledged that higher yields could have implications for the path of monetary policy but emphasized this would depend on whether tighter financial conditions proved "persistent". The UST trended lower following the dovish comments from the Fed Chair as well as lower – than – expected US Treasury planned sales of longer – term securities in its quarterly debt – issuance plan. On top of that, the recent US nonfarm payrolls (NFP) numbers came out lower than expected at 150k versus 180k resulting in the UST yields trending lower in early November 2023.

Malaysian Government Securities (MGS) yields were up by 8 – 19bps mom across the curve in tandem with UST movements, with the 10yr MGS closing 13bps high at 4.10%. On the 3rd November Monetary Policy Committee (MPC) meeting, Bank Negara Malaysia (BNM) decided to leave the overnight policy rate (OPR) unchanged at 3.00% as widely expected. This marked its third straight meeting of a rate pause as BNM assessed that the growth and inflation outlook was panning out largely as expected. The MPC statement ensured that the monetary policy stance would remain conducive to sustainable economic growth amid price stability. The MPC decision coupled with the rally in UST in early November translated into a positive yield movement.

Market Outlook

There are several challenges in the form of geopolitical risks emanating from the Middle East which serve to further intensify ongoing concerns regarding the Ukraine – Russia conflict, stubbornly high albeit alleviating inflation and the risk of the Fed keeping interest rates persistently high for longer than expected. Furthermore, the efforts of various global central banks in arresting the burgeoning inflation may eventually heighten the risk of a market recession. Thus, it is conceivable that global markets would remain volatile in the near – medium term. Domestically, investors would be keeping watch on the implementation of our government's Budget 2024 plans to drive growth and on the subsidy rationalizations that should take place over 2024.

For the equity asset class, our investment approach continues to be driven by our tenet of focusing on fundamentally sound investments over long term horizons. However, given the permeating geopolitical risks and easing global growth, we are conscious of the fact that market volatility could remain pervasive and therefore, ever ready to adopt new strategies as and when required to adjust to new market conditions. Finally, we may also, sometimes engage in a measure of trading activities to exploit any prevailing market volatility to our advantage.

Bond market volatility in the fixed income market will likely persist. The high US rates and escalation of geopolitical tensions have contributed to a persistently strong US dollar and this has affected bond foreign flows into the emerging market as well as Malaysia. The latest market – implied rate as of early November shows that the Fed is unlikely to cut rates until mid – 2024. The MPC statement on 2nd November highlights that the current monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects, suggesting that the OPR will remain unchanged. Going into 2024, the MPC mentions that inflation is expected to remain modest but it is also the Government's intention to review price controls and subsidies in 2024, which will affect the outlook for inflation and demand conditions. We will continue accumulating bonds at favourable valuations while prioritising good quality names.

For Allianz Life Global High Payout Fund:

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

What helped?

- The allocation towards stable dividend stocks was beneficial but not sufficient for the Fund to outperform equity markets.

What hurt?

- In a weak market environment, the Fund lagged global equity markets as measured by MSCI World Index as well as its customised benchmark. High Yield and Dividend Growth stocks were weaker than market average.

Market Review and Outlook

Global equities sold off as the ramifications of Hamas's deadly attack on Israel threatened to spread beyond the Gaza strip. Sentiment was also knocked by the US Federal Reserve's (Fed) continued hawkish stance and by mixed Q3 corporate earnings. Almost all sectors in the MSCI All Countries World Index declined over October, with Utilities the only sector to gain, albeit only slightly. In contrast, the Industrials, Health Care, Energy and Real Estate sectors fell the most.

US stocks slid in October as sentiment was knocked by concerns over high interest rates, rising geopolitical risks and mixed Q3 corporate earnings. The decline took the broad-based S&P 500 Index into correction territory, meaning it had fallen at least 10% from its recent peak in late-July. For much of the month, the US Congress was unable to pass any legislation as the House of Representatives remained without a speaker, before Mike Johnson was narrowly elected as speaker in late-October. Congress needs to agree a government funding package by mid-November or face a federal shutdown.

Euro-zone equities fell over October as growing geopolitical tensions in the Middle East added to concerns over the economic outlook. The sell-off over the last three months means euro-zone equities (FTSEurofirst 300 Index) are now back to within touching distance of their levels at the start of the year.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asia Pacific equities slid in October as sentiment was knocked by rising geopolitical risks in the Middle East. Concerns over the impact of high interest rates and the outlook for global growth also weighed on markets. Against this backdrop, Chinese and Hong Kong equities retreated further, although there were signs that the slowdown in the economy may be stabilising and that the fall in industrial profits may have bottomed out. South Korea equities, along with most ASEAN markets, were weak. Likewise, Australian shares retreated as higher-than-expected monthly inflation data sparked fears of further rate hikes from the Reserve Bank of Australia (RBA). After a strong rally in the earlier part of the year, Indian equities plunged to a 4-month low as investors considered a series of mixed corporate results. On the other hand, Taiwanese stocks held up relatively well, helped by a positive earnings surprise from chipmaker Taiwan Semiconductor Manufacturing Company Limited (TSMC), which hinted at a recovery in smartphone demand.

For Asia credits, positive developments in the region such as stronger-than-expected Q3 gross domestic product (GDP) and additional fiscal support in China, improvement in US and China relations and solid quarterly results reported by corporates across the region were balanced or, rather, overshadowed by weaker global risk sentiment. Yet, notwithstanding the volatility of US Treasuries, Asian credit spreads continued to demonstrate resilience relative to other global credit markets.

The Fund's return was negative in USD terms in September.

Within the equity sleeve, a top detractor came from our position in Ping An Insurance, a leading insurer in China. Given the company's property investment portfolio and real estate arm, its share price has been more sensitive to the broader property sector weakness in China. We continue to view Ping An as a well-managed business with higher asset quality and operating efficiency relative to peers.

Conversely, a top contributor came from our position in another regional insurance group based in Hong Kong. We like the company broad product coverage across life and health insurance, retirement planning and wealth management services. In particular, its offering of USD-denominated investment products should remain competitive against the backdrop of a weaker Chinese yuan.

The asset allocation at the end of the month was 64.3% invested in Asian equities and 31.6% in Asian fixed income, with the remainder in cash and others.

Over the month, we added two new Indian companies, an internet payment platform and a jewellery brand, to the portfolio. We exited two holdings relating to the Travel sector that have performed well following the regional reopening.

For the fixed income sleeve, there was no change to the portfolio's composition in October. We continue to invest in bonds with the aim of long-term interest accrual.

At the end of the month, we held 59 equities and 54 fixed income securities. The equity portfolio yield was 3.6% (based on forward 12-month estimates), and the average fixed income coupon was 5.2% with an average credit rating of BB and average duration of 2.2 years.

Market Outlook

Across Asia Pacific, we are expecting some of this year macro headwinds to ease as we move into the new year. Within the region, we are finding a number of attractively valued structural growth stories in South Asia that are less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China+1" are boosting the growth outlook across ASEAN markets and India.

In China, the outlook remains quite uncertain. On the one hand, the government is taking actions to ramp up policy support which should help provide a floor to the economic outlook. However, investor confidence remains fragile. In the rest of Asia, there have been some encouraging signs in the important technology sector, where previous overcapacity in the semiconductor supply chain has increasingly been absorbed. Overall, across the region, valuations remain at reasonable levels.

While global macro sentiment will likely continue to be the key driver for total performance of Asian credit markets, we expect regional developments, such as regional central bank decisions, economic policies of respective countries, corporate earnings and supply dynamics to start making more of an impact on specific sector spread movements. As corporates continue to release Q3 earnings with forward-looking guidance, it should give investors more visibility into next year and hence build

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

confidence on picking up the right sectors and names to go long. This is particularly important for Asian high yield as the market diverges further. Notwithstanding continuous US Treasury volatility and overall emerging market outflows, at the current yield levels, building a basket of quality BBB and BB names to achieve 9%+ yield remains attractive for long-term investors, considering the relative growth in the region in the year to come, with little default risk in the yield level.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

In October, the Malaysian sovereign bonds yields rose between 8-19bps month-on-month across the curve amid continued pressures in UST which saw 10y UST yields surging to a high of 5.00% level, weaker regional FX sentiment and new supply of MGS long duration. The 10-year MGS yields was up 12.4bps to 4.10% level, with 10y MGS-UST spread widened to -83bps from -60bps in prior month. The Budget 2024 presented in October saw no surprise in fiscal deficit, reaffirming 5.0% for 2023 and projecting 4.3% for 2024 and contain tax and non-tax measures to support fiscal consolidation that are both expected. Year-end OPR target remain at 3.00% as a clearer sign of an extended pause in the OPR. On the currency front, the Malaysia Ringgit ("MYR") weakened against US Dollar ("USD") by 1.45% to closed at 4.7632 from 4.6953 a month ago. Local corporate bond deals remain robust, suggesting investors' interest for strong credits remains strong in local market.

Global equity markets tumbled in October as the US Fed hawkish stance on inflation, still weak China data, and the geopolitical conflict in the Middle East hampered investor sentiment. The "higher-for-longer" scenario led to the US 10 y bond yield touching 5.0%. Positive economic data in China for September did not sway the mood of investors as they trimmed while they monitor on LGFVs and the US-China progress. The bearish trend, however, did not affect the KLCI as it gained +1.3%. The Budget 2024 was the focus for the month as well as and news flows relating the state of Johor in addition to the appointment of the Sultan as the new Yang di-pertuan Agong. The Budget was market neutral (at least for equities) but during the month, the Ringgit tumbled to its lowest level, not since the Asian Financial crisis.

Market Outlook

Domestically, inflation in Malaysia is also expected to moderate, leading to less pressure on the central bank to raise interest rates. With Malaysia GDP growth expected to be 4.00% in 2023, down from 8.7% in 2022, the indication of domestic growth softening could lead to more stable and positive govvies yields in 2023. Global growth is also expected to slow, with the Eurozone recently entering technical recession following 2 consecutive quarters of negative GDP growth in 1Q 2023.

We expect the OPR will be maintained at this current pre-covid level of 3.00%, as we think that Bank Negara is more inclined to support growth rather than tackle inflationary pressures, and that further monetary policy actions will be data dependent. Our view remains that that interest rates are peaking, and we are in the stage of market recovery, although we expect some volatility in between. As such, we maintain our positive outlook for Malaysia fixed income market as central banks globally shift towards more accommodative monetary policy. This peaking interest rate outlook, as well as anticipation of slower global growth, would be ideal for bond yields to fall. This would bode well for the valuations of fixed income funds.

We maintain cautiously positive on Malaysian equity markets moving forward on the back of the economic recovery and the thematic plays such as green energy and revival of infrastructure projects. Furthermore, we think political considerations are behind us and look forward to structural reforms and policy initiatives. However, we remain wary on the risks of inflation and the coming economic slowdown. Certainly, the "higher-for-longer" also has implication in equity markets. Following the Budget 2023, we see recent initiatives on reform policies and execution of Madani Economy and National Energy Transition Roadmap ("NETR"), it was reported that Malaysia has secured RM63bn of proposed investments mainly in the tech sector. These should provide the catalysts to drive economic growth. While these are longer-term as well as "big picture" initiatives, we remain watchful on opportunities on sectors or companies that benefit from these directions.

For Malaysian sukuk, given our view that the market has fully priced in OPR hikes, we will maintain our neutral to long duration stance as we find current bond yields to be attractive. Current volatility may provide us with the opportunity to increase our exposure in GIIs at attractive entry level for trading opportunities. While we intend to increase exposure in GII, we maintain overweight position in corporate sukuk for yield pick-up as we expect our holdings in corporate sukuk will continue to anchor the Fund's income in corporate bonds' coupons. Meanwhile our holdings in AAA and GIIs will be primed for ROI purpose. We will continue to trade opportunistically to realize profits and reinvesting into longer duration and higher yield accretive sukuk, while also considering new primary issuances with higher yields to increase returns.

For Malaysian equities, we maintain our longer-term positive stance on Malaysian equity markets, but we remain wary on the risks of inflation and the pressure on global growth. For Malaysia, further downward revisions on corporate earnings are also a key risk. We maintain our broader asset allocation range and remain nimble. Having said that, the recent environment has also lent us to be mildly positive and have increased our equity exposure albeit moderately. In the same vein, in preparation for next year, we may look to increase our exposure into growth-type names, with the emphasis in thematic plays such as construction and utilities.

For Allianz Life Amanah Dana Ikhlas:

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

However, moving forward, we think the next expectations are of the revival in infrastructure projects as well as initiatives under the NETR. On this front, we are looking at thematic plays e.g., green energy initiatives, public infrastructure projects, etc. Other sector we are keen includes, energy, and selected consumer. All in all, we maintain a balanced approach with the portfolio structure into both growth and defensive sectors to navigate market volatility while remaining nimble.

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 posted a negative return in October. Stock selection was the key detractor as a result of relative weakness in the Consumer Discretionary and Information Technology sectors in an overall down market for the month.

At a single stock level, a key detractor was a dominant office software service provider. Key growth drivers include China's trend towards usage of domestically developed software as well as tailwinds from office artificial intelligence (AI) applications. Although the stock has seen some profit taking after a strong rally earlier this year, we believe the company has credible plans to introduce large language models into its existing suite of products and should be able to monetise these new services soon.

Conversely, one of the top contributors was a clinical-stage biotech company with a focus on oncology. The overall biotech sector rebounded during the month following a period of weakness. We believe the company has a strong product pipeline, confirmed by a significant announcement towards the end of last year regarding licensing of overseas rights for a key new drug. With the company entering into the commercialisation phase, in our view this also helps derisk the growth outlook.

Market Outlook

In line with most global markets, Chinese equities declined over October. The main issue is that although most recent economic data has improved somewhat, the recent stabilisation remains fragile and largely unconvincing, especially to domestic investors, the key day-to-day price setters for China A-shares.

In particular, the property crunch has not yet been resolved. Prices of new homes, for example, continued to fall modestly in September. The average month-on-month price change for new homes was down -0.3% (similar to August), while price declines for existing homes were down -0.5%. The price declines have been particularly noticeable outside the largest ("tier 1") cities.

This is a particularly important issue in China because property and related activity (such as construction and building materials) accounts for around 25% of gross domestic product (GDP). And also because property is by far the largest component of most people's wealth, close to 60% of total household assets. As such, the ongoing property weakness is an important contributory factor to the subdued level of consumption and high savings rates.

In the face of these challenges, government policy continues to adjust in search of the right balance between structural and cyclical priorities. Indeed, there was an eye-catching announcement this month when China's top legislature approved RMB 1 trillion (circa USD 130 billion) of additional central government bonds to fund infrastructure projects. It is estimated this will add around 0.8% to GDP.

The last time the central government's fiscal budget was adjusted this way in the middle of the year was back in 1998 during the Asian financial crisis. From a macro perspective, this move should help reduce some of the downside concerns. And it sends a clear message that China's government is becoming more willing to deploy its balance sheet to achieve economic stability.

During October, there were relatively modest adjustments to the portfolio. One change was to exit a solar-related holding where we see some near-term overcapacity. Conversely, we added an electric vehicle (EV) manufacturer. We remain positive on auto companies involved in advanced driving systems, as well as other technology-driven suppliers that should benefit from increasing EV penetration.

As at the end of the month, the onshore/offshore allocation was around 43% in China A-shares, slightly lower than the benchmark weighting. On a sector level, the largest overweight was in Consumer Discretionary, while our largest underweight was in Financials.

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

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

Market Review

Global equities sold off as the ramifications of Hamas's deadly attack on Israel threatened to spread beyond the Gaza strip. Sentiment was also knocked by the US Federal Reserve's (Fed's) continued hawkish stance and by mixed Q3 corporate earnings. For much of the month, the US Congress was unable to pass any legislation as the House of Representatives remained without a speaker before Mike Johnson was narrowly elected as speaker in late October. Congress needs to agree to a government funding package by mid-November or face a federal shutdown.

Minutes of September's European Central Bank (ECB) rate-setting meeting showed the decision to increase rates had been a close call. At its October meeting, the ECB opted to leave rates unchanged for the first time since July 2022. While the Fed is also expected to leave rates on hold at its meeting in early November, a further 25-basis point (25-bps) hike is expected in December. The US economy expanded by a stronger-than-expected annualised rate of 4.9% in Q3. China's Q3 growth rate also exceeded forecasts, with the economy growing by 4.9% year-on-year in Q3.

Oil prices closed the month slightly down, as fears over supply disruptions in the Middle East were offset by concerns over the outlook for the global economy. In contrast, European gas prices jumped sharply. Gold prices also rallied, nearing a 6-month high of USD 2,000 a troy ounce, as investors sought out safe havens given rising geopolitical risk.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, the Utilities sector was the only sector with positive returns. The Information Technology sector was the next best performer and was helped by positive earnings from Microsoft. Conversely, stocks in the Consumer Discretionary and Industrials sectors lagged broader markets.

During the period, the Fund underperformed on a net-of-fees basis versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). The equity market quickly priced in a higher-for-longer interest rate scenario, slower economic growth and rising geopolitical uncertainties. Investor sentiment has become more cautious with market volatility increasing. This type of environment was a challenge for growth stocks. Amid this backdrop, artificial intelligence-enabled (AI-enabled) industries, AI infrastructure and AI applications underperformed broader markets.

Contributors

The top relative contributor was a provider of automobile and property insurance as well as reinsurance services. Shares outperformed on better-than-expected earnings, which was helped by loss-ratio improvement and positive underwriting results. Looking forward, we believe the company's innovations are enabling it to move ahead of the industry. This includes the usage of telematics, analytics and advanced underwriting models to retain better drivers and shed those that pose a higher level of risk. As the rest of the industry reprices, we believe the company is positioned to profitably grow its policy base driven by its leading brand and distribution advantages.

Our position in Amazon.com Inc., an ecommerce platform provider and a major cloud services provider through its Amazon Web Services (AWS) platform, was another top contributor over the period. The stock outperformed, as Amazon's quarterly results exceeded consensus estimates for both revenues and earnings, and as strong execution also resulted in margin improvement across segments. Amazon's growth trajectory remains solid as its ecommerce and public cloud businesses continue to increase market penetration. As development of new technology innovations continues, that includes newer and ever more complex AI models, the demand backdrop for AWS remains robust.

Detractors

Top detractor over the period, ON Semiconductor Corp., provides semiconductor solutions used in power and data management applications. Although the company reported better-than-expected quarterly results, management's outlook commentary was shy of investors' expectation, as several automotive customers reduced their orders. We believe the impact should be short-term in nature, and ON Semiconductor remains positioned to capitalise on a potential recovery in 2024. In the longer term, the company's growth trajectory remains robust given its focus on being a value-added semiconductor supplier to high-growth opportunities that include electric vehicles (EV), data centres and silicon carbide.

Our position in EV producer Tesla Inc. was another detractor over the period. Although the company reported quarterly results that were mostly in-line with expectations, the stock sold off post earnings as Tesla's management sought to add conservatism to investor expectations. Looking forward, we believe Tesla is building towards an even stronger industry positioning as they streamlined manufacturing costs, enabling the company to take even greater vehicle market share once the macro volatility subsides. The production ramp of Cybertruck and innovation breakthroughs for full self-driving should be another tailwind for Tesla's earnings trajectory.

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

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

New Buys and Sells

During the period, new purchases in the Fund included a task management and collaboration software provider. We believe the application of AI to the company's products is creating an inflection point in the business where its products can have broader appeal. The Fund also initiated a position in a provider of enterprise AI software. We believe it is currently benefitting from the developments of large language models (LLMs) and generative AI, and the company's underlying fundamental factors are poised to show improvement.

We exited a pet health care company, as the pet health market appears challenged given the macroeconomic backdrop. The Fund also sold its position in a software company given our diminished outlook on its three dimensions (3D) design tools.

Market Outlook

The overall macroeconomic landscape became more mixed in recent months. Although gross domestic product (GDP) and employment data point to resiliency, escalating tensions in the Middle East introduced additional risks. Also, inflation has so far remained sticky, which may compel central banks to further maintain restrictive policy stances. Monetary policy is characterised by long and variable lags as it works through the economy and the financial system. The Fed's posture of maintaining rates "higher-for-longer" can provide a path for inflation to normalise. The recent upward pressure on long-term bond yields may help the Fed in tightening financial conditions where future rate hikes may not be needed. However, continued restrictive monetary policy brings risks of an unintended slowdown to the economy.

Consequently, the equity market has been quickly pricing in the additional risks from slower economic growth, a higherfor-longer interest rate scenario and rising geopolitical uncertainties. So far, Q3 earnings numbers have mostly met to slightly exceed consensus expectations, but stock reactions have been more mixed. Following a strong H1 recovery for equities, especially for mega cap technology stocks, the market appears to be consolidating and quickly digesting the macro risks. We remain focused on companies with earnings profiles that can be more resilient in the context of a slowing economy and a more volatile market environment. We continue to favour companies capitalising on innovation and the strong investment backdrop. Our Fund remains aligned to our long-term conviction that AI will impact all industries and be a key driver to shareholder value creation.

The US equity markets this year have favoured companies that are poised to benefit from growing adoption of AI. Semiconductors were the recent winners along with some cloud and software providers that provided a clear business thesis around the technology going forward. The broader topic of AI continues to be mentioned more on corporate earnings calls with a significant increase on generative AI. In addition, Voya recently conducted a study in which 300 information technology key decision makers were asked, "What technologies do you see having the greatest impact on your company in the next five years?" and the top answer was AI and machine learning. However, outside of the technology sector, some companies have started to see slower end demand as the economy slows, so it is unclear if positive momentum from AI can carry over into the broader equity markets over an extended period.

The developments around generative AI technology and LLMs further demonstrate that demand for companies within AI infrastructure should remain strong, given the computing requirements for training complex AI models and subsequent inference needed for edge intelligence. AI applications will be required to optimise the functionality of these new tools and technologies, of which the plug-ins are just the first step to greater customisation for enterprises and consumers. Lastly, several companies in the AI-enabled industries category have already announced generative pretrained transformer-related (GPT-related) functionality added to their services to enhance customer engagement and drive greater productivity. We believe this is just the tip of the iceberg as companies become more comfortable with the technology's potential and software applications improve to drive greater efficiencies across more business processes in time.

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

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

Market Review

Asia Pacific equities slid as sentiment was knocked by rising geopolitical risks in the Middle East. Concerns over the impact of high interest rates and the outlook for global growth also weighed on markets. Against this backdrop, Chinese and Hong Kong equities retreated further in October, although there were signs that the slowdown in the economy may be stabilising and that the fall in industrial profits may have bottomed out. Japanese equities also lost ground over October as speculation grew that the Bank of Japan (BoJ) would start to normalise monetary policy sooner rather than later. Specifically, BoJ decided to tweak its yield curve control policy to allow the 10-year Japanese Government Bond (JGB) yield target to trade at the upper limit of 1% as a soft reference instead of a hard cap.

Elsewhere, South Korea equities, along with most ASEAN markets, were weak. Likewise, Australian shares retreated as higher-than-expected monthly inflation data sparked fears of further rate hikes from the Reserve Bank of Australia (RBA). After a strong rally in the earlier part of the year, Indian equities plunged to a 4-month low as investors considered a series of mixed corporate results. On the other hand, Taiwanese stocks held up relatively well, helped by a positive earnings surprise from a chipmaker, which hinted at a recovery in smartphone demand.

The Fund underperformed the benchmark in October. Stock selection was the key performance driver, with picks from the Information Technology and Industrials sectors being the key detractors for the month, offsetting better selection effects among Health Care names. At a geographical level, selection in Taiwan was weakest, whereas our picks in Hong Kong/China added value.

At a single stock level, a key detractor this month was Mainfreight, a New Zealand-based company providing freight, warehousing, and logistics services. We believe Mainfreight is an exceptionally well-managed business with a highly competitive service and customer-focused culture. Its share price has been weak of late on concerns over slowing global economic growth, but with a long-term investment horizon, we believe Mainfreight is a high-quality company that should be able to deliver earnings growth through the cycle.

Conversely, a top contributor was Lasertec in Japan, which provides inspection machines for semiconductor and flat panel production. The company has a specific technology niche focused on mask inspection machines where it has a leading global position. There was little in the way of news flow on Lasertec over the month, and the stock remains a high conviction holding within the portfolio.

During the month, we took the opportunity to exit a Japanese factory automation name and a Chinese integrated oilfield services business. Instead, we initiated two Information Technology names from Taiwan, one is a global integrated circuit (IC) design house expected to benefit from an improving business environment, whereas the other designs and manufactures computer network systems including hardware, software, and network switches important for data centres.

Overall, the main change to positioning throughout the year has been adding exposure to Japan, now a key overweight as a result of the opportunities we are finding amidst a more supportive market backdrop. Other overweight markets include Taiwan and New Zealand given specific stocks owned in these markets – which is balanced by underweight positions in India, Hong Kong/China, and Australia.

At a sector level, the largest position is Information Technology, primarily in technology hardware, including exposure to memory chipmakers, where valuations have been touching trough levels seen in previous down cycles. We also continue to be optimistic on the long-term outlook for the Health Care sector, especially in the biotech space. Although the sector has been volatile due to policy concerns and geopolitical risks, underlying businesses continue to perform well.

Market Outlook

Across Asia Pacific, we are expecting some of this year's macro headwinds to ease as we move into the new year. The outlook in Japan remains encouraging. The impact of inbound tourism is helping support domestic demand. We also expect that Tokyo Stock Exchange (TSE) governance reforms should continue to support positive sentiment and improve capital efficiency in selective stocks with low price-to-book valuations. In addition, the Japanese yen continues to look undervalued so that we expect returns to international investors will be supported by longer-term currency appreciation.

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

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

In China, the outlook remains quite uncertain. On the one hand, the government is taking action to ramp up policy support which should help provide a floor to the economic outlook. However, investor confidence remains fragile. In the rest of Asia, there have been some encouraging signs in the important technology sector, where previous overcapacity in the semiconductor supply chain has increasingly been absorbed. 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

Asia ex Japan equities slid as sentiment was knocked by rising geopolitical risks in the Middle East. Concerns over the impact of high interest rates and the outlook for global growth also weighed on markets. Against this backdrop, Chinese and Hong Kong equities retreated further in October, although there were signs that the slowdown in the economy may be stabilising and that the fall in industrial profits may have bottomed out.

South Korea equities, along with most ASEAN markets, were weak. Likewise, after a strong rally in the earlier part of the year, Indian equities plunged to a four-month low as investors considered a series of mixed corporate results. On the other hand, Taiwanese stocks held up relatively well, helped by a positive earnings surprise from chipmaker Taiwan Semiconductor Manufacturing Company (TSMC), which hinted at a recovery in smartphone demand.

The portfolio outperformed the benchmark in October. Stock selection was a key driver, notably due to strong picks in the Consumer Discretionary and Communication Services sectors. From a geographical perspective, stockpicking in South Korea was most additive, thanks to our overweight position in chipmaker SK Hynix, which has developed a leading edge in high bandwidth memory.

In addition, a leading contributor this month was Kasikorn Bank (KBANK) in Thailand, one of the top banks in the market with a competitive footprint across its financial services platform, including digital banking. The position was initiated in September, and its Q3 results beat consensus expectations, showing net interest margin improvement and stabilising credit quality. We maintain conviction in the name and its upside to current valuations.

Conversely, a key detractor was a globally competitive Taiwanese integrated circuit (IC) substrate and printed circuit board (PCB) manufacturer. The entire industry has been under pressure from continued demand weakness and underutilised capacity. However, signs are emerging that we may be approaching the bottom in terms of destocking, and valuations have discounted a bleak outlook. We believe that the substrates components industry will recover in time, especially once we start to see a rebound in memory plays.

Portfolio activity in recent months has been to reduce the China allocation, which is now a significant underweight position. During the month, we continued this trend by exiting an online financial brokerage in China. In its place we initiated a Taiwan stock involved in power management for electric vehicles. The reduction in China exposure has provided the opportunity to increase our India allocation, where we have a clearer outlook on growth prospects.

At a sector level, the Fund is overweight in the Financials, Information Technology, and Energy sectors. This reflects bottom-up ideas expected to benefit from the region's economic rebound, as well as more structural opportunities in the coming years. The largest positions in the portfolio at month-end were HDFC Bank, Samsung Electronics, and TSMC.

Market Outlook

Across the Asia region, we are expecting some of this year's macro headwinds to ease as we move into the new 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, where we see more promising investment opportunities relative to North Asia at this juncture

In China, the outlook remains quite uncertain. On the one hand, the government is taking action to ramp up policy support which should help provide a floor to the economic outlook. However, investor confidence remains fragile. In the rest of Asia, there have been some encouraging signs in the important technology sector, where previous overcapacity in the semiconductor supply chain has increasingly been absorbed. Overall, regional valuations remain at reasonable levels

For Allianz Life Global Income Fund:

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

Market Review

US equity, convertible security, and credit markets finished lower in October, as positive corporate earnings and economic data were offset by rising interest rates and geopolitical tensions. Corporate earnings for Q3 have exceeded expectations with most companies surpassing top- and bottom-line estimates thus far. However, management guidance has been mixed. On the economic front, employment, domestic output, and consumer spending topped estimates, fuelling speculation that the US Federal Reserve (Fed) would keep rates elevated for an extended period. Against this backdrop, US Treasury yields rose with the 10-year yield trading above 5% for the first time since 2007. Together, these factors drove both risk assets and safe havens lower.

In this environment, global equity markets, as measured by the MSCI World Index, returned -2.90%.* Non-US developed equities underperformed their US counterparts, and growth stocks outperformed value stocks. Global convertible securities and high-yield bonds both finished lower, and primary market activity slowed. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -1.20% with non-US exposure outperforming US.^

The portfolio was negatively impacted by both stock and bond market weakness.

Top contributors included Microsoft and Amazon. Both companies exceeded expectations, helped by cloud business strength. Novo Nordisk outperformed after a patent for its diabetes and weight-loss drug was upheld, and Shell Plc gained after providing a positive production update. A managed health care provider reported a beat-and-raise quarter on an improving loss ratio, and a utility operator gave a positive readthrough on renewable energy demand. Other contributors included a major software provider, a global reinsurance company, a pharmaceutical distributor, and another utility operator.

Top detractors were led by a major electric vehicle manufacturer that warned of slowing demand. Alphabet fell on cloud deceleration concerns, Nvidia declined on new US semiconductor export restrictions, and an Israeli automotive technology company was lower on rising geopolitical tensions. A Mexican airport operator underperformed after industry-wide tariff increases, and a Canadian ecommerce platform lagged on consumer spending uncertainties. Other detractors included issues in residential solar energy and medtech, a shipping and logistics company, and a pharmaceutical company.

Exposure increased the most in Information Technology, Utilities, and Industrials, and decreased the most in Consumer Discretionary, Materials, and Energy.

Market Outlook

The likelihood of a US recession in 2023 continues to fade and headline inflation should trend lower. The pace of monetary policy tightening has already slowed, and corporate earnings estimates have stabilised.

Steady employment and consumption and US fiscal policy remain economic tailwinds. Prolonged restrictive monetary policy and quantitative tightening are key risks to growth.

Waning inflation will likely influence the Fed to consider slowing the pace of interest rate hikes further or even ending their current campaign.

Corporate earnings estimates for 2023 and 2024 have stopped falling due to better-than-expected quarterly results and upward revisions to earnings and sales projections.

If the hiking cycle is nearing an end, it could be a positive development for stocks. Per Goldman Sachs, US equities generally rallied in the months following the end of past Fed tightening cycles. In the three months following the peak fed funds rate, the S&P 500 Index returned +8% (average), rising in 5 of 6 episodes. On a 12-month basis, the S&P 500 Index returned +19% (average), rising in 5 of 6 episodes.

US convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and lower interest rate sensitivity relative to core fixed income. After a challenging 2022, the universe's composition has shifted compared to the past decade. Today, many securities offer higher yields and most exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises in 2023. If the prices of underlying stocks advance, convertible securities are positioned to participate in the upside. Higher financing costs will serve to benefit new issuance which could reach an upwardly revised USD 50-55 billion, according to market strategists.

For Allianz Life Global Income Fund:

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

Credit's risk/reward opportunity is compelling. High-yield fundamentals are healthy, near-term refinancing obligations remain low and managements continue to prioritise debt reduction. Given these factors, defaults should remain well below historical cycle peaks. Notably, there are no instances of the asset class producing back-to-back negative annual returns** and forward 12- and 24-month return projections based on the current yield have been consistent with mid to high single digits#. With respect to high-grade corporates, rising interest rates remain a key risk. That said, the investment opportunity has improved on the back of sharply higher yields coupled with a positive fundamental outlook. Both markets trade at a deep discount to face value, offering very attractive total return potential.

All data are sourced from Allianz Global Investors dated 31 October 2023 unless otherwise stated.
* Source: MSCI, as at 31 October 2023
^ Source: Bloomberg, as at 31 October 2023
** Source: ICE Data Services, as at 31 December 2022
# Source: JP Morgan, as at 31 October 2022

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

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities sold off as the ramifications of Hamas's deadly attack on Israel threatened to spread beyond the Gaza Strip. Sentiment was also knocked by the US Federal Reserve's (Fed) continued hawkish stance and by mixed Q3 corporate earnings. Almost all sectors in the MSCI All Countries World Index declined over October, with Utilities the only sector to gain, albeit only slightly. In contrast, the Industrials, Health Care, Energy and Real Estate sectors fell the most.

Global bonds were mixed. US bonds lost ground as the Fed continued to suggest that another rate rise was possible before the year-end, while eurozone bond returns were slightly positive. During the month, the 10-year US Treasury yield rose above 5.0% for the first time since July 2007, while 10-year German Bund yields briefly regained a 12-year high of 3.0%. Japanese government bond yields also rose as speculation grew that the Bank of Japan (BoJ) would soon amend its yield curve control policy.

The US dollar and euro appreciated against the Japanese yen, with the latter trading near a 33-year low. Expectations grew that BoJ would take steps to normalise its monetary policy sooner rather than later. On the final day in October, the yield curve control policy was amended to allow more flexibility. The Swiss franc strengthened on demand for safehaven assets.

Oil prices closed the month slightly down as fears over supply disruptions in the Middle East were offset by concerns over the outlook for the global economy. In contrast, European gas prices jumped sharply. Gold prices also rallied, nearing a 6-month high of USD 2,000 a troy ounce.

Market Outlook

The Fund returned negatively in October, underperforming the MSCI AC World Index.

Stock selection and industry selection has been a negative contributor to overall performance over October. From a sector perspective, the underweight in Consumer Discretionary and Real Estate contributed well. Being overweight to Industrials and Materials created a burden for the strategy, just as the underweight to Consumer Staples did. From a thematic point of view, the best contributors have been themes like Infrastructure and Health Tech which did well over the course of October. Having said that, the largest area of underperformance came from the Next Generation Energy theme, and Clean Water and Land. What we are currently seeing is kind of a perfect storm for the Next Generation Energy theme. Rising yields lead to massive consequences for equity markets to bond proxies like Utilities which lost their valuation premium to the broader markets. Higher funding costs undercut affordability on larger ticket items as well as construction markets, electric vehicle (EV) transition and new renewable projects. Clean Water and Land suffered from high exposure to Industrials which traded weaker due to muted economic news flow.

From a single stock perspective, positive contributions have been witnessed by a company which designs, manufactures, and markets cordless products and Palo Alto Networks (Digital Life), as well as Waste Management (Clean Water and Land). Negative contribution occurred from the structural underweight to a software company (Digital Life) which benefitted from quarterly results. A company which supplies analog, standard logic, and discrete semiconductors for data and power management (Next Generation Energy) suffered after the last quarterly results missed market expectations, just as a company which develops and markets integrated systems for transportation sector did after reporting poor cash flow targets in the near term. We have been sellers of the theme from 19% in Q4 last year down to 12.5% recently. Also keeping in mind that a minor part of this is due to performance. We also have been active inside the theme by active stock selection. There is no exposure to wind turbine suppliers. Exposure to Utilities with wind business is very limited. We keep larger exposure to semiconductors, battery materials, heating/cooling as well as alternative fuels. We stick to the theme in total given reduced valuations, competitive cost advantages compared to conventional energy sources and strong political backing. Proceeds have been added to the Clean Water and Land theme, Intelligent Machines, and Infrastructure. We are maintaining a "core" style perspective for the portfolio for the month to come.

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

Markets remained challenged in October with geopolitical risk back in the headlines. The sustained strength of the US economy was highlighted once again, by another strong jobs report early in the month and Q3 GDP coming in at an annualized rate of 4.9%. In response, US 10Y yields rose for the sixth month in a row, exceeding the 5% mark intra month – a level not seen since 2007. Elsewhere, the BoJ tweaked its Yield Curve Control policy once again with 10Y JGB yields moving higher as a result.

On the topic of inflation, there was some bifurcation between the U.S. and Euro Area. U.S. CPI came in stronger than expected, with headline inflation coming in at 3.7% YoY, and core inflation coming in at 4.1% YoY. In theEuro Area, headline inflation for September fell to 4.3% YoY whilst core inflation decreased to 4.5% YoY, consistent with a weaker performance for the Euro Area economy. In the UK, headline inflation stayed at 6.7% YoY, as core inflation decreased modestly to 6.1% YoY.

Government bond yields reflected the macro data, as European sovereign bonds recovered and US Treasuries continued their decline. In the front end, U.S. 2Y Treasury yields rose +4bps, as German 2Y Bund and U.K. 2Y Gilt yields fell -19bps and - 12bps, respectively. U.S. 10Y Treasury and U.K. 10Y Gilt yields rose +36bps and +7bps, respectively, as German 10Y Bund yields fell - 3bps.

Equity markets suffered from the expectation of "higher for longer" interest rates and increased geopolitical tensions, as they experienced a second consecutive month of decline. The S&P 500 and MSCI World were down -2.10% and -2.88%, respectively, while China equities continued to suffer amid the country's property sector woes. In credit, USD and EUR investment grade spreads widened +7bps and +6bps, respectively. High yield also underperformed, with USD and EUR high yield spreads widening +43bps and +42bps, respectively.

During the month, the PIMCO GIS Income Fund returned -1.11% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '23 performance to 1.52%.