Market Review and Outlook

January 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

Global equity markets started 2024 on an encouraging note with the MSCI World Index continuing its uptrend by rising +1.14% mom on the back of expectations of an economic ‘soft landing’. It suggested that the actions of central banks have been somewhat effective in avoiding an overheating of the global economy and burgeoning inflation, without the heightened risk of a severe recession. US’ Dow Jones Index climbed +1.22% mom fueled by resilient economic data as the American economy saw an increase of 333k jobs added in December 2023 which was ahead of expectations whilst unemployment remained steady at 3.7%. In addition, its annualized 4Q23 GDP growth of +3.3% yoy was also better than consensus’ estimates. However, some of the markets’ optimism was tempered towards the month’s end when the US Federal Reserve (Fed) held its benchmark lending rate at 5.25 – 5.50% and noted that while its policy rate was already at its peak for the current tightening cycle, the Federal Open Market Committee (FOMC) was unlikely to cut rates "until it has gained greater confidence that inflation is moving sustainably" toward 2%. To that end, the Fed Chair had also explicitly stated that a March 2024 rate cut was unlikely. Over in Europe, the Stoxx50 Index also rose by +2.81% mom as the European Central Bank (ECB) had also elected to keep its rate steady whilst reaffirming its data – dependent stance. From an economic standpoint, the Eurozone economy showed nascent signs of bottoming with the Hamburg Commercial Bank (HCOB) Eurozone Composite Purchasing Managers’ Index (PMI) holding steady at 47.6, unchanged from the prior month and its November 2023 unemployment rate improved to 6.4%, -0.1 ppt mom. On the other hand, the Shanghai Composite Index fell by 6.27% despite the December 2023 Caixin China PMI Composite Index improving to 52.6 from 51.6 in the previous month and its 4Q23 GDP growing by +5.2% yoy which was just slightly below consensus estimates. Its domestic economy was still labouring as shown by its December 2023 retail sales which grew below expectations on a yoy basis and its residential property sales YTD which contracted 6.0% yoy. Consequently, the People’s Bank of China (PBOC) launched a stimulus package which involved the reduction of Reserve Requirement Ratio (RRR) for banks which would inject some 1 trillion yuan or approx. USD140b cash into its banking system to shore up its flagging economy.

Commodities enjoyed a degree of buoyancy during the month under review with the Brent oil price rebounding by +6.1% mom to USD81.71/ bbl, driven by stronger than expected economic growth in US and ongoing geopolitical tensions in the Red Sea and Ukraine – Russia. Meanwhile, crude palm oil (CPO) price was also driven up by +4.2% mom to RM3814/ MT, spurred by the expectations of poor output owing to a production drop caused by floods and seasonal factors.

Turning to the ASEAN region, the FBMKLCI was one of region’s gainers during the month under review with a +4.01% mom upward surge. The Malaysian equity market was alive with activity which included the submission of the Request for Information (RFI) for the High – Speed Rail (HSR) project and the Memorandum of Understanding (MoU) on the long – awaited Johor – Singapore Special Economic Zone (SEZ). There were also initial steps undertaken to carry out long – awaited structural/ subsidy reforms such as the implementation of the PADU database to allow for future subsidy rationalization, the raising of water tariffs and KLIA Express & Transit having a new floating mechanism which would see the government cease paying Disclaimer: This document is prepared by Allianz Life Insurance Malaysia Berhad (“Allianz”) for information only. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could

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The US Treasuries (UST) yield curve movement steepened as the 2 – 7yrs tenors were down by 1 – 4bps, whereas the 10 – 30yrs tenors were up by 3 – 14bps. US CPI rose to 3.4% yoy in December 2023, mainly driven by higher shelter costs. The higher – than – expected December 2023 non – farm payroll data and wage growth reinforced the view that Fed would only cut rates when there is greater confidence that inflation is moving sustainably towards the 2% target. The market – implied total rate cuts for 2024 as of end – January 2024 fell to 146bps from 158bps as of end – December 2023.

Malaysian Government Securities (MGS) yields were mostly down by 1 – 13bps. Only the 7yr and 10yr tenors were up by 1bp and 5bps respectively with the 10yr MGS closing the month at 3.79%. Based on advance data, Malaysia's economy grew at a slower – than – expected pace of +3.4% yoy. The slowdown was largely caused by weaker manufacturing activity as external demand declined. Malaysia CPI in December 2023 remained stable at +1.5% yoy.

Market Outlook

As markets navigate the tail end of this global interest rate tightening cycle, we believe that Malaysia's investors would recalibrate their focus towards the nation's resilient domestic demand and gradual policy implementation. That notion is underpinned by the rollout of the government's Budget 2024 plans which includes a modicum of pump priming, the successful enactment of domestic subsidy reforms, and the execution of strategic initiatives such as the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP) 2030.

For equities, we maintain our unwavering predilection for fundamentally sound investments over a suitably long-term investment horizon. That said, we may opportunistically engage in trading activities to further capitalize on any prevailing market volatility. Nonetheless, given the pervasive geopolitical risks as well as potentially easing global growth, we are cognizant of the need to adapt to new strategies as and when required to attune to new market conditions.

Bond market volatility 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 peak terminal rates in US but the timing of the first rate cut will also depend on easing inflation rate and softening job market conditions emerging out of the US, amongst other factors. Locally, the January Monetary Policy Committee (MPC) statement highlighted that 2024 inflation is expected to remain modest, broadly reflecting stable cost and demand conditions. 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 favourable valuations while prioritising good quality names.

Allianz Life Global High Payout Fund:

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

What helped?

- Stocks with strong Momentum and Trend-following exposure could do better than equity markets.

What hurt?

- A negative contribution was given by the allocation of the Dividend theme where names with high and stable dividend payments lagged during January.

Market Review and Outlook

Global equities were mixed in January, with central banks dampening rampant speculation of rate cuts as soon as March. Japanese stocks surged, while euro-zone and US shares recorded modest gains. However, emerging market equities declined, dragged down by steep falls in China. At a sector level, Communication Services, Information Technology and Health Care were the strongest sectors, while Materials, Real Estate and Utilities declined the most.

US stocks rose, with the S&P 500 Index hitting a fresh record high towards month-end, buoyed by continued robust gains from the Magnificent Seven group of high-growth companies that stand to benefit from the growing use of artificial intelligence. The tech-heavy rally meant growth stocks outperformed value ones while large-cap stocks outpaced smaller companies.

Euro-zone equities moved higher in January, hitting their highest levels since January 2022, amid growing confidence that the European Central Bank (ECB) would reduce rates in 2024. Dutch stocks were especially strong, boosted by robust gains from a semiconductor equipment maker. At a sector level, Information Technology companies posted double-digit rallies, while Energy, Materials and Utilities companies lost the most ground.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Equities in the Asia Pacific ex Japan region retreated modestly over January. India stocks maintained their good momentum, primarily driven by robust local demand. Australia stocks also advanced modestly in local terms, with the ASX Index hitting a record high in the final days of the month.

Elsewhere, China equities fell sharply with the weak macro environment, especially the property sector, continuing to weigh on market sentiment. This was despite the People's Bank of China (PBoC) further loosening policy by cutting banks' reserve ratio requirements by 50 basis points (bps). In contrast, stocks made progress in Taiwan, helped by upbeat guidance from heavyweight chipmaker Taiwan Semiconductor Manufacturing (TSMC). Of note in Taiwan was the victory of the ruling Democratic Progressive Party in the country's presidential elections.

In January, US Treasuries traded sideways amid uncertainty about the US Federal Reserve's (Fed's) potential cutting cycle in March 2024. Investment grade (IG) and high yield (HY) markets displayed performance divergence. The JP Morgan Asia Credit Index (JACI) composite rose by 0.3%, with IG down by 0.1%, primarily driven by negative US Treasuries return, while JACI HY rose by 2.7%.

The Fund (Class AM, USD) return was negative in USD terms in January.

On a single stock basis, the top detractor was Worley, a global energy and energy transition contractor in Australia. The stock was affected by the loss of an arbitration case over a project dispute in South America. In our view, the financial impact of this event is limited, and the fundamentals of the company remain robust. We continue to hold the position and will closely monitor the stock recovery.

Conversely, the top performer was a leading hydropower company in India. The company is well positioned to benefit from renewable energy policy tailwinds and growing energy demand across India. The recently announced project wins further strengthened the earnings outlook of the company.

The asset allocation at the end of the month was 66.1% invested in Asian equities and 29.5% in Asian fixed income, with the remainder in cash and others.

Over the month, we further increased our exposure to India. For example, we added a retail mall operator as well as an airport operator on the population's rising consumption strength. On the other hand, we reduced exposure to China, where the growth outlook remains relatively muted.

For the fixed income sleeve, we reduced our exposure to issues that were more expensive and diversified the portfolio further. We continue to invest in bonds with the aim of long-term interest accrual.

At the end of the month, we held 60 equities and 49 fixed income securities. The equity portfolio yield was 3.3% (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 have been steadily increasing weight towards India, where more favourable demographics, rising consumption power and reordering of supply chains associated with "China +1" are boosting the growth outlook. In China, the outlook remains quite uncertain. On the one hand, the government is taking actions to ramp up policy support, which should help provide a floor to the economic outlook. However, investor confidence remains fragile.

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

For Asia HY credits, we hold a constructive view, expecting modest spread compression The anticipated decline in Asia credit defaults contributes to our expectation of gradual spread tightening. Within this segment, we express positivity towards India HY renewables, driven by favourable policy tailwinds, alternative funding access, and attractive relative valuations compared to regional peers. That said, detailed credit selection counts.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

Looking ahead into 2024, the fixed income market is expected to continue its recovery, benefiting from the global trend of central banks easing interest rate hikes. With BNM anticipated to maintain the OPR at 3.00% throughout 2024 and Malaysia's GDP projected to grow between 4.00% and 5.00%, the local fixed income market remains attractive in 2024.

The OPR was maintained at 3.00% by BNM throughout 2023 as risks to growth outlook are viewed as broadly balanced, with the expectation that inflation would stay steady in the near-term. However, the medium-term trajectory is subject to the risks of changes to subsidy and price control policies, as well as global commodity prices. We expect BNM to maintain OPR at 3.00% throughout the year in the absence of demand pulled pressures, although monthly CPI is likely to trend higher depending on the pace of subsidy rationalization.

In term of Malaysia GDP growth prospect, it is projected to expand by around 4.00% in 2023, and 4.00 – 5.00% in year 2024. This justifies a continuation of the recent monetary policy stance. Having said no change, the next move in OPR, if any, is likely to be a cut rather than a hike as Malaysia's 3Q2023 GDP growth came in at 3.3% YoY, a small improvement from 2.9% YoY in 2Q2023, albeit with a softening monthly trend. As such, we maintain our positive outlook for Malaysia's fixed income market.

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.

Market Outlook

We enter 2024 with an optimistic outlook for Malaysian equities, supported by the government stability and the execution of the Madani Economic Initiatives. The macroeconomic outlook suggests a 'soft-landing' in the US, while Malaysia's GDP growth is expected to be firmer in 2024. We have upgraded Malaysia's outlook from Neutral to Overweight, and we maintain focus on high-yielding stocks and emphasize on thematic investing, such as National Energy Transition Roadmap (NETR) and major infrastructure projects that are expected to be revived.

As we usher in the year of the Dragon in 2024, there are promising signs that the tide could finally turn, and we are expecting a better year for Malaysia on several fronts. The 14-month tenure of the Coalition Government, under PMX's leadership, appears to be steadily establishing itself as a resilient coalition despite initial challenges.

The stability will enable it to implement its measures under the Madani Economy. This year marks the execution phase for the macro blueprints introduced in 2023, along with additional reform initiatives hinted at by PMX. Among these reforms, fiscal restructuring stands out as a linchpin for the Madani Economy, aiming to bring the country's balance sheet back on stronger footing. The ongoing subsidy rationalization program is poised to intensify in 2024, potentially impacting domestic prices. Already, the water tariffs rates have been increased effective February for domestic users for Peninsular and Labuan as announced by SPAN. On the flipside, these initiatives may help alleviate the fiscal deficit and more efficient re-allocation of resources.

Building on the themes from 2023, 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 next 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

The Fund lagged the benchmark in January. Stock selection was the main detractor as a result of relative weakness in the Information Technology and Industrials sectors. The sector selection effect was small given the portfolio's close-to-benchmark sector positioning.

At a single stock level, a key detractor was a company specialised in the development of high-tech auto parts such as chassis systems, intelligent driving and anti-vibration systems. It is a key supplier to a US electric vehicle (EV) maker, and news of that EV maker's reduced guidance for the coming year impacted the broader supply chain. While the near-term outlook for the company is more challenging than previously expected, in the longer term we believe it has good growth prospects supported by new product opportunities.

Conversely, one of the top contributors was China Construction Bank. High dividend stocks significantly outperformed last month, partly because dividend yields are now significantly higher than domestic government bond yields, and also because of the more defensive earnings profile of sectors such as Financials. China Construction Bank is the only "Big Four" bank stock currently in the portfolio and is our preferred choice because of its higher return on equity (ROE) and higher capital ratios than peers.

Market Outlook

China equities opened the new year on a downbeat note, with both onshore and offshore markets falling by close to 10% in USD terms.

A feature of the market in January was the outperformance of value stocks. The MSCI China A Onshore Value Index fell by 2.2% in the month, compared to the Growth index falling by 15.7%. In particular, there was a notable rotation into stocks with high dividend yields. This was spurred partly by falling domestic bond yields – the China 10-year government bond yield is now considerably less than the yield of many onshore and offshore equity indices. In addition, most high dividend stocks are state-owned enterprises, which are likely to maintain or even increase their dividend payouts to support local and central government revenues.

Another feature of the China A-shares market last month was the technical selling pressure from the liquidation of socalled "snowball" structured products. Popular in 2020-2021, snowballs were designed to pay investors a coupon if the market price remained within a set range. As China indices fell towards the lower end of the range, this triggered selling as brokers looked to hedge positions. It seems that most of these derivatives have likely already fallen through their lower strike prices, so further selling pressure from this source is expected to be less intense.

More broadly, China's subdued economy continues to weigh on markets. Recent macro data has generally been weak but stable. The closely watched manufacturing purchasing managers' index (PMI) for January came in at 49.2 – slightly above the figure of 49.0 in December, but still in contractionary territory.

The key Property sector remains under pressure. Last month saw further signs that the government is stepping up support, for example with easier monetary policy such as a 50-basis point (50-bps) cut in the reserve ratio requirement. We expect the Property sector to remain quite weak for the time being as the excess supply is worked through.

Portfolio activity in recent months has included adding to stocks with good valuation support, where they also meet our growth and quality criteria. For example, we have added to the Financials and Energy sectors. 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 38% in China A-shares. At a sector level, the largest sector overweight was in Consumer Discretionary, while our largest sector underweight was Financials.

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

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

Market Review

Global equities were mixed in January, with central banks dampening rampant speculation of rate cuts as soon as March. Japanese stocks surged, while eurozone shares recorded modest gains. US stocks rose, with the S&P 500 Index hitting a fresh record high towards month-end, buoyed by continued gains from the Magnificent Seven. However, emerging market equities declined, dragged down by steep falls in China.

Headline inflation rates reaccelerated modestly in December 2023, and heightened geopolitical tensions in the Red Sea raised concerns over higher shipping costs and extended delivery times. Flash estimates of purchasing managers' indices (PMIs) for January suggested a moderate uptick in economic activity. Central banks in developed markets kept rates on hold, but policymakers stressed that hopes of rate cuts as soon as March were likely to prove premature.

Escalating geopolitical tensions in the Middle East sent oil prices higher amid fears of supply disruptions. Companies increasingly avoided using the Red Sea and the Suez Canal, choosing the longer route around Africa given the heightened chance of attack from Houthi rebels. There were also fears that the Israel and Hamas conflict would spill over into other flashpoints in the region. Brent crude reached a peak of USD 84 per barrel and gold eased slightly over the month.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, the Information Technology sector was the top performer and was supported by strong performance in the semiconductors and semiconductor equipment industry group. The Communication Services sector was another outperformer. Conversely, stocks in the Materials and Real Estate 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). During the month, the benchmark returns were positive, but this was driven by strong returns within a subset of growth-oriented technology stocks. The concentrated nature of the market backdrop represented a challenge for the Fund. Artificial intelligence-enabled (AI-enabled) industries were a detractor for returns, given company-specific challenges within the Consumer Discretionary sector. AI application performed in-line with the index. AI infrastructure outperformed with tailwinds from the exposure to data centre-related semiconductor companies.

Contributors

A fabless semiconductor company that provides networking and custom design solutions is a top contributor over the period. Shares were higher from positive investor sentiment surrounding AI infrastructure investments. The company continues to see new demand for custom AI chips as cloud service providers scale out AI infrastructure. It is well situated to garner design wins for next generation custom AI chips, including the 3nm process nodes and potentially 2nm process nodes in the future. Additionally, the company's other product segments are positioned for a cyclical rebound, providing an additional tailwind for revenue and margin expansion.

Our underweight position in a technology hardware producer was another relative contributor due to its significant weighting in the benchmark. The company had an average 12.7% weight in the benchmark, while the Fund did not have exposure to the name. Shares pulled back on speculation of softer smartphone shipments for calendar year 2024.

Detractors

Our position in electric vehicle (EV) producer Tesla Inc. was the top detractor over the period. Shares fell on near-term demand uncertainty and on the future direction of price cuts. Despite cutting vehicle prices, the company was able to drive a quarter-on-quarter increase in automotive gross margins this past quarter, even with the drags associated with the Cybertruck production ramp. Looking forward, Tesla has an ambitious innovation agenda spanning EV, energy transition, AI and advanced robotics. We believe the company is making strong progress on each of these fronts in ways that can unlock significant shareholder value in the future.

Our position in ON Semiconductor Corp., a power semiconductor provider with presence across various end-markets, was another detractor over the period. Shares were lower on soft near-term demand trends for silicon carbide. The company's growth trajectory remains robust given the company's focus on being a value-added semiconductor supplier to high-growth opportunities in EV, data centres and silicon carbide.

New Buys and Sells

During the period, new purchases in the Fund included a technology-driven online brokerage provider for both individuals and institutional clients. The company is actively integrating AI into various aspects of the business that includes AI-driven order routing system for best execution of trades, customer service chatbots, and AI-powered market research tools.

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

An oil and gas technology and services provider that drives energy innovation was another addition during the period. The company provides a wide range of technology solutions and services across the energy value chain. It utilises AI across various aspects of its products and business operations, aiming to enhance efficiency, optimise processes and provide innovative solutions for traditional and alternative energy clients.

As for complete sales, we exited a lithium producer, given lithium oversupply conditions and an ongoing industry rationalisation. Additionally, the Fund sold the position in a network products and services company, as it is being acquired by a manufacturer of software and computer services. Given the limited upside potential, we redeployed proceeds for other ideas.

Also, we exited stub positions of a cyber security provider, a financial services software company, a semiconductor provider, a software provider, a semiconductor equipment producer, and the aforementioned technology hardware producer. These names appreciated significantly and approached our price target.

Market Outlook

We believe the equity market recovery in 2023 can extend into 2024. Over the last few months of 2023, the US equity market has shown signs of broadening out beyond the Magnificent Seven as interest rates appear to be on a path lower with an economic soft landing more likely. At the December 2023 Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) held fed funds rate steady and signalled multiple rate cuts could come in 2023 and 2024 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 Seven 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 infuse 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 can't 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.

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

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

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

Equities in the Asia Pacific region retreated modestly over January although there was significant dispersion of returns across markets. Japanese shares enjoyed their strongest start to a year in 26 years, buoyed by robust corporate earnings. The Bank of Japan (BoJ) kept interest rates on hold, though BoJ governor Kazuo Ueda said the likelihood of sustainably achieving the 2% inflation target was gradually increasing as wages rose. Likewise, India stocks maintained their good momentum primarily driven by robust local demand. Australia stocks also advanced modestly in local terms, with the ASX Index hitting a record high in the final days of the month.

Elsewhere, China equities fell sharply with the weak macro environment, especially the property sector, continuing to weigh on market sentiment. This was despite the People's Bank of China (PBoC) further loosening policy by cutting banks' reserve ratio requirements by 50 basis points (bps). In contrast, stocks made progress in Taiwan, helped by upbeat guidance from a heavyweight chipmaker. Of note in Taiwan was the victory of the ruling Democratic Progressive Party in the country's presidential elections.

At a single stock level, a top contributor was Alchip Technologies, a Taiwan semiconductor company focused on highcomplexity and high-volume chip design for a global clientele. Artificial intelligence-related (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.

Conversely, a top detractor during the month was a Chinese biopharmaceutical firm. Along with other industry players, the company sold off as a result of a ramp-up in geopolitical tensions following a US draft bill (the Biosecure Act) targeting Chinese biotech companies with alleged ties to China's military. The company is a global player with a strong footprint in the oncology area, where it has developed partnerships with global pharmaceutical companies. We believe it will continue to advance its product development notwithstanding the near-term geopolitical headwinds.

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. We took the opportunity during the month to add to our higher conviction ideas that have somewhat lagged the broad tech rally. Japan now represents around 40% of the overall portfolio compared to the benchmark level of 35%. We also added to our China weighting given the relative valuation attractiveness and expectations for a market rally.

This positioning is balanced by underweight positions in India, Australia, and Hong Kong/China. At the sector level, Financials remains the largest underweight, along with the Materials and Consumer areas.

Market Outlook

Across Asia Pacific, we are expecting some of 2023's macro headwinds to ease as we move into the new year. The outlook in Japan remains encouraging. As well as an improving macro environment, we also expect that Tokyo Stock Exchange (TSE) governance reforms should continue to support positive sentiment and improve capital efficiency inselect stocks with low valuations. In addition, the yen continues to look undervalued so we expect returns to international investors should be supported by longer-term currency appreciation.

In China, the outlook remains quite uncertain. On the one hand, the government is taking actions to ramp up policy support which should help provide a floor to the economic outlook. While investor confidence remains fragile, nevertheless any signals of macro stabilisation could trigger a marked rally given the depressed valuations. In the rest of Asia, there have been some encouraging signs in the important technology sector, where previous overcapacity in the semiconductor supply chain has increasingly been absorbed. Overall, from a regional standpoint, valuations remain at reasonable levels

For Allianz Life Total Return Asian Equity Fund:

Target Fund Manager's Comment (For Allianz Total Return Asian Equity)

Market Review

Equities in the Asia ex Japan region retreated over January, although there was significant dispersion of returns across markets. India stocks maintained their good momentum, primarily driven by robust local demand. Stocks also made progress in Taiwan, helped by upbeat guidance from heavyweight chipmaker Taiwan Semiconductor Manufacturing (TSMC). Of note in Taiwan was the victory of the ruling Democratic Progressive Party in the country's presidential elections.

Elsewhere, China equities fell sharply with the weak macro environment, especially the property sector, continuing to weigh on market sentiment. This was despite the People's Bank of China (PBoC) further loosening policy by cutting the banks' reserve ratio requirements by 50 basis points (bps).

The Fund outperformed the benchmark in January. Stock selection in Real Estate and Consumer Discretionary areas was a key driver from a sector standpoint, whereas stockpicking in China was beneficial in a market context, along with our broader underweight to China.

At a single stock level, a key contributor was DLF Limited, the largest property developer in India with a national profile and particularly strong footprint in the greater Delhi area. We have been increasing our exposure to India property, which we believe is in the early stages of a multi-year upcycle after suffering an extended period of weakness. Indian income levels are rising and housing affordability is improving.

In contrast, India's leading private sector bank, HDFC Bank, was a top detractor, with stable quarterly results proving a disappointment in a market looking for stronger improvements in growth. We continue to view HDFC Bank as an exceptionally well-managed business. In addition, its merger with mortgage lender HDFC Ltd presents an opportunity to increase exposure to the fast-growing housing segment and extend the duration of its loan book, as well as introduce cross-selling opportunities.

The main change in portfolio positioning over the last year has been to increase the allocation to India. At the beginning of 2023, India portfolio exposure was around 18%. At the end of January 2024, it had risen to 28%, significantly overweight compared to the benchmark level of 21%. In January, we added two new Indian Real Estate names to the portfolio.

The primary source of funding has been from China, where macro conditions continue to weigh on market sentiment. In January, for example, we exited a Chinese food business from the condiments area. At a sector level, Technology continues to be a dominant position, while Industrials is underweight. Top names in the portfolio include TSMC, Samsung Electronics, and HDFC Bank at month-end.

Market Outlook

Across the Asia region, we are expecting some of this year's macro headwinds to ease as we move into the new year. Within the region, our preference leans more towards South Asia where we are finding a number of attractively valued structural growth stories that are less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook across ASEAN markets and India, where we see more promising investment opportunities relative to North Asia at this juncture.

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

For Allianz Life Global Income Fund:

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

Market Review

Markets finished mixed in January as investors digested economic data, the US Federal Reserve's (Fed's) rate decision, and corporate earnings results. Retail sales and consumer sentiment topped estimates, unemployment remained low, and manufacturing data exhibited signs of bottoming. As expected, the Fed left interest rates unchanged at January's Federal Open Market Committee (FOMC) meeting. Thus far, most companies were exceeding Q4 earnings and sales estimates. Corporate management commentary has been mixed, with optimism tied to the consumer, travel, infrastructure, investment banking, and artificial intelligence (AI), and caution around freight, industrials-related destocking, and automobile inventory.

In this environment, global equity markets, as measured by the MSCI World Index, returned +1.20%.* US developed equities outperformed their non-US counterparts, and growth stocks outperformed value stocks. Global convertible securities finished lower while global high-yield bonds finished higher, and new issuance accelerated. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -1.38% with US exposure outperforming non-US^.

The portfolio was positively impacted by equity market strength.

Top contributors were primarily comprised of technology companies capitalising on secular trends around AI, cloud migration, and cyber security. Upside outliers consisted of multiple semiconductor and software positions including Nvidia and Microsoft, which gained ahead of strong quarterly results. Other top contributors were Meta following a positive readthrough on digital advertising trends, a pharmaceutical company on a large dividend increase and revenue opportunity potential, and an industrial conglomerate that reported a beat-and-raise quarter, among others.

Top detractors were led by positions in the Automotive space on growth concerns, including an electric vehicle (EV) manufacturer and an autonomous driving technology company. An airframe manufacturer was negatively impacted by production issues, multiple consumer electronics manufacturers declined over smartphone demand fears, and several chemical companies fell after missing expectations. Other detractors included a residential solar company, an online retailer, and a supermajor oil company.

Exposure increased the most in Health Care, Financials, and Real Estate, and decreased the most in Utilities, Materials, and Consumer Discretionary.

Market Outlook

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

Corporate bonds and convertible securities should be better positioned to weather any market volatility given current asset class dynamics, which in some respects are more favourable today than they were exiting 2022. Consequently, today's market outlook resembles 2023's with mid to high single-digit returns possible by year-end 2024 for corporate bonds, convertible securities, and equities.

Corporate bond's risk/reward opportunity is compelling. Rising interest rates remain a key risk for high grade corporates, however the investment opportunity remains attractive given higher coupons and yields, and a positive fundamental outlook. The asset class trades at a discount to par, offering attractive total return potential and downside cushioning.

The 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 cushion downside volatility. Notably, after recording an annual decline, the high-yield market has historically delivered two consecutive years of positive returns in six of the seven cases**, and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits#.

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.

For Allianz Life Global Income Fund:

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

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.

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.

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.

All data are sourced from Allianz Global Investors dated 30 November 2023 unless otherwise stated.
* Source: MSCI, as at 31 January 2024
^ Source: Bloomberg, as at 31 January 20243
** Source: ICE Data Services, as at 31 December 2022
# Source: JP Morgan, as at 31 October 2022

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

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities were mixed in January, with central banks dampening rampant speculation of rate cuts as soon as March. Japanese stocks surged, while eurozone and US shares recorded modest gains. However, emerging market equities declined, dragged down by steep falls in China. At a sector level, Communication Services, Information Technology and Health Care were the strongest sectors, while Materials, Real Estate and Utilities declined the most.

Headline inflation rates reaccelerated modestly in December 2023, and heightened geopolitical tensions in the Red Sea raised concerns over higher shipping costs and extended delivery times. Flash estimates of purchasing managers' indices (PMIs) for January suggested a moderate uptick in economic activity. Central banks in developed markets kept rates on hold, but policymakers stressed that hopes of rate cuts as soon as March were likely to prove premature.

The US dollar strengthened as speculation that the US Federal Reserve (Fed) may cut rates as early as March faded. While the euro and the British pound fell against the dollar, they rallied against the Japanese yen. The Bank of Japan (BoJ) maintained rates below zero, but indicated that the likelihood of sustainably achieving its 2% inflation target was rising.

Escalating geopolitical tensions in the Middle East sent oil prices higher amid fears of supply disruptions. Companies increasingly avoided using the Red Sea (and hence the Suez Canal), choosing the longer route around Africa, given the heightened chance of attack from Houthi rebels. There were also fears that the Israel/Hamas conflict would spill over into other flashpoints in the region. Brent crude reached a peak of USD 84 a barrel, having started the month around USD 77.

Market Outlook

The Fund returned positively (in EUR, gross of fees) in January, lagging global equity markets as represented by the MSCI AC World Index.

Whilst we had already taken a more cautious stance with a lower overall portfolio exposure and changes with the theme, the theme Next Generation Energy remained a detractor in the month of January. Companies within the theme lagged the overall positive market environment across the board, with two lithium companies seeing some of the strongest share price pressure. The theme Infrastructure also was a negative contributor in January. In particular, resources-related companies within the theme such as a metals, mining, and smelting company; a provider of construction and mining machinery; and a producer of aluminium and hydroelectric power were relatively weak.

In contrast to the calendar year 2023, the group of the Technology mega-cap stocks only had a marginally negative impact on performance, as the negative contribution from outperforming companies including two technology conglomerates and a graphics processing units manufacturer was counterweighted by a positive impact from underperforming names including an US tech giant and an electric vehicle (EV) maker.

On the positive side, the theme Health Tech performed ahead of the market. A number of theme holdings including Intuitive Surgical and two medical technology companies performed well ahead of the overall market. The portfolio forward looking price/earnings relation sits below 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. Whilst this already provides a good starting point for a catch-up move, we are also confident with our theme line-up. In our ongoing exercise of checking the continued relevance of each single theme, we can clearly put a check behind each of the themes owned in the portfolio.

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 sentiment was broadly constructive in January, as most risk assets continued to post positive returns. Expectations of near term rate cuts were pared back as economic data surprised to the upside and the Fed pushed back on the likelihood of a Q1 rate cut. US Q4 GDP growth of 3.3% was significantly above expectations and in combination with a strong jobs report, wage growth and a steady unemployment rate, reinforced market expectations of a soft landing. US headline inflation (CPI) rose to 3.4% YoY whilst core inflation dropped modestly to 3.9% YoY. The story was similar in the Euro Area and the UK. In the Euro Area, headline inflation edged slightly higher to 2.9% YoY, while core inflation came down to 3.4% YoY. UK inflation saw a break in its 10-month consecutive decline in CPI, with headline inflation edging slightly higher to 4.0% YoY and core inflation remaining steady at 5.1% YoY.

Markets dialed back their expectations for the number of rate cuts priced in for the year, as government bond yields generally rose in January. UK Gilts in particular underperformed, as inflation prints suggested a delay in plans for rate cuts. In the front end, US 2Y Treasury yields fell slightly by -4bps, while German 2Y Bund and UK 2Y gilt yields rose +2bps and +28bps, respectively. US 10Y Treasury, German 10Y Bund and UK 10Y gilt yields rose +3bps, +14bps and +26bps, respectively.

Equity markets continued their ascension with the "Magnificent 7" leading the way despite Tesla's underperformance. The S&P 500 reached an all-time high, returning +1.68% over the month, largely due to optimism over a potential soft landing. China equities continued to be an outlier as the economy continues to face challenges, with the Hang Seng index and CSI 300 down -9.16% and -6.29% over the month, respectively. In credit, USD and EUR investment grade spreads tightened -3bps and -6bps, respectively. High yield performance was bifurcated, as USD high yield spreads widened +21bps while EUR high yield spreads tightened -18bps.

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