

February 2022

# Allianz Life Global Artificial Intelligence Fund



## Investment Objective

The Allianz Life Global Artificial Intelligence Fund (the "Fund") feeds into Allianz Global Artificial Intelligence- USD ("CIS") and aims to provide long term capital growth by investing in global equity markets with a focus on the evolution of artificial intelligence.

## Investor Profile

The Fund is designed for investors who pursue the objective of general capital formation/asset optimisation and/or above-average participation in price changes; have basic knowledge and/or experience of financial products; and are capable of bearing a financial loss. The Fund may not be suitable for investors who wish to withdraw their capital from the Fund within a short or medium timeframe.

## Performance Indicator

	1 month	3 months	6 months	Since Inception	YTD
Allianz Life Global Artificial Intelligence Fund	2.13%	-19.76%	-17.74%	-18.40%	-15.88%
Benchmark	-3.61%	-7.07%	-5.96%	2.13%	-10.05%
Allianz Global Artificial Intelligence (USD)	2.18%	-21.82%	-20.96%	-17.37%	-18.62%

Ringgit depreciated 0.65% (YTD) and depreciated 2.72% (since inception).

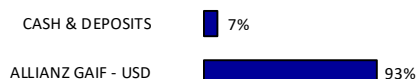
Source: Bloomberg and <https://sg.allianzgi.com/>

The above performance of the Fund is calculated in Ringgit Malaysia on a NAV-to-NAV basis. It is strictly the performance of the investment fund and not the returns earned on the actual premiums paid of the investment-linked product. Past performance is not an indication of future performance.

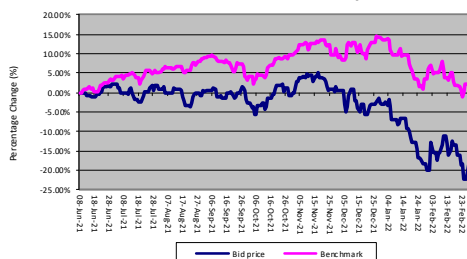
## Facts on CIS

Name	Allianz Global Artificial Intelligence- USD ("Allianz GAIF - USD")
ISIN	LU1548497426
Type	Undertaking for Collective Investment in Transferable Securities
Fund Manager	Allianz Global Investors US
Fund Currency	USD

## Portfolio Composition



## Performance Since Inception



## Key Fund Facts

Fund Size	RM30.324 million
Risk Profile	Moderate Investor
Launch Date	8 <sup>th</sup> June 2021
Fund Currency	Ringgit Malaysia
Investment Manager	Allianz Life Insurance Malaysia Berhad
Pricing Frequency	Daily
Price per Unit <sup>1</sup> (as at 28th February 2022) - Bid	0.816
Management Fee	1.50% p.a
Other Charges <sup>2</sup>	Include but not limited to government tax, auditor fee, custodian fee, & transaction charge

1. The price per unit of the Fund is the total market value of assets in the Fund divided by the total number of units of the Fund. To ensure fair treatment to all unit holders, transaction costs of acquiring and disposing of assets of the Fund are recouped by making a dilution or transaction cost adjustment to the NAV per unit of the Fund. Allianz Life Insurance Malaysia Berhad retains the right to suspend issuance or redemption of units of the Fund under exceptional circumstances, e.g. temporary closure of any stock exchange, as disclosed in the fund brochure.
2. Expenses directly related to and necessary in operating the Fund.

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Allianz Life Insurance Malaysia Berhad (198301008983)

Level 29, Menara Allianz Sentral, 203 Jalan Tun Sambanthan, Kuala Lumpur Sentral, 50470 Kuala Lumpur.

Allianz Life Call Centre: 603-2264 1188

[www.allianz.com.my](http://www.allianz.com.my)

# Allianz Life Global Artificial Intelligence Fund

## Manager's Comment (For Allianz Global Artificial Intelligence- USD)



### Market Commentary

- Global equities retreated in February, adding to their already sizeable losses in January. Growing concerns that central banks will need to be more aggressive in raising interest rates to tackle rampant inflation initially knocked sentiment, with news that Russia had invaded Ukraine leading to a further sell-off towards the month-end. Major economies announced wide-ranging sanctions against Russia, including limiting the ability of the Central Bank of Russia to access its reserves and excluding several Russian lenders from SWIFT, the global payments system. Communication Services, Consumer Discretionary and Information Technology stocks led the decline, while Energy and Materials stocks advanced as commodity prices surged.
- Information Technology and related stocks underperformed the broader market during the period. Across the group, quarterly earnings results drove meaningful divergences and volatility though macro influences remained a factor. Software results were largely positive with enterprises remaining steadfast in their digital transformation journeys. Internet and ecommerce stocks faced varied outcomes given different sensitivities to reopening dynamics and app store policies. Semiconductors were the best performing group in tech as quarterly results forward commentary reinforce favourable supply versus demand dynamics. At a higher level, Technology stocks levered to reopening outperformed stay-at-home beneficiaries.
- During the period, the Fund outperformed on a gross of fees in USD basis the custom benchmark (50% MSCI All Country World Index/50% MSCI World Information Technology Index).
- **Contributors:** Our position in leading metals and mining company, Freeport-McMoRan, was one of the top contributors. Shares gained amid a drop in copper inventories while demand conditions appeared more favourable. The outlook for infrastructure spending in China has improved, while secular drivers such as the transition to clean energy should support the copper over the long term. Later in the period, Freeport's CEO suggested that copper's increasing scarcity could catalyse acquisition activity, but no deals are imminent. We maintain our constructive view on the company as Freeport has embraced artificial intelligence (AI) to drive greater operational efficiency within its various exploration and mining operations.
- Our position in social networking platform operator, Snap, was also among the top contributors. Shares gained after the company reported strong quarterly results and management provided a positive outlook for the current period. The company sounded confident in its ability to navigate the headwinds associated with a US tech giant's recently imposed user tracking limitations which has impacted ad monetisation. Snap also added over 13 million users in the quarter despite rising competition. We remain constructive on the long-term opportunities for Snap to grow its audience and innovate on both its user experience and ad platforms.
- **Detractors:** Our position in a technology conglomerate was one of the top detractors. During the period, the company reported disappointing quarterly results and management provided muted guidance. Its fundamentals were negatively impacted by greater-than-anticipated challenges associated with a US tech giant's privacy changes (Identifier for Advertisers, IDFA). Additionally, the company is seeing a rapid migration of users towards short-form videos where the company faces stiff competition and lower current monetisation rates. Finally, the company is investing aggressively in the metaverse which remains an early endeavour. We believe it is making progress in addressing its challenges associated with IDFA and new formats and that, over time, investors will see the potential in the metaverse. However, we acknowledge that resolution on these issues will take time and will continue to evaluate our position relative to other investment opportunities.
- Our position in a manufacturer of video streaming devices and a digital over-the-top TV operating system was also among the top detractors. Shares came under pressure after the company reported mixed Q4 earnings and guided for a material step-up in operating expenses this year. We expect near-term results to be noisy given prior year growth comparisons and ongoing supply chain disruptions. However, we believe the company stands to be a significant beneficiary of the powerful secular trends in video streaming and an increasing mix towards ad-supported formats.
- **Purchases and Sales:** During the period, we exited several smaller positions where we had lower conviction and redeployed the proceeds to higher conviction areas. Among these actions, we decided to exit a stub position in an online payment company following its disappointing earnings report and guidance. The quarterly report and guidance made it clear that the company will face stiffer headwinds from the wind down of consumer stimulus measures along with a more dynamic and potentially competitive environment that will require a major overhaul of the strategy to get back on track. We will follow the company's progress along this path but believe orchestrating this type of turnaround can take multiple quarters to unfold.
- We also exited the remaining stub position in an entertainment and media conglomerate as we have been concerned that the company's strategy around its streaming service may be stalling. We have been concerned that the lack of new content could impact subscriber additions and possibly result in higher-than-expected churn.

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# Allianz Life Global Artificial Intelligence Fund

## Manager's Comment (For Allianz Global Artificial Intelligence- USD)



### Market Outlook and Strategy

- We exited an ad-tech solutions provider as the company faces several uncertainties from the integration of acquisitions and the impacts of user privacy changes from a US tech giant and prospectively, another technology company.
- We exited a mobile gaming platform as we are disappointed with the company's execution. It has struggled to achieve marketing efficiencies from the integration of a recent acquisition and planned international expansion efforts have sputtered. We chose to exit the position as we have lost confidence in the management team.
- Finally, we exited an online travel company as the company has had inconsistent execution against its business transformation agenda. With the recently announced retirement of its CEO and search for a successor, we have less confidence on the direction of the company. We felt there were other more compelling investment ideas given these considerations.
- We redeployed the proceeds to new position in a leading provider of credit and charge card spending products for consumers and businesses. The company has over 120 million cards-in-force and processed over USD 1.2 trillion in volumes during 2021. It has long been regarded as a premium brand with an emphasis on high income consumers and aligns its value-propositions and ancillary services with the preferences of its target customer. We decided to initiate a position at this time as we believe recent results and guidance suggest the company has an extended runway for growth in a post-COVID recovery environment. Management recently upgraded its longer-term growth guidance based on plans for accelerated customer growth and expectations for the release of pent-up spending on the part of new and existing customers. We believe there are points of conservatism in management's outlook and expect upside to volumes and revenue over the near and medium term. We also anticipate upside to earnings estimates as the company continues to leverage its investments in AI.
- We also purchased a popular gaming platform for school-aged children and young adults. Developers build their own immersive experiences using the company's design tools that have attracted over 50 million users. The platform has made substantial investments in user identity with avatars and fosters a rich community of shared experiences through social networking. These features should help build the metaverse which will yield new use cases for the company in areas like music and brand experiences. It currently employs AI and machine learning for a wide range of uses including automating translation, connecting players by language, and moderating content. We also like that the company aligns its interests with the developer community as this helps it maintain a steady flow of fresh and engaging content creation which in turn draws new users to the platform. The stock has sharply sold-off since November on a market rotation away from high valuation technology names and we see its current valuation as attractive. Given overall market conditions, we will likely opportunistically build the position on further weakness.
- We initiated a position in a solar energy company, which together with its subsidiaries, designs, develops, manufactures, and sells home energy solutions for the solar photovoltaic industry in the US and internationally. The company offers semiconductor-based microinverter, which converts energy at the individual solar module level, and combines with its proprietary networking and software technologies to provide energy monitoring and control services. The company has been investing more aggressively in machine learning and AI over the past several years to embed more intelligence into their products. We have been monitoring it for some time as the company delivers differentiated product, and is a market leader that has enjoyed both strong profitability and high growth. Shares have historically traded at a meaningful premium, but the multiple has meaningfully corrected with the recent dislocations in the market. We think the reward to risk is more compelling at these levels and believe the ramping of its energy storage business could serve as a catalyst that drives a sustained high level of growth for the company.
- Lastly, we purchased a global cybersecurity solutions company. The company has been making aggressive investments in machine learning and AI to improve its products and deliver more robust solutions for security operations management. We initiated a position in its shares at this time as we believe the company is executing better at scale which could drive accelerating revenues at improved profitability. With the improvements in the operating profile of the company, we believe that shares could continue to see a valuation expansion. In addition, we believe the increase in geopolitical tensions is likely to increase the threat landscape in security that could benefit the company and other security providers.

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# Allianz Life Global Artificial Intelligence Fund

## Manager's Comment (For Allianz Global Artificial Intelligence- USD)



### *Market Outlook and Strategy*

- Russia's full-scale attack on Ukraine has, unsurprisingly, triggered a sharp market reaction. The CBOE Volatility Index (VIX) is back to levels seen during the initial stages of the COVID-19 crisis. Equity markets around the world have been marked lower. While this is still a locally contained event, markets are obviously unnerved by the low visibility around the developments and the insecurity around how it will further unfold. With a longer-term perspective, our view is that a sustainable rise in energy prices (and probably also other commodities) is likely to dampen expectations of future economic growth. Partly this is through the demand side, due to weaker consumption, with rising energy bills leading to a significant impact on purchasing power. And through the supply side, potential disruptions to energy supplies, especially in Europe, could lead to a production slowdown. Ultimately this may also dampen pressure for interest rate rises, which have been the main catalyst for the market reversal year-to-date.
- Overall, across our equity portfolios we have very limited exposure to Russia or Ukrainian holdings. Despite their size and population, the direct economic importance of Russia and Ukraine is quite limited (Russia's gross domestic product (GDP) is 1/14th of the US and geared towards primary sectors). So even for those companies most active in Russia, the overall impact is limited. For the most part, the short-term impact we are seeing on share prices is mainly a result of sentiment.
- Outside the geopolitical uncertainties, we continue to see a strong economic backdrop with low unemployment, healthy consumer balance sheets, and lean business inventories. We expect supply chain constraints to improve as the year progresses and labour participation to expand as COVID-induced restrictions ease in impacted industries. Alleviation of these labour and supply bottlenecks could further mitigate the urgency for central banks to act beyond what is contemplated in current market expectations. This next phase of the business cycle is typically a favourable environment for the equity market given broadening economic activity and potential for upward earnings revisions, while valuation may compress modestly.
- Macro or geopolitical events are not a primary driver of the strategy's positioning. Instead, we are focused on investing in companies driving innovation and change. On a year-to-date basis the market focus has been predominantly on interest rate policy, inflation, and geopolitical issues that have caused equity markets to decline. The focus on these short-term concerns presently is understandable. However, as we look at the ascendancy of some of the largest companies in the world over the past 25+ years, we believe the single largest driver of their success has been their ability to innovate, which they have done through technology bubbles, wars, global financial crises, and pandemics. We remain encouraged that the pace of technological innovation continues to advance at an accelerating pace driven by AI. As such, our focus remains on identifying the companies we believe can leverage the ongoing innovation cycle to drive long-term shareholder value for our investors.

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# Allianz Life Global Artificial Intelligence Fund

## Manager's Comment (For Allianz Global Artificial Intelligence- USD)



### *Market Outlook and Strategy*

- **AI Infrastructure:** We expect healthy demand for the ongoing build-out of AI infrastructure in the coming years. As AI training progresses past the pilot stage, the next phase will be about the new types of processing and storage needed to deploy AI from the cloud to billions of edge devices. We continue to believe the global rollout of 5G will accelerate going forward, and the resulting higher bandwidth will enable the collection of more data from billions of mobile and Internet of things (IoT) devices.
- Within AI Infrastructure, we maintain a constructive view on the semiconductor space. In line with the upswing in other pro-cyclical areas, semiconductors have performed well fundamentally and in terms of share price. Looking forward, demand across many areas of end demand remains strong and supply is relatively constrained. We think these dynamics should remain in place over the next several quarters and are supportive of further upside in semiconductor shares.
- **AI Applications:** We are seeing AI get embedded into an increasing number of software applications and systems to help make more intelligent decisions. AI is helping to drive higher levels of automation, better recommendations, faster decision-making, and significant cost savings. As AI continues to advance, we expect software and apps to offer even more personalised services, made possible through an increased understanding of user behaviour and search patterns, allowing companies to deliver more human-centric experiences in real-time. Smart assistants will begin to move from passive to proactive interactions by anticipating the user's needs rather than simply waiting for instructions. AI and machine learning will continue to automate mundane tasks and complicated analyses to free up employees to focus more time and attention on creative and strategic tasks. The recent introduction of quantum cloud computing could lead to significant breakthroughs in AI and machine learning in the coming years as researchers design new algorithms to exploit the exponentially faster computing power. We are just beginning to see AI become a part of more applications, which could potentially create an even bigger market opportunity than past IT transformation eras.
- **AI-enabled Industries:** We are seeing more companies begin to leverage AI to drive innovation. Many of our portfolio holdings in the Automotive, Consumer, Health Care, and Finance sectors are already seeing the early benefits from AI, which is allowing them to introduce unique products and services enabling them to outperform their industry peers. We expect to see more industries roll out AI projects across more of their operations to accelerate their digital transformation. We believe companies will continue to adopt AI technologies such as facial recognition for identification and fraud detection, autonomous vehicles and robots for transportation and logistics, robotic process automation (RPA) and virtual digital workers to automate repetitive office tasks, predictive maintenance powered by IoT to minimise maintenance costs and equipment down time, and augmented and virtual reality (AR/VR) to create engaging experiences and entertainment.
- Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advancement in AI and its deployment. We believe that these changes will drive meaningful growth for companies that are able to take advantage and drive disruption within their respective industries. While it is expected at times that markets may question the underpinnings of this growth, we believe the compounding effect from AI disruption will create long-term shareholder value. We believe that stock picking will be imperative to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change.

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# Investment Strategy & Approach



The investment approach would be a combination of 1) Top down analysis of the macroeconomic environment to determine asset allocation and sector exposure strategy and 2) Rigorous bottom up analysis which includes value analysis and financial analysis, to select individual stocks/credits to generate alpha return.

On top of regulatory limits imposed by Bank Negara Malaysia, Allianz Life have put in place tight internal investment limits for all asset classes to ensure that the Fund does not take on excessive risk, while recognizing there cannot be total elimination of risks associated with investing in the Fund. The following is a non-exhaustive list of key risk factors when investing into the Fund.

- **Market Risk** – The value of the Fund's investment assets may be affected by changes in economic fundamentals, interest rate movement, regulatory policy, political and industrial developments. These market factors may result in fluctuations in the value of the Fund's investment assets. This risk may be mitigated by ensuring a rigorous review of macroeconomic factors and asset allocation strategy.
- **Country/Foreign Investment Risk** – This risk refers to the risks of investing in foreign markets. The value of the foreign investment assets directly or indirectly held by the Fund may be affected by country-specific factors, such as the country's economic fundamentals, social and political stability and regulatory policy. This risk may be mitigated by ensuring regular and rigorous reviews of macroeconomic, socio – politic and regulatory factors as well as adopting an appropriate asset allocation strategy.
- **Currency Risk** – For foreign investments, fluctuations in currency exchange rates may have an impact on the value of the Fund's investment assets. This risk may be managed by engaging in foreign currency hedging.
- **Sector Risk** – The value of the Fund's investment assets may be adversely affected by the changes in sector-specific factors, such as the business condition, industry outlook and demand/supply dynamic of the industry. This risk may be managed through portfolio diversification and control on sector concentration risk.
- **Company Specific Risk** – The asset values of securities may be affected by company-specific factors, some of which include volatile business situations, adverse financial conditions and poor corporate governance. This risk may be contained through appropriate portfolio diversification, prudent investment selection and better control on investment concentration risks.
- **Liquidity Risk** – If an asset has insufficient liquidity, there is the risk that the asset cannot be sold or can only be sold at a significant discount to the purchase price. Appropriate portfolio diversification, control on investment concentration limits taking into account liquidity constraints and regular monitoring could help mitigate the said risk.
- **Target Fund Risk** – As the Fund is a feeder fund, it will invest into a Target Fund which is being managed by a Target Fund Manager. While we would make every effort to ensure that the objectives of the Target Fund are appropriately aligned with those of ours, we do not have control over the Target Fund Manager's investment in terms of its approach, intelligence, operations and management. In the unlikely event of any mishandling of the Target Fund, the NAV of our Fund, which is investing predominantly into the Target Fund, could be similarly adversely affected. This risk may be mitigated by our constant monitoring of the Target Fund, which is requisite to ensuring that the Target Fund's objective, risk profile and characteristics are in line with ours.
- **Target Fund Subscription/Redemption Time Lapse Risk** – Due to the inherent unitisation and Target Fund subscription/redemption processing times, there could be a time lapse between the time monies are received by the Fund and the time the monies are subsequently invested into the Target Fund, vice versa for redemption. The risk of unnecessary subscription/redemption time lapse may be minimised by our best efforts in optimizing the process while adhering strictly to the stipulated asset allocation.