

Fund Commentary

Allianz China Equity

02/2014

Investment Objective

The Fund's investments are concentrated in the People's Republic of China ("PRC") related equities.

What Happened in January

With China macroeconomic data suggesting a moderation in economic activity, the Chinese equity markets consolidated with the Hang Seng Index pulling back 5.5%, Hang Seng China Enterprises Index by 9% and the China's Shanghai Composite Index closed at 2033.08 points which was down 3.92% in January. The January HSBC PMI (Purchasing Managers Index) flash reading fell from its December reading, consistent with the sequential industrial slowdown in recent months. This confirms weaker growth momentum in recent months which was likely heightened by pollution control, anti-corruption measures as well as the relatively tight monetary and fiscal policy stances. HSBC January PMI final reading was 49.5, indicating potential growth deceleration in the near term. Concerns over the potential default of maturing trust loans and the interbank rate hovering at a relatively high level also dampened the market sentiment. Growth stocks in technology and media sectors continued to outperform traditional industries such as financials.

In January, the Fund outperformed relative to the benchmark mainly due to overweight in information technology and underweight in financials sector. The portfolios sold some strong outperformers to lock in the profits, and switched into the large cap names with relatively attractive valuations.

Market Outlook and Strategy

In China, we would expect news flow on reform initiatives continues to support market sentiment in the short term. In addition, concerns over 'hard landing' in China should ease over time as we believe that China's economy should be relatively stable in 2014. We would be reducing exposure and locking in profit for some strong outperformers and rotating into stocks with relative attractive valuations.

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