Market Review and Outlook

March 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

The global equity markets extended their upward momentum, with the MSCI World Index increasing by +3.01% mom, driven by anticipations of interest rate reductions. The Dow Jones Index in the US also advanced, gaining +2.08% mom, supported by robust economic indicators. Despite a slight decline from 52.5 in February to 51.9 in March, the S&P Global US Manufacturing PMI remained in expansionary territory. In February, US advanced retail sales rebounded with a +0.6% increase mom, marking a turnaround from January's decline of -0.8%. Over in Europe, the Stoxx50 Index advanced +4.22% mom. In March, the Hamburg Commercial Bank Eurozone Composite PMI rose to 50.3 from February's 49.9, marking a shift into expansionary territory. Meanwhile, China's Shanghai Composite Index remained relatively stable with a slight decrease of -0.15% mom. National Bureau of Statistics of China Manufacturing PMI stood at 50.8 in March compared to 49.1 in the preceding month, indicating growth, while Caixin's China Manufacturing PMI registered 51.1 in March compared to 50.9 in the previous month, signaling a positive trend.

During the month under review, commodities demonstrated favorable performances. Brent crude oil maintained its strength, climbing by +4.62% mom to reach USD87.48/bbl in March, largely attributed to ongoing supply cuts by OPEC+ and the resilient global economy. Additionally, the price of crude palm oil surged by +7.45% mom to RM4325/MT, driven by a deficit in supply growth.

Back at home, FBMKLCI slipped -0.99% mom. Foreign investors turned net sellers of Malaysian equities with outflows of RM2.88bn in the month, bringing year – to – date equity outflows to RM875m. The S&P Global Malaysia Manufacturing PMI for March dipped to 48.4 from February's 49.5, indicating a slight contraction in manufacturing activity for the month. On the other hand, Singapore’s Straits Times Index inched up +2.62% mom. Singapore’s February economic indicators exhibited robust economic performance, as indicated by the S&P Global Singapore PMI rising to 56.8 from January's 54.7. Moreover, Singapore's retail sales surged yoy by +8.4% in February, a substantial improvement compared to January's +1.3%. However, the Non – oil Domestic Exports, seasonally adjusted mom, experienced a downturn of -4.8% in February, contrasting with January's growth of +2.3%.

Turning to Indonesia, the Jakarta Composite Index came in flat at -0.37% mom. In March, Indonesia's CPI showed a slight increase in yoy inflation, reaching +3.05% compared to February's +2.75%. Additionally, the S&P Global Indonesia Manufacturing PMI strengthened further in March, rising to 54.2 from February's 52.7, signaling continued expansion in the manufacturing sector. Meanwhile, The Stock of Exchange of Thailand ended the month on a slight positive note, +0.53% mom. In March, Thailand's manufacturing sector showed signs of stabilization, albeit still contracting, with the S&P Global Thailand Manufacturing PMI rising to 49.1 from February's 45.3. Similarly, the business sentiment index improved slightly to 49.6 in March compared to 48.8 in February. Additionally, the yoy Consumer Price Index experienced a smaller decline, reaching -0.47% in March, compared to -0.77% in February.

The US Treasuries (UST) yield curve declined across the 5 – 30yr tenors by 1 – 6bps while the 3yr tenor remained unchanged at 4.41% as the Federal Reserve (Fed) maintained its projection of three 25bps rate cuts for 2024 despite the sticky inflation data. US February non – farm payrolls (NFP) rose to 275k (Survey: 200k, January revised: 229k), which was primarily contributed by health care, government as well as leisure and hospitality sectors. However, wage growth moderated to +0.1% mom (Survey: +0.2% mom, January revised: +0.5% mom). US February CPI was up +0.4% mom (Survey: +0.4% mom, January: +0.3% mom) and +3.2% yoy (Survey: +3.1% yoy, January: +3.1% mom). In the March Federal Open Market Committee (FOMC) meeting, the Fed maintained interest rates at 5.25% – 5.50% as widely expected. The Fed acknowledged that the process of disinflation would be rocky and reiterated that more evidence of the inflation descending to its 2% target would be required before cutting rates. The market – implied total rate cuts for 2024 as of end – March 2024 then fell to 67bps from 85bps as of end – February 2024.

The Malaysian Government Securities (MGS) yield curve movements were mixed with yield movements between -2bps to +1bp mom. In the March monetary policy committee (MPC) meeting, Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.0%. BNM stated that the current OPR level was still supportive of the economy and in – line with its inflation assessment and growth prospects in its latest monetary policy statement. The February CPI rose to +1.8% yoy (Survey: +1.5% yoy, January: +1.5% yoy), mainly contributed by upward adjustments of water supply, transport and recreational services prices.

Foreign funds turned net buyers in March with net inflows of RM1.7bn (February: -RM1.2bn). Foreign share of both MGS and MGS+MGII declined marginally to 33.2% (February: 33.3%) and 21.7% (February: 21.8%) respectively. Malaysia's foreign reserves contracted by USD0.5bn to USD113.8bn as of end – March 2024 (February: USD114.3bn).

Market Outlook

As the global interest rate tightening cycle appears to exhibit bourgeoning signs of peaking, we anticipate a shift in Malaysia's investment focus towards domestic demand and the steady implementation of government policies. This expectation is bolstered by the government's execution of Budget 2024, incorporating measured fiscal stimuli, domestic subsidy reforms, and strategic initiatives like the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP) 2030.

When it comes to equities, our approach and focus continue to favor fundamentally robust investments, aligning with a suitable long-term investment horizon. However, we remain open to opportunistic trading activities to leverage potential market volatility. Nevertheless, given the prevailing geopolitical uncertainties and the possibility of global growth moderation, we acknowledge the necessity of adapting to new strategies as dictated by evolving market dynamics.

Bond market volatility in the fixed income market will persist but to a lesser extent for 2024. There are expectations of positive support for bonds over the Fed signaling that it has potentially reached the end of its tightening cycle. However, a still firm job market, sticky inflation data and a resilient US economy suggest that the Fed could push back the timing of its first rate cut. Locally, with the benign inflation in 1Q2024, the market expectation is for BNM to stand pat on the OPR. The March MPC statement highlighted that 2024 inflation is expected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures. However, risks to the inflation outlook will remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. We will 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 hurt?

- The Fund performed strongly in March during a strong market for global equities. The Fund also performed better than its benchmark.
- Value and Dividend stocks performed favourably, directly benefitting our high dividend strategy.

What hurt?

- The allocation to higher-risk names resulted in a negative contribution, which would have been more advantageous during a prolonged rally in risk assets.

Market Review and Outlook

Global equities moved higher over March, further bolstering already strong year-to-date returns. Sentiment was lifted by signs of improving economic momentum in Europe and China, as well as by central bank indications that rate cuts were likely to start in the summer. At a sector level, Energy companies advanced the most, followed by Materials stocks, while Consumer Discretionary was the weakest.

US equities advanced over March, with the S&P 500 Index and Nasdaq Composite Index setting fresh all-time highs as investors looked ahead to lower borrowing costs in 2024. For once, value stocks outperformed growth-oriented companies as the advance broadened out from the Technology sector. In other news, the 2024 US presidential election looks as though it will be a re-run of 2020 after Donald Trump secured his position as the Republican Party's nominee.

European equities rose solidly over March, touching fresh highs, boosted by growing optimism that the European Central Bank (ECB) would cut rates in June. At a sector level, Real Estate, Energy, Materials and Financials were among the best performers, with the strong returns of the latter boosting returns in the bank-heavy markets of Spain and Italy. In contrast, Information Technology and Consumer Staples were the weakest sectors.

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 ex Japan advanced over March. Sentiment was lifted by signs of a pick-up in growth in China and Europe, as well as the ongoing resilience of the US economy. China equities were relatively stable over March, consolidating the pre- and post-Chinese New Year rally. Elsewhere in the region, stocks surged in Taiwan and South Korea as semiconductor companies benefitted from the artificial intelligence (AI) wave. Indian equities rose modestly against a backdrop in which the Reserve Bank of India (RBI) indicated that India's gross domestic product (GDP) growth in the fiscal year ending March 2024 could approach 8%, representing the fastest growth among major economies. Australian stocks also rose, with the Australian Securities Exchange (ASX) closing at record highs on hopes of rate cuts in H2.

Asian credits performed well in March again. Returns were supported by interest accrual, lower US Treasury yields and spread compression for both investment grade and high yield credits. In March, JACI composite returned 1.1% with the investment grade sub-index returning 0.9% and high yield bonds returning 1.8%. Year-to-date, JACI composite has delivered 1.4% total return, mainly driven by the firm 6.8% total return of Asia high yield credits.

The Fund return was positive in USD terms in March.

On a stock level basis, key contributions to performance came from our positions in the semiconductor value chain. Overall, the outlook of this area has strengthened, with increasing interest in AI-enabled applications and bottoming out of the inventory levels driving higher demand and pricing power. For example, the top contributor was chipmaker Taiwan Semiconductor Manufacturing (TSMC).

Conversely, a top detractor was a retail REIT based in Hong Kong. Share price was weak amid concerns over the retail business in Hong Kong as local consumers increasingly make short trips to neighbouring Shenzhen and Guangdong for comparatively lower prices. Looking forward, we expect the stabilisation and lowering of interest rates to relieve cost pressures on REITs overall. We will hold on to the position for now but will monitor the recovery progress of the stock.

The asset allocation at the end of the month was 67.3% invested in Asian equities and 29.8% in Asian fixed income, with the remainder in cash and others.

Over the month, we initiated a position in the largest stock exchange in India. We see it as a beneficiary of higher participation in the India capital markets over the long term. We also took some profits in TSMC and rotated the proceeds to other semiconductor companies given the more positive outlook.

For the fixed income sleeve in March, we sold out our exposure to a Hong Kong developer, while investing further in Indian and Chinese issuers to increase the yield and diversify the portfolio.

At the end of the month, we held 61 equities and 50 fixed income securities. The equity portfolio yield was 3.1% (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 1.9 years.

Market Outlook

Across the Asia region, we are expecting some of 2023's macro headwinds to ease as we move into the new year. We continue to expect India, where more favourable demographics, rising consumption power and reordering of supply chains associated with "China +1", are 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 trigger a market rally given the depressed valuations. Overall, from a regional standpoint, valuations remain at reasonable levels.

In the rest of Asia, there have been some encouraging signs in the important Technology sector, where we see significant demand drivers relating to AI and previous overcapacity in the semiconductor supply chain increasingly being absorbed. Overall, regional valuations remain at reasonable levels.

Asia high yield has outperformed other credit markets year-to-date by a large margin and remains reasonably attractive considering its higher rating composition. The favourable credit cycle of most of the sectors in Asian high yield space 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 still key to performance.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

Malaysia govvies traded in range of 0-3bps in March in the absence of new major catalyst that saw 10y yield remained unchanged at 3.86% level. Ringgit gained 0.76% vs USD to close at 4.725 compared to 4.7428 a month ago. BNM kept the OPR at 3.00% in last week's MPC meeting for a 5th straight time since the last 25bp hike in May 2023. The monetary policy stance remains neutral and the languages on the policy stance have been unchanged since September. On growth assessment, the MPC expects improvement in 2024 on exports recovery and resilient domestic spending, while the balance of risks to growth appears roughly even with both downside (weaker external demand and declines in commodity production) and upside (tech upcycle, robust tourism activity and faster implementation of projects) drivers. The Fed kept Fed funds rate unchanged at 5.25-5.50%. The front-end led decline in yields post-FOMC as market was probably encouraged by no change in the FOMC median dot at 4.6% for 2024 which still guides for 3 rate cuts. 2y10y inversion spread widened to -42bps from -37bps a month ago (Jan: -32bps), with 10y settled 5bps lower for the month at 4.25% level.

Global markets stayed their positive course in March as the Fed remains dovish though with a rising expectation of a shallower cut. Positively, however, the probability of a soft-landing has also risen given the recent encouraging PMI data. However, returns were more modest in emerging markets. US-China tensions returned in March on the back of congressional moves to limit US investments in China, mostly technology related, leading to tempered returns in China/HK. On the contrary, the Artificial Intelligence (AI) euphoria continued to lift tech centric markets such as Korea and Taiwan. Closer to home, the KLCI lost some momentum in March, declining 1.0% mom but closed the quarter up 5.6%, becoming the second-best performer in the region for the year. Broadly, sectors that underperformed were telecommunications, consumers, REITs, and Financials while at the opposite end, property, construction, transportation, and energy gained. Energy had a resurgence given the oil price movements. The month also saw the corporate earnings season, with the telecommunications and plantations sector broadly coming in below expectations.

Market Outlook

Sukuk Outlook & Strategy

BNM maintained the OPR at the 3% level during March's MPC meeting and we opine that BNM will maintain OPR at the 3% level throughout 2024 in the absence of demand pulled pressures, although monthly CPI is likely to trend higher depending on the pace of subsidy rationalization. In addition, the central bank is more inclined to support growth for the local economy.

Our view remains that interest rates have peaked, 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's fixed income market as central banks globally shift towards more accommodative monetary policy. The prospect of rate cuts amidst lower economic growth expectations globally creates an ideal environment for bond yields to fall. This would bode well for the valuations of fixed income funds.

As such, strategy-wise, we aim to be fully invested and are looking to increase our duration exposure for better returns from the market recovery going forward. We continue to monitor sovereign bond yields for opportunities to increase our exposure in GIIs at attractive entry level for trading opportunities. Nonetheless, we maintain our overweight position in corporate sukuk versus government bonds, as we believe our preference for corporate bonds over sovereign bonds and strong credit selection will continue to add value to the Fund portfolio. Such positioning would 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 return on investment purposes. At the same time, we will continue to trade opportunistically and realize profits, reinvesting into longer-duration and higher yield accretive bonds while also considering new primary issuances with higher yields to increase the Fund returns.

Equity Outlook & Strategy

As at writing, equity markets have been rattled by escalation tensions in the Middle East. Investors turned to a risk-off mode, evident by the rush into gold, oil prices spiked, and other commodity prices followed suit. Whether this marks the beginning of a continued escalation or otherwise, has in any case set tensions in the region and indeed the global markets. A rational course of action would be for both sides to restraint, as both sides have much to lose from such a conflict., Our base case is for non-escalation and hence remain optimistic outlook for Malaysian equities, supported by the government stability and the execution of the Madani Economic Initiatives. Given the sell-down recently, as well as foreigners continue to sell, we may look for opportunities for names that we favor, be it having strong thematic trends, solid growth stocks, and so on. In any case, the macroeconomic outlook suggests a 'soft-landing' in the US, while Malaysia's GDP growth is expected to be firmer in 2024.

For Allianz Life Amanah Dana Ikhlas:

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

We maintain our themes which are high-yielding companies will remain a cornerstone of the portfolio structure while we add on more growth stocks. In our pursuit of growth, we look for thematic investing for 2024 focusing on 1) Emphasizing NETR-related segments such as water, solar, and energy- efficiencies businesses, 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) Lastly, fostering a closer Malaysia-Singapore relationship which will directly benefit Johor State and with the Yang DiPertuan Agong coming from Johor, we believe all stars are aligned for businesses in the Johor state.

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

Stock selection in the Information Technology and Health Care sectors was the key contributor to performance in March.

At a single stock level, a key contributor was a large mining group engaged primarily in the exploration and development of gold, copper and zinc. As well as benefitting from higher raw material prices, the company also announced strong results including positive free cash flow and a significant hike in its dividend payout ratio. Looking ahead, we believe that its growth should be underpinned by increased production output and growing volumes.

Conversely, a leading detractor was a premium electric vehicle (EV) maker. The share price had rallied strongly in February following good results. While we believe that the company will likely gain further market share, nonetheless, the industry is facing intense competition which is likely to impact near-term profitability. As such, we exited the stock during the month.

Market Outlook

China equities were relatively stable in March, consolidating the pre- and post-Chinese New Year rally. Both onshore and offshore markets have recovered from previous weakness to deliver relatively flat returns year-to-date.

The initial catalyst for the recovery was an abrupt change in supply and demand dynamics within the market. On the supply side, there had been extensive selling pressure from the unwinding of "snowball" derivative products linked to small cap indices. This pressure plateaued in January. Many of these products have subsequently been closed, so this is unlikely to be a source of weakness going forward. There has also been tightened scrutiny over initial public offerings (IPOs), leading to a marked reduction in new issuance and curbs on short selling.

The increased demand for equities was initially spurred by "national team" buying, evident through a significant pick-up in domestic exchange-traded fund (ETF) volumes. More recently, the buying appears to have broadened out somewhat with market volumes overall picking up and retail margin balances – a good proxy for local investor sentiment – increasing notably since Chinese New Year.

Also contributing to the improved demand/supply balance was a slew of coordinated share buyback announcements from state-owned enterprises, as well as some high-profile companies hiking dividend payouts. This looks likely to become more of a market feature going forward. The newly appointed head of the Chinese securities regulator has pushed for companies to enhance shareholder returns, in a move that echoes recent governance changes in Japan and Korea.

Looking ahead, our view is that the balance of risk and reward is looking considerably more favourable now than before. Certainly, the "Beijing put" appears to have been successful so far in putting a floor under the market.

Valuations are also helpful in providing some downside cushion. The forward price-to-earnings ratio (P/E) of the MSCI China A Onshore Index is around 12x. Also notable is that the dividend yield of the China A-shares market has risen well above China government bond yields – an important consideration for domestic investors who have limited investment options given the country's capital controls.

In recent months, we have quite significantly rebalanced the portfolio. On one hand, we have added to some "older economy" businesses where reduced capital expenditure (capex) requirements are significantly boosting free cash flow, and in turn the potential for higher dividends and share buybacks. We have also added to stocks in key growth areas such as industrial automation, power grid development, the semiconductor supply chain, and artificial intelligence-related (AI-related) applications. Conversely, we reduced exposure to areas where we see potential earnings risk, for example related to weaker consumption.

As at month-end, the onshore/offshore allocation was around 40% in China A-shares. The portfolio has relatively close-to-benchmark sector allocations. The largest sector overweight is Communication Services (+1.3%), while the largest underweight is Financials (-2.6%).

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 moved higher over March, further bolstering already strong year-to-date returns. Sentiment was lifted by signs of improving economic momentum in Europe and China, as well as by central bank indications that rate cuts were likely to start in the summer. US equities advanced, with the S&P 500 Index and Nasdaq Composite Index setting fresh all-time highs. Value stocks outperformed growth-oriented companies as the advance broadened out from the Technology sector.

The Swiss National Bank became the first major central bank to lower rates this cycle. However, in general, central banks stuck with the mantra that rates would be cut this year, but not before summer. In contrast, after months of speculation, the Bank of Japan (BoJ) finally raised rates to 0-0.1% and ended its yield curve control policy. Headline inflation rates slowed in Europe but ticked higher in the US, Japan and China, with the latter exiting deflation for the first time in six months.

Commodity prices rallied. Oil prices moved higher, closing the month around USD 87 per barrel (Brent crude) given the ongoing conflicts in Ukraine and the Gaza strip, as well as the increased attacks in the Red Sea. Gold prices also advanced, touching a fresh high of more than USD 2,200 an ounce. However, iron ore prices slumped to a 10-month low given muted Chinese demand and ample supply.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, the Energy and Materials sectors were the top performers, as commodity prices rallied. Conversely, the Consumer Discretionary and Consumer Staples sectors 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). The Information Technology and Consumer Discretionary sectors were the largest detractors to relative performance, while the Health Care and Materials sectors contributed. Artificial intelligence (AI) applications faced headwinds as a few software companies pulled back following their earnings results. AI-enabled industries outperformed with tailwinds from the Health Care and Materials names.

Contributors

Among the top contributors to relative returns was a medical device company that specialises in continuous glucose monitoring (CGM) systems with smart device connectivity. The system provides real-time glucose readings that helps diabetics control blood-sugar levels and improve quality of life. The company delivered better-than-expected earnings with solid results from the US region and strong new patient starts. Its sales momentum should continue. Its strong product pipeline and portfolio of CGM systems position it to capitalise upon a large, underpenetrated patient population. This includes an opportunity to capitalise on the non-insulin type 2 patient market.

Our underweight position in a technology hardware producer was another relative contributor due to its significant weighting in the benchmark. It had an average 10% weight in the benchmark, while the Fund did not have exposure to the name. Shares pulled back on softer smartphone shipments in China and from the European Union (EU) commission issuing a fine on the company.

Detractors

The top relative detractor over the period was a cloud-based data analytics company. Although it delivered solid earnings results, shares pulled back as its cloud revenue grew slightly less than expectations. The company's vector search offering continues to experience strong interest from customers looking to build their own generative AI solutions. This opportunity remains in the early innings and should allow the company to capitalise on the rapid adoption and development of generative AI.

Our position in electric vehicle (EV) maker, Tesla Inc., was also a top detractor. Shares underperformed as EV demand has broadly decelerated and amid uncertainty surrounding Tesla's price cuts. However, it is worth highlighting that Tesla executed on reducing vehicle manufacturing costs, allowing the company to pass cost savings to consumers while increasing automotive gross margins. Further, the scaling of Cybertruck not only yields enhanced revenues, but also should be additive to gross margins and profitability. Tesla continues to have ambitious innovation agendas spanning EV, energy transition, AI and advanced robotics. We believe the company is making strong progress on each of these agendas in ways that can unlock significant shareholder value in the future.

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

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

New Buys and Sells

A new position for the Fund is a global financial services company with business segments that includes institutional securities, wealth management and investment management. We initiated a position in the company at this time as we believe the relative reward to risk is attractive. We are constructive on the new CEO, who took over leadership in late 2023. Further, we believe the company is well positioned to deliver products and services leveraging AI to enhance its various product offerings. The company invests significantly in AI research and development, and they are a strategic client of a leading AI research lab in the field.

We initiated a position in a provider of cloud-based data warehouse services, which gather data from various sources to a single repository for deeper analysis, as shares corrected post the company's recent earnings report where the management provided conservative guidance and announced a CEO transition. The company leverages advanced AI for multiple applications that enhance data management and extraction of actionable insights. Further, continued development of AI should increase demand for its software. Organisations that run AI training and inference will need to deal with operational demands that include growing data volume and complexity, the need for scalable and secure data management and collaboration among various stakeholders. Its software helps address these challenges. The company remains well positioned as a key enabler as AI technology evolves and broadens across industries.

We exited our positions in a global payments and travel services provider and a cyber security provider, as shares appreciated significantly and approached our price target.

Market Outlook

We believe the equity market recovery in 2023 can extend into 2024. Over the last couple of months, the US equity market has shown signs of broadening out beyond the Magnificent 7*, as interest rates appear to be on a path lower with an economic soft landing more likely. At the March 2023 Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) held fed funds rate steady and again signalled multiple rate cuts could come in 2024 and 2025 as rates are either at or near peak levels with promising inflation and moderating jobs data.

The backdrop for normalising monetary policy should be conducive for an economic recovery and for growth to reaccelerate as 2024 progresses. The recent soft economic backdrop due to higher interest rates has weighed on some sectors and industries more than others. Lower rates and easier financial conditions should translate to better demand, easier access to capital and increased investment in high return-on-investment projects like AI.

We also think small- and mid-cap stocks have the potential to outperform large caps in 2024, given historical outperformance during a recovery phase and the relatively muted returns over the past few years. Even if there is more market volatility ahead, smaller stocks might be further along towards a recovery as estimates already discounted more of the uncertainties ahead, in our opinion. Earnings growth looks poised to reaccelerate in 2024 across more sectors, which should be supportive of a continued broadening of the market. There are likely bumps along the way and the market might be due for a short-term breather after the recent strength, but there are reasons to be optimistic for 2024.

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 infuses 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.

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-enabled industries: AI is helping to reinvent digital transformation, introducing new generative AI possibilities that can significantly boost productivity and reduce costs. As more processes go digital, the opportunity for AI to react to new information or unexpected changes can revolutionise every industry. Many companies in AI-enabled industries are increasing investments in generative AI to train one's own industry-specific model on its proprietary content or knowledge to compete better and innovate in the future. We are witnessing an increasing number of companies across automotive, consumer, health care and finance sectors leveraging proprietary datasets that could yield differentiated AI models and applications 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 strategy, 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 advanced over March. Sentiment was lifted by signs of a pick-up in growth in China and Europe, as well as the ongoing resilience of the US economy. In Japan, equities added further to their year-to-date gains. After months of speculation and the conclusion of the Shunto annual wage negotiations between labour unions and management, the Bank of Japan (BoJ) lifted negative interest rates, signalling a move away from deflation.

China equities were relatively stable in March, consolidating the pre- and post-Chinese New Year rally. Both onshore and offshore markets have recovered from previous weakness to deliver relatively flat returns year-to-date. Elsewhere in the region, stocks surged in Taiwan and South Korea as semiconductor companies benefitted from the artificial intelligence (AI) wave. Australian stocks also advanced over the month, with the ASX closing at record highs on hopes of rate cuts in H2.

The Fund underperformed the benchmark in March. Stock selection was a key driver, with stock selection in the Taiwan technology area being the key source of detraction. There was significant dispersion among names, with results being highly stock-specific as the market digests the deployment of generative AI.

At a single stock level, a top detractor was Alchip Technologies, a Taiwan semiconductor company focused on high-complexity and high-volume chip design for a global clientele. Its share price corrected somewhat after hitting all-time highs in February. AI-related projects are expected to become a significant future growth driver, especially applications for cloud computing and data centres. We believe Alchip offers superior technology which is demonstrated by its growing project pipeline.

Highlighting the dispersion of returns in the Taiwan tech sector, Aspeed was a top contributor last month. The company is a leading baseboard management controller (BMC) supplier, a technology used to remotely monitor the physical state of a server. The share price rally was prompted by an upbeat growth outlook. We view Aspeed as playing an important role in the global AI supply chain given growing demand for AI chips and servers.

Overall positioning of the portfolio remains little changed. 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 35%, and there were some new names initiated during the month. We also took the opportunity to add to holdings in South Korea, where sentiment has been strong leading up to elections in April and proposals from the regulator to improve corporate governance. This positioning is balanced by underweight positions in India, Australia, and Hong Kong/China.

At the sector level, Financials remains our largest underweight, along with the Consumer Discretionary and Communication Services areas.

Market Outlook

We continue to have a constructive view on the regional market outlook. There was an historical move in Japan this month, with the BoJ terminating its negative interest rate policy and abandoning yield curve control following the strong annual Shunto wage negotiations. Structurally, the change to a more inflationary environment, coupled with strong corporate governance reforms prompted by the Tokyo Stock Exchange are expected to support improved earnings growth and a greater focus on shareholder value. In our view, valuations in Japan are still reasonable, especially relative to other developed markets. Our base case is also to expect some Japanese yen appreciation from current levels.

In China, our view is that the balance of risk and reward is more favourable now. While near-term visibility on growth remains uncertain, any signals of macro stabilisation could trigger a marked rally given the depressed valuations. Elsewhere in the region, there are signs of stronger 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 advanced over March. Sentiment was lifted by signs of a pick-up in growth in China and Europe, as well as the ongoing resilience of the US economy. While major central banks moved to dispel speculation that rates could be cut as soon as March, they continued to forecast lower borrowing costs were on the cards in 2024. China equities were relatively stable in March, consolidating the pre- and post-Chinese New Year rally. Both onshore and offshore markets have recovered from previous weakness to deliver relatively flat returns year-to-date.

Elsewhere in the region, stocks surged in Taiwan and South Korea as semiconductor companies benefitted from the artificial intelligence (AI) wave. ASEAN markets also appreciated as a whole, with Singapore gaining the most. Indian equities rose modestly against a backdrop in which the Reserve Bank of India (RBI) indicated that India's gross domestic product (GDP) growth in the fiscal year ending March 2024 could approach 8%, representing the fastest growth among major economies.

Stock selection in the Health Care and Communication Services areas contributed at a sector level, offsetting weaker picks in Financials. At a market level, stockpicking in South Korea and India was a source of relative outperformance, although selection effects in Taiwan offset some of the gains.

At a single stock level, a top contributor was index heavyweight Samsung Electronics, the Korea-based chipmaker and consumer electronics manufacturer. Its share price performed well on expectations that excess inventory levels in semiconductors and memory chips will be digested in coming months, leading to stronger pricing power, along with a broader technology tailwind from AI deployment.

In contrast, a key detractor was AIA, the regional life insurer. The company reported decent quarterly results, but the share price pulled back as a result of market disappointment on the lack of a dividend or share buyback increase. We view AIA as one of the best quality insurers in Asia with continued long-term growth potential. We also expect company management will take action later in the year to enhance shareholder return policies.

During the month, we repositioned somewhat in Taiwan technology to capture the recent profit taking in selective AI names, as well as in the China consumer area, where we are seeing some signs of market stabilisation. Overall, we remain slightly underweight in Hong Kong/China, where despite recent improvements, macro conditions continue to weigh on market sentiment. India continues to be a key market – the portfolio weight at the end of March 2024 was 24%, compared to the benchmark level of 21%.

At a sector level, Real Estate and Technology are the primary overweight positions, while Industrials is the main underweight. Top names in the portfolio at month-end include Taiwan Semiconductor Manufacturing Company, Samsung Electronics, and Tencent.

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, 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 trigger a market rally given the depressed valuations. Overall, from a regional standpoint, valuations remain at reasonable levels.

For Allianz Life Global Income Fund:

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

Market Review

Global stocks and bonds finished higher in March. With the Q4 earnings season winding down, investors focused on economic data and monetary policy. The labour market remained healthy, the services sector stayed in expansionary territory, and consumer sentiment increased. In contrast, the manufacturing sector contracted, and some inflation measures were higher than anticipated. The US Federal Reserve (Fed) kept rates unchanged at March's Federal Open Market Committee (FOMC) meeting with Chair Jerome Powell suggesting policy easing "at some point this year".

In this environment, global equity markets, as measured by the MSCI World Index, returned +3.21%.* US developed equities underperformed their non-US counterparts, and growth stocks underperformed value stocks. Global convertible securities finished higher and new issuance increased month-over-month. Global high yield bonds also advanced and new issuance increased versus the prior period. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +0.55% with US exposure outperforming non-US.^

The portfolio was positively impacted by strength across global equities, global convertible securities, and global corporate bonds.

Top contributors were semiconductor companies, including several manufacturers and Nvidia, which unveiled a new artificial intelligence (AI) processor. Multiple aerospace companies, such as BAE Systems, outperformed on improved expectations for cash flow growth. Within Health Care, diabetes management and obesity drug manufacturing positions gained. Strength in Financials was partly driven by a European bank that reported strong earnings and an insurance company on margin improvement optimism. A British food company also outperformed.

Top detractors included a beauty retailer and a digital transformation company that guided conservatively. Multiple online gaming positions consolidated strong year-to-date gains. Several software positions underperformed on sales growth fears and production outlook concerns weighed on an airframe manufacturer. Select semiconductor and ecommerce holdings also underperformed.

Exposure increased the most in Consumer Discretionary, Financials, and Health Care, and decreased the most in Technology, Real Estate, and Communication Services. Covered call option positioning increased month-over-month.

Market Outlook

2023's economic momentum has carried over into 2024. Economic tailwinds include low unemployment, steady consumption, government spending, waning inflation, a stabilising manufacturing sector, an end to the rate hike cycle, and accelerating earnings. Economic headwinds include continued restrictive monetary policy and quantitative tightening, less savings, and US/international political risks, among others.

Global equity valuations reside near long-term averages. Visibility around 2024 and 2025 earnings, currency and rate 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 nearly 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 31 March 2024 unless otherwise stated.
* Source: MSCI, as at 31 March 2024
^ Source: Bloomberg, as at 31 March 2024

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

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities moved higher over March, further bolstering already strong year-to-date returns. Sentiment was lifted by signs of improving economic momentum in Europe and China, as well as by central bank indications that rate cuts were likely to start in the summer. At a sector level, Energy companies advanced the most, followed by Materials stocks, while Consumer Discretionary was the weakest.

Global bonds gained as central banks appeared to be less concerned about the possibility of a resurgence in inflation than many had feared. The largest downward movement in yields was seen in Europe, particularly in the UK where 10-year yields dropped around 25 basis points (bps) after UK inflation fell more than expected. Elsewhere, the yield on the 10-year German Bund fell 10 bps to 2.3%, while the 10-year US Treasury yield declined 5 bps to 4.2%.

The Swiss National Bank became the first major central bank to lower rates this cycle. Japan was the exception with bond yields rising slightly after the Bank of Japan (BoJ) finally ended its below-zero interest rate policy. The US dollar, euro and British pound strengthened against the Japanese yen. While BoJ increased borrowing costs for the first time since 2007 and ended its yield curve control policy, it stressed that borrowing costs would not rise sharply until inflation expectations were anchored at its 2% target.

Commodity prices rallied. Oil prices moved higher, closing the month around USD 87 a barrel (Brent crude) given the ongoing conflicts in Ukraine and the Gaza strip, as well as the increased attacks in the Red Sea. Gold prices also advanced, touching a fresh high of more than USD 2,200 an ounce.

Market Outlook

The Fund returned positively (in EUR, gross of fees) in March, slightly lagging global equity markets as represented by the MSCI AC World Index. The Fund underperformed the global equity markets in Q1 but posted a pleasing increase in value.

Although we had already adopted a more cautious positioning, the Energy theme of the future lagged the broad market trend in Q1 but contributed well over the course of March. Initial positive signals that wind and solar had already bottomed out did change the mood of market participants. The Clean Water and Land theme also contributed well to the overall performance.

Stock selection has been the main source of performance as companies like a pump manufacturer; an industrial equipment manufacturing company focused on heating, ventilation, and air conditioning (HVAC) and refrigeration systems; as well as Pentair benefitted from recent pick-up in business active and generally more positive economic activity. The influence of the index-heavyweights was mixed over the course of March, as the underweighting of a technology company that designs graphics processing units had a negative impact on overall performance, while the underweighting of a US tech giant made a positive contribution. Stock selection among the Digital Life theme contributed negatively to overall performance, as disappointing quarterly results pressured a cyber security company. A company providing animal health solutions suffered after falling slightly short of market estimates.

The portfolio forward-looking price/earnings relation sits at the level of global equity markets – at a level not seen in the past five years. At the same time, both earnings growth as well as sales growth are expected to come in well above global equity markets average. The portfolio continues to have a high degree of diversification. In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year.

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 broadly rallied to close the quarter, fueled by resilient corporate earnings and a boom in artificial intelligence, as U.S. equities saw their best start to the year since 2019. Labor markets remained robust, with the U.S. economy adding 275k jobs in February, beating forecasts of 200k and higher than a downwardly revised 229k in January. On the inflation front, U.S. headline CPI rose by 3.2% year-over-year (YoY), slightly exceeding the market consensus of a 3.1% advance and modestly delaying rate cut expectations. In the Euro Area, headline inflation came in at 2.6% YoY in February, modestly down from a 2.8% print in January. In the UK, headline inflation rose at a 3.4% YoY rate, compared with 4% for the previous two months.

Total returns were broadly positive across fixed income markets, with most spread sectors outperforming Treasuries over the month. U.S. Treasury yields modestly declined as the U.S. Federal Reserve leaned dovish at the March meeting, signaling the U.S. central bank is on track for rate cuts later this year. UK 10-year gilts rallied in March as the BoE signaled inflation was moving in the right direction for it to start cutting rates. In the front end, U.S. 2-year Treasury yields were flat, while German 2-year Bund and UK 2-year Gilt yields rallied 5bps and 11bps, respectively. U.S. 10-year Treasury, German 10-year Bund, and UK 10-year Gilt yields rallied 5bps, 11bps, and 19bps, respectively.

Equity markets rallied on growing investor optimism about prospects for Federal Reserve rate cuts later this year, with the S&P 500 reaching new all-time highs and posting returns of 3.22% over the month. Euro equities led the way and the MSCI World returned 3.27%. China equities lagged, with the Hang Seng Index returning 0.64%. In credit, USD and EUR investment grade spreads tightened by 5bps and 6bps, respectively. High yield performance was mixed, as USD high yield spreads tightened by 13bps while EUR high yield spreads widened by 10bps.

For Allianz Life World Healthscience Fund:

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

Market Review and Outlook

Market:

• Global equity markets rose in February as positive economic data and strong earnings led the MSCI ACWI to return +4.3%. Contrastingly, fixed income markets broadly lagged, with the Bloomberg Global Aggregate Index returning -1.3%.

• In the US, inflation continued to cool, with January's Personal Consumption Expenditures (PCE) index falling. This trend supported investor expectations of interest rate cuts later this year, despite the labour market's demonstrated resilience with the addition of 353,000 jobs in January. On the earnings front, nearly 75% of companies reported results that exceeded analysts' expectations, with technology stocks continuing to outperform.

• In Europe, economic stagnation persisted with the Purchasing Managers' Index (PMI) indicating that the Eurozone economy was still contracting. Inflation in the region's two largest economies, Germany and France, fell to its lowest level since 2021, but service prices remained sticky. In the UK, growth data revealed that the country fell into technical recession in 2023, yet Consumer Price Index (CPI) data showed that inflation still exceeds the Bank of England's (BOE) target of 2%.

• In China, equities fell to a 5-year low as stocks underperformed and the real estate sector struggled. In reaction, the central bank cut its key mortgage rate by a record amount to stem the property crisis. Later in the month, activity strengthened as the country celebrated the Lunar New Year and experienced strong tourism and consumer spending.

• In Japan, the Nikkei set a record high for the first time since 1989, partially due to a rally in semiconductors. Corporate reforms, robust earnings, and expectations of accommodative monetary policy also supported the strong investor sentiment, despite a weaker than anticipated fourth quarter GDP print.

• From a sector perspective, Consumer Discretionary, Information Technology, and Industrials were the strongest performers while the Utilities sector declined.

• Regionally, Emerging Asia, the US and Emerging Europe had the highest returns over the month while Emerging Africa and Emerging Latin America experienced negative performance.

Stocks:

• Not holding a position in CSL was the largest contributor to relative performance over the month. The Australian biotechnology company released results from a phase III clinical trial for a key heart drug which lacked the anticipated level of efficacy.

• An underweight position in Novartis also appeared among the largest contributors to active performance after investors reacted negatively to the announced acquisition of MorphoSys, an oncology-focused biotechnology firm.

• Elsewhere, an overweight position in Amgen was the largest detractor from relative returns as mixed results for the firm's obesity treatment, MariTide, were reported.

• Lastly, an overweight position in Biogen detracted from active returns. The biotechnology giant reported weak earnings on the back of slow adoption of their Alzheimer's treatment, Lequmbi.

Changes:

• During the month, we rotated our exposure within pharmaceuticals, while sourcing capital from select biotechnology stocks where near-term outlook appears challenged.

For Allianz Life World Healthscience Fund:

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

Key Positioning & Outlook:

• Despite strong equity market performance in 2023, we continue to navigate an uncertain political and economic environment. We seek opportunities in segments 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.

• 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 first quarter of 2024, financial markets saw mixed performance. Equity markets and riskier fixed income assets produced positive returns, whereas interest rate sensitive fixed income assets ended the quarter in negative territory. Upside surprises in economic data spurred investor appetite for risk assets. Contrarily, stickier than anticipated inflation prints served to push out expectations for the timing of interest rate cuts to the second half of the year and reduced the number of expected interest rate cuts for 2024 by half, which ultimately drove bond yields lower. Geopolitical tensions provided a potential tail risk, however not to an extent as to derail the market momentum.

• Developed Market Equities performed strongly across the board. Japan emerged as the top-performing market, owing to a combination of a weaker yen and a series of government reforms, including the termination of their negative interest rate policy. US Equity market returns continued to display signs of concentration, however the "mag seven" saw some divergence with Nvidia, Microsoft, Meta and Amazon serving as core positive drivers of index returns, whereas Apple and Tesla finished the quarter in negative territory. European Equities lagged their developed market counterparts, though saw a strong rally in March as stronger economic data and attractive valuations drove positive investor sentiment for the region. Emerging Market Equities broadly lagged that of Developed Markets over the quarter, however Chinese equity markets rebounded strongly following brighter economic activity data and supportive interventions from the People's Bank of China.

• Fixed income markets saw mixed performance over the quarter. Sovereign Bonds and Investment Grade Credit provided negative returns as the timing of interest rate cuts was pushed out to the second half of the year and the number of cuts reduced by over half. Global High Yield provided positive returns, however, benefitting from lower interest rate sensitivity and the prospect of easing financial conditions.

• Elsewhere, the performance of commodities was strong over the period. Oil prices rose significantly off the back tightening global supplies, better than expected consumption, and geopolitical risks, notably in Russia and the Middle East. Despite a stronger US dollar, the prospect of interest cuts in the second half of the year was enough to spur a rally in Gold. Strong central bank buying and safe-haven inflows amid growing geopolitical tensions also boosted demand for the precious metal.

Performance

• Against this backdrop, the Fund delivered a positive return. From an asset class perspective, the allocation to Developed Market Equities was the key driver of returns over the first quarter, however the allocation to Emerging Market Equities and to Gold was also additive, albeit to a lesser degree. Contrarily, the allocation to Fixed Income and to Listed Alternatives detracted as yields broadly moved up over the quarter.

• Within Equities, three of our four core alpha strategies managed by the BlackRock security selection specialists, namely the Brighter Futures Fundamental Active Equity Strategy, the recently added Global Unconstrained Equity strategy and the Systematic Active Equity strategy, have led the contributions, each adding alpha relative to their opportunity sets. The Global Sustainable Infrastructure Equity Strategy, on the other hand, was impacted by the prospect of higher rates for longer.

• Elsewhere, Thematic Equity baskets have added strongly to returns in aggregate with the most notable contributions from the Mega Cap Tech Equity and the Global Brands baskets. The allocation to Japan via the Japan High Dividend Equity basket and broader Japan Equity Index futures also contributed positively.

• Additionally, Gold has also been a key contributor benefitting from the prospect of rate cuts later in the year, central bank purchasing and its safe haven qualities amid heightened geopolitical risk.

• Listed Alternatives were down in aggregate after a challenging performance period in January. Fixed Income exposures, despite recovering somewhat in March, also detracted in aggregate as the timing of interest rate cuts was pushed out.

For Allianz Life ESG Integrated Multi-Asset Fund:

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

Positioning

• We continue to express a constructive view on developed market equities as we see the potential for equities to grind higher as growth cools but remains robust, and disinflation continues. We are therefore remaining long risk yet continue to seek out hedging strategies where pricing looks attractive. Additionally, we remain focused on identifying short-term tactical trades as dispersion across regions, sectors, and themes presents opportunities.

• During the quarter we therefore added exposure to Chinese equity options given attractive valuations. We also added a new Luxury Goods Basket on a highly tactical basis as we identified a dislocation between the valuations of high-end brand names and the resilience in the global consumer data. However, we closed the position later in the quarter at a profit after a sales warning from Gucci negatively impacted our outlook for the sector.

• We took profits on the customised Japanese high dividend equity basket after a period of strong performance. The Green Technology basket was also trimmed due to a reduction in near-term conviction on the theme given the potential impact of political rhetoric on renewable names in the lead up to the US election. We therefore maintain exposure, albeit at a smaller risk allocation, given our positive long-term view on the theme and are monitoring closely for attractive re-entry points.

• We closed our position in EU Carbon Credits due to expectations of a lacklustre rebound in the European manufacturing cycle and suppressed power prices in Europe. Elsewhere, we closed out of the Biodiversity and Natural Capital Basket given a lack of near-term upside catalysts for theme.

• In Fixed Income, we remain cautious on duration in the near term, reflecting marginal underweights relative to the risk benchmark given continued uncertainty surrounding the timing of rate cuts yet we remain poised to manage duration dynamically from here. We therefore prefer shorter duration corporate credit.

• During the period, we also took some profits on the Gold position given the recent stark outperformance and use the proceeds to fund a position in Silver given Silver's tendency to follow Gold's performance on a lagged basis and signs of increasing demand for the precious metal.

Outlook

• Following a strong first quarter for equity markets, there seems little in the near term to upset the market's perception that inflation is slowing, growth is holding up and rate cuts are coming. However, rate cut expectations for 2024 have been reined in from the six plus cuts expected in December to three, resulting in fixed income assets underperforming. Against this backdrop we maintain a constructive allocation to equities and allocate to corporate bonds for their income and diversification. Moreover, the geopolitical picture remains uncertain providing a case for diversifying assets such as precious metals.

• The Federal Reserve held rates steady after their latest press conference, with the current expectation that they will start to cut rates at some point between June and September, but it this is not yet a certainty. We believe US inflation will continue to come down, although the final steps in the path to the Federal Reserve's 2% target remain less certain and we are closely monitoring reflationary risks. Whilst market pricing for interest rate cuts by the ECB also increased over the last months of 2023, converging more closely with that of the Fed, we still believe the weaker economic growth picture and more positive disinflation backdrop in Europe suggests the likelihood of the ECB delivering on expectations of rate cuts compared to the Fed is higher.

• The growth outlook for the US remains robust as inflation continues to fall slowly and there are no signs of a recession. Labour markets remain tight with little sign of breaking and consumer spending is expected to further grow. Ultimately, we expect that the US economy will see real GDP growth in 2024 that is close to its long-term trend, which has been supported by recent payrolls data. We believe that risks to the economy remain relatively high, 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 US interest rates, emerging market assets have become more attractive. Continued disinflation, as well as improving activity, 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.

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

• Chinese equities have come under pressure due to concerns that policy support measures remain too limited. We expect that China's many systemic problems (including a property crisis, weak spending, and high youth unemployment) will continue to weigh on the economy and dominate its outlook for 2024. However, we note that the market's pessimistic view of the country may leave room for an upside surprise in equity market returns.

• 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.