Allianz Global Investors

Income and Growth Strategies

Achieving income and growth with high yield bonds, convertible bonds, and equities. Setting in place the dual opportunities of potential income and growth.

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2024: US Economy Steady as She Goes

The US economy remains on solid footing through the balance of this year and heading into 2025. Consumer spending and overall business investment remained robust and the US Federal Reserve (Fed) has started to cut rates. Multiple inflation measures continued to ease and the labour market has cooled but remained to be generally healthy. Recent economic data is consistent with a soft landing of the US economy.

Fed policy: The simultaneous deceleration of inflation and jobs growth proved to be the catalyst for the first monetary easing campaign in four years, as the Fed cut interest rates by 50 basis points (bps) in September, followed by another 25 bps in November.

Despite delivering a larger-than-expected cut in September, Powell provided limited forward guidance about the policy path ahead. Previously, Powell called the move a "recalibration" to account for the continuous decline in inflation and softness in labour market but recent data have diminished downside risks to the economy.

US presidential election: Donald Trump won the presidential election and Republicans will gain control of both chambers of Congress. The red sweep should clear the way for Trump to implement his policies, including tax cuts, tariffs, and deregulations, which are viewed as growth-friendly but also inflationary. A Trump presidency could also carry more geopolitical risk given his unpredictable foreign policy.

The outcome of the US election has eliminated one uncertainty and was a driver of markets and sentiment in the near term. But over the long term, it is the economy, corporate fundamentals and earnings growth that will determine market performance. It is important for investors to capture market opportunity and continue to build resilient portfolios by balancing risk and reward. A strategy with the potential for consistent income distribution, capital growth, and downside risk management would improve the resilience of a portfolio.

Chapter One: One-Stop Solution for Income and Growth

One-Stop Solution for Income and Growth

In the current market environment, investors can consider a multi-asset approach, by investing in high yield bonds, convertible bonds, and equities.

Investors could enjoy three potential benefits:

1. A steady flow of potential income, including coupons from high yield bonds and convertible bonds, and dividends from equities.

2. Upside potential when markets rise.

3. Downside risk management against declining markets.

Risk/reward

Note: The above examples are for illustration only and does not represent actual results.
There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for the long term based on their individual risk profile especially during periods of downturn in the market.

High Yield Bonds: High Income and Portfolio Diversifier

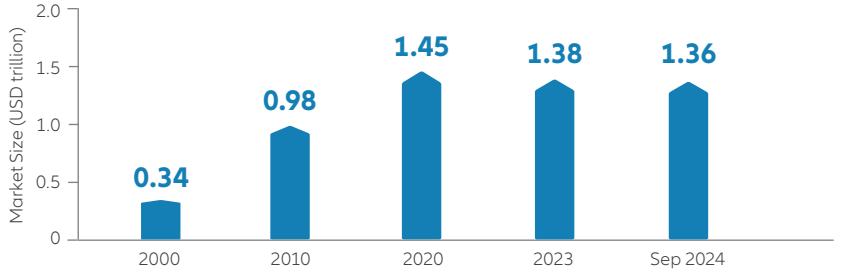
What are high yield bonds?

As the name implies, high yield bonds could offer a higher yield than other fixed income instruments.

The credit ratings of high yield bonds are lower than BBB-. For this reason, the interest rates offered by such bonds are usually more attractive than issues with higher ratings such as US Treasuries and investment grade corporate bonds. The past few decades have seen strong growth in both the breadth and depth of the high yield market, and the asset class is now a globally popular investment instrument.

US high yield gross issuance was only USD 338 billion in 2000, but as of September 2024, the size of the market had grown to around USD 1.36 trillion[1].

Growth of US high yield bond market[1]



Source
[1] ICE Data Indices, ICE BofA US High Yield Index, as at 30 September 2024.

The US dollar high yield bond market has continued to grow steadily. According to the ICE BofA US High Yield Index, the US dollar high yield market makes up about 62% of the global high yield universe[1].

The US high yield bond universe is well diversified. It covers a wide range of sectors, allowing investors to allocate across a broad range of bond holdings.

Info Corner: What is bond rating?

Bonds can be divided into two segments: investment grade and non-investment grade. Investment grade bonds have stronger creditworthiness but lower yields, while non-investment grade bonds are considered more risky due to the weaker credit profiles of their issuers. Issuers of non-investment grade bonds are more willing to offer higher interest rates to attract investors, and therefore these bonds are known as high yield bonds. It is worth mentioning that the creditworthiness of high yield bonds has greatly improved in recent years.

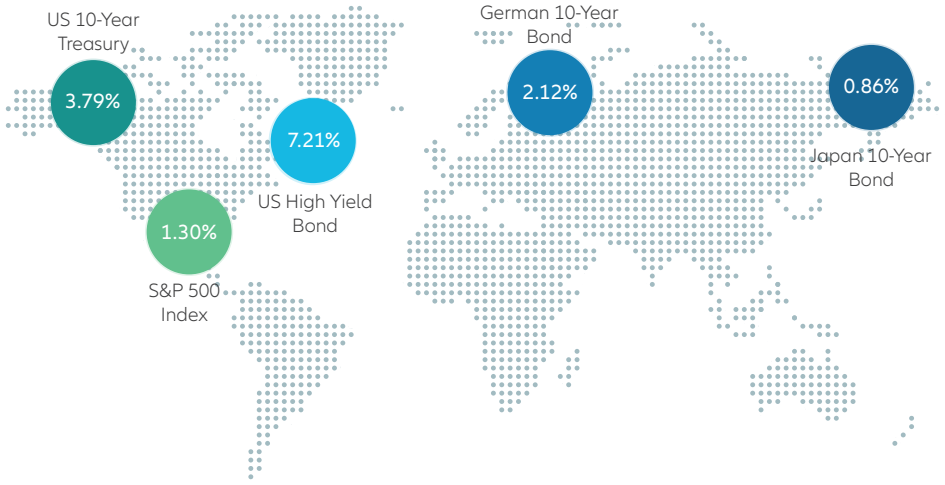
Source
[1] Bloomberg, as at 30 September 2024.

Why Invest in High Yield Bonds?

1. Potential yields

US high yield bonds offer investors an attractive level of yield with lower interest rate sensitivity. As of 30 September 2024, the US 10-year Treasury bonds and US investment grade corporates offered yields of 3.79%[2] and 4.81%[2] respectively. US stocks have also delivered dividend yields, with the S&P 500 Index offering 1.30%[2]. Meanwhile, the US high yield market generated a yield of 7.21%[2], making it a compelling opportunity for both international and domestic investors. Many people now include high yield bonds in their portfolios to enhance potential returns and hedge against inflation.

Potentially attractive yields from US high yield bonds[2]



[2] Bloomberg, US investment grade corporates represented by ICE BofA US Corporate Index and high yield bond represented by ICE BofA US High Yield Index, yield represented yield-to-maturity of the index, data as at 30 September 2024.

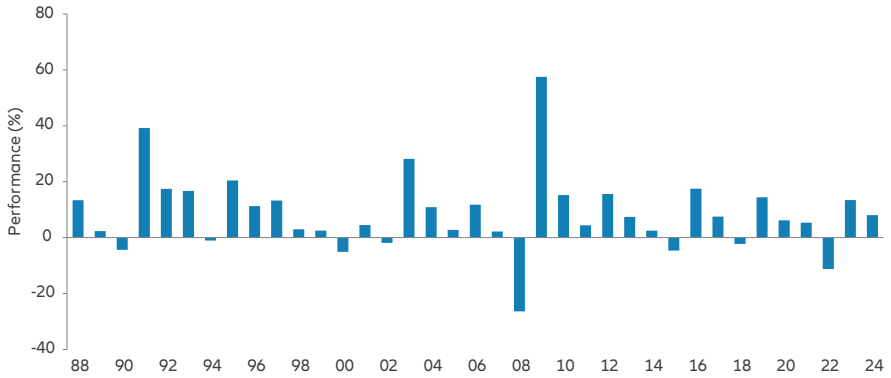
2. A proven track record

US high yield bonds have an outstanding past performance record, with an average annual return of 7.80%[1] in the past 36 years.

The US high yield market has posted a negative annual returns in only 8 years between 1988 and 2023. With 28 years of positive returns[2], it is undoubtedly a front-runner in the global fixed income universe, which explains why it is so attractive to investors.

It is also interesting to note that US high yield bonds have not declined in consecutive years.

Performance of US high yield market in the past 36 years[2]



Source
[1] Morningstar, high yield bond represented by ICE BofA US High Yield Index, data from 1 January 1988 to 30 September 2024.
[2] Morningstar, ICE Data Services, Bloomberg, Allianz Global Investors, as at 30 September 2024. High yield bond performance is measured by ICE BofA US High Yield Index.

3. Fixed income diversification benefits

Historically, high yield bonds have delivered equity-like returns, with less volatility than stocks.

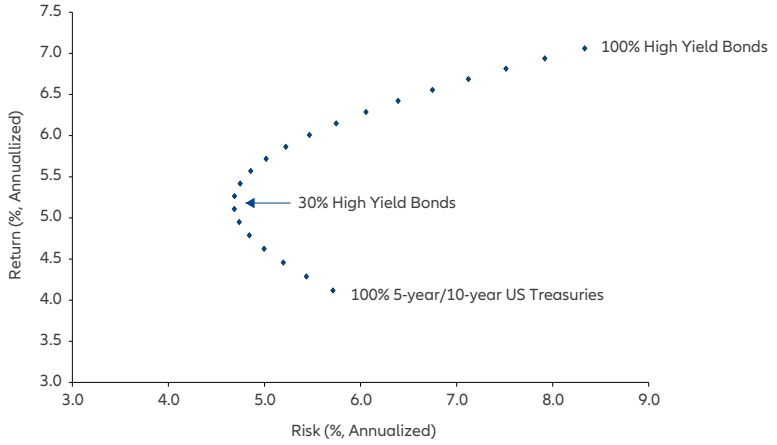
They also provide fixed income diversification benefits given their relatively low correlations with US Treasuries and other investment grade fixed income asset classes, which means that adding high yield securities to a core fixed income portfolio may help enhance return while maintaining a similar level of risk exposure.

Unlike US Treasury bonds which are very sensitive to changes in interest rates, high yield bonds are generally driven by the fundamentals of their issuers.

High yield may benefit your portfolio

Over time, high yield bonds are well-positioned to deliver attractive potential total return. Low interest rate sensitivity, attractive yields, and low dollar bond price are supporting factors of the asset class under a wide range of different economic scenarios.

Efficient Frontier - January 1993 to September 2024[3]
Adding high yield bonds to a fixed income allocation has been shown to reduce risk and increase returns over the long term.



[3] ICE Data Services, BofA, FactSet. Past performance is not a reliable indicator of future results. Data as of 30 September 2024. Efficient Frontier Chart Note: High Yield: ICE BofA US High Yield Index, 5- and 10-Year Treasuries: ICE BofA US Treasury Current 5 Year Index, ICE BofA US Treasury Current 10 Year Index. The information and charts above are provided for illustrative purposes only. The charts do not reflect future performance. This analysis has been distributed for informational purposes only, does not constitute investment advice and is not a recommendation or offer of any particular security, strategy or investment product.

Risks of High Yield Bonds

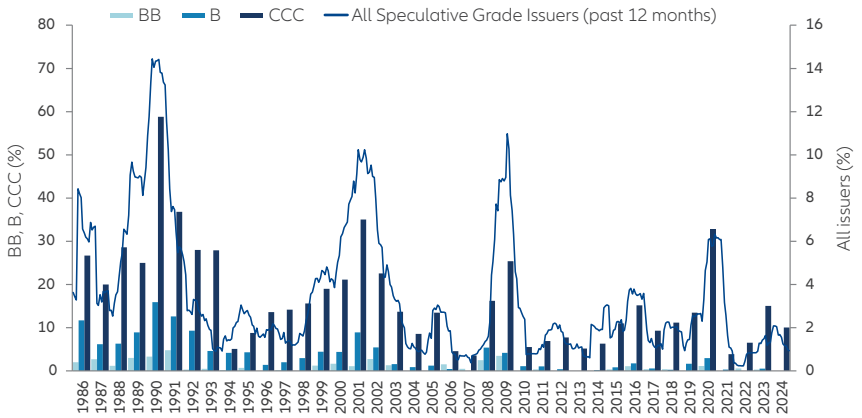
1. Default risk

The main risk associated with high yield bonds is corporate default (also known as default risk). High yield defaults in September 2024 was at 0.94%[1] due to strong credit fundamentals, much lower than the long-term historical default rate of 3.5%[1].

2. Beware of market fluctuations

The high yield market can be volatile, and investors need to be aware of market fluctuations. **The path toward achieving positive results is hardly linear, and periods of heightened volatility should be expected.** The annualised volatility of US high yield bonds since 1988 amounted to 8.18%[2], lower than that of S&P 500 Index (14.68%[2]) over the same period.

Default rates at low level[1]



Source
[1] BofA, JP Morgan, as at 30 September 2024. US high yield bonds are represented by the ICE BofA US High Yield Index.
[2] Morningstar, data from 1 January 1988 to 30 September 2024. US high yield bonds are represented by the ICE BofA US High Yield Index.

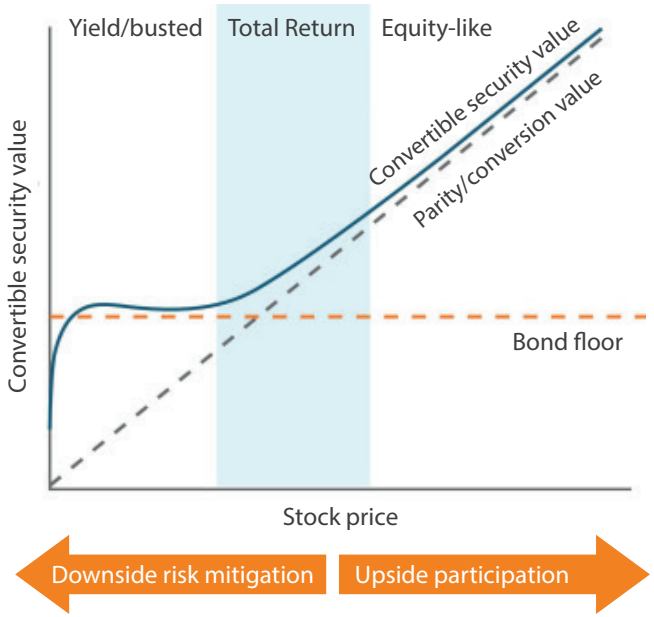
Convertible Bonds: Combining the Advantages of Bonds and Stocks

What are convertible bonds?

A convertible security is a traditional bond that can be converted or exchanged into a specific number of shares of the issuer's common stock. Convertibles have characteristics of both bonds and stocks which can help improve a portfolio's overall risk-adjusted returns.

The bond component provides income potential and reduced volatility, derived from the stated coupon and maturity and claim to principal. Like other bonds, a convertible's value can fluctuate with changes in interest rates and the credit quality of the issuing company. It should be noted that convertible securities generally have a lower coupon than corporate bonds, but they usually offer a yield advantage over the common stock dividend.

The equity component provides unlimited capital appreciation potential, derived from a option (determined at issuance) that provides the right to convert into a fixed number of common shares. Because of this feature, when convertible securities mature, they can be redeemed at the market value of the underlying common shares or at their face value – whichever is higher.



Info Corner: How do convertible securities behave?

For example, The behaviour of a convertible security may take on either stock-like or bond-like characteristics, depending upon where the underlying stock is trading in relation to the bond's conversion price. The security tends to become more equity-like as the price of the common shares rise which means its participation in the stock's upside may increase.

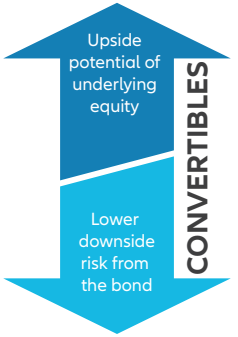
As the underlying stock prices falls, the convertible may act more bond like which means its participation in the stock's downside tends to decrease. It is important to note that convertibles are subject to the same risk factos as stocks and bonds, including market, interest rate and credit risk.

Why Invest in Convertible Bonds?

1. Offensive yet defensive

Convertible securities offer an asymmetric risk/reward profile in which the upside opportunity (reward) exceeds the downside capture (risk). Over the last 25+ years, the asset class has produced equity-like performance but with lower volatility. This attribute is unique to the convertible market and can play a valuable role in a portfolio.

Combining the advantages of bonds and stocks



2. Equity-like returns with less volatility

US convertible securities have an asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall.

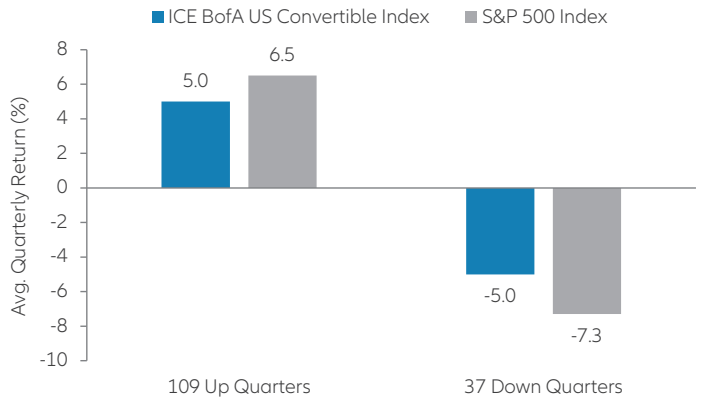
Between January 1988 and September 2024, US equities rose in 109 quarters and fell in 37 quarters (by an average of -7.3% in each quarter). Convertible bonds managed to decline by an average of -5.0% in each of the quarters when S&P 500 fell[1].

Source
[1] FactSet, ICE Data Services, Morningstar. Data as of January 1988 to September 2024. US convertible bonds are represented by the ICE BofA US Convertibles Index. US equities are represented by S&P 500 Index. Past performance is not a reliable indicator of future results.

3. Convertibles market outlook

Year-to-date as of September 2024, convertibles bond performance was modest as compared to the broad equity market. The absence of major mega cap companies, which drove S&P 500 performance, has weighed on the asset class.

Performance of convertible bonds between January 1988 and September 2024[1]



	ICE BofA US Convertible Index	S&P 500 Index
Annualised Return	9.38%	11.20%
Annualised Volatility	12.10%	14.73%

Source
[1] FactSet, ICE Data Services, Morningstar. Data as of January 1988 to September 2024. US convertible bonds are represented by the ICE BofA US Convertibles Index. US equities are represented by S&P 500 Index. Past performance is not a reliable indicator of future results.

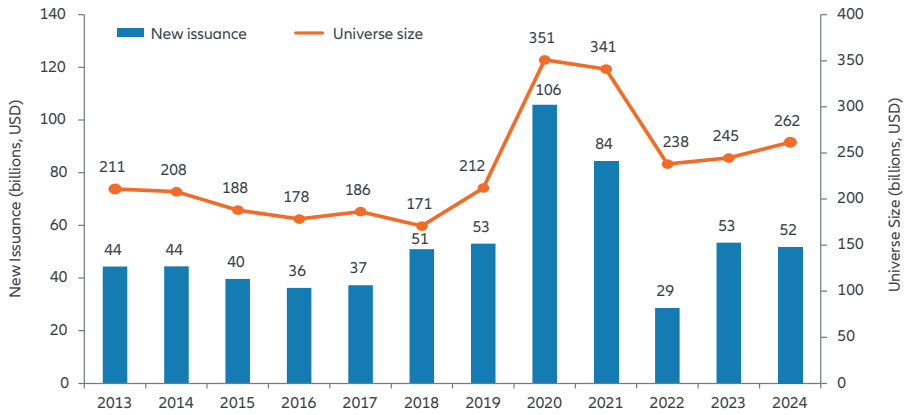
Having said that, the US convertible market could continue to provide benefits to investors, including an attractive asymmetric return profile and potentially lower volatility relative to the equity market.

1. Bond-like characteristics: The convertible bond market consists of more yield opportunities after a challenging year in 2022. As the soft-landing outlook gains momentum, the lower delta in the convertible bond market is poised to provide better defensive characteristics with higher forward return potential.

2. Increased issuance: Convertible bond issuance has picked up this year, driven by refinancing activity. Increased new issuances continue to expand the investment universe and improve market breadth. According to BofA Data Analytics, the US convertible bond issuance has already exceeded its expectation and led to it revising its forecast to rise 30%-40% to USD 60-80 billion in 2024[2].

3. Broadening out: While the spotlight has been on artificial intelligence (AI) related mega cap names, valuations outside of these companies are even more attractive. The broadening out of the equity rally beyond mega caps should help improve the upside capture of convertibles.

New issuance is expected to return[2]



[2] ICE Data Services, BofA. Data as of 30 September 2024. US convertible bonds are represented by the ICE BofA All US Convertibles Index. Projections are based on assumptions with respect to future events. Actual future events may differ from the assumptions. Past performance, or any prediction, projection or forecast, is not indicative of future performance.

Risks of Convertible Bonds

Convertible bonds are subject to the same risks associated with stocks and bonds. These bonds can fluctuate in value when interest rates rise and/or the price of the underlying stock changes.

If interest rates rise, the value of convertible bonds may decline.

Some of the companies that issue convertible bonds are below investment grade, which means **these bonds can be riskier than investment grade issues**.

Convertible bonds are often issued by smaller companies and may be more volatile than securities issued by larger companies. It is worth noting that the convertible bond market is relatively complicated and difficult for retail investors to access. A more practicable way of investing in convertible bonds is to entrust the task to a professional management team.

In general, a fund management team analyses different aspects of each investment, such as:

- Financial condition
- Valuation
- Credit rating
- Bond spread

The team decides whether to buy a convertible bond only after reviewing the above fundamentals. As market conditions change, holdings are adjusted by selling, holding or converting the bonds into shares.

Info Corner: Are convertible bonds subject to limitations?

Many companies issue convertible bonds with a call option that gives them the right to repurchase the convertible bond from the holder at a specified price (usually the par value of the bond). This call option can limit the opportunity to capture any potential upside from the underlying common stock. On the other hand, if the bond is structured with a put option, the holder has the right to sell the bond to the issuer on a specified date. This type of feature can limit risk should the underlying stock price drop sharply.

US Equities: From Concentration to Dispersion

1. Solid earnings

The US economy is expected to maintain its positive earnings trajectory. A broadening of corporate earnings outside of the mega-cap companies could help support the broad equity market. An easier monetary policy and an economic soft landing should continue to provide a constructive backdrop for US equities.

2. Beyond AI

The AI-driven rally has boosted stock prices on a handful of companies, pushing the concentration of the market to multi-decade high. We could start to see a broadening out of the leaders to the rest of the market when valuations start to narrow.

Covered Call Options:

An Opportunistic Approach to Dampen Volatility

What are covered call options?

This is an option strategy that pairs a long position with a short-call option on the same stock in exchange for an upfront premium paid by the buyer.

An option is the right to buy or sell a stock at a specified price on or before a specified date. There are two types of options: call options and put options.

If investors expect the stock market to remain flat, they may sell an option on a stock and use the premium to cover part of the potential volatility.

If investors expect the overall market to be increasingly volatile, they may sell an index option to obtain a premium to cover part of the market drop.

Understanding how covered calls actually work

Let's look at a hypothetical example to understand how covered calls actually work.

- An investor buys 100 shares of ABC Co. for USD 30 a share, the total cost being USD 3,000.
- At the same time, the investor sells a call option of ABC Co. The exercise price is USD 35.
- Option premium: USD 4 per contract (one contract per share).

Scenario 1: The investor benefits from additional cash flow and appreciation but does not participate in additional profits*.

Scenario 2: The investor benefits from additional cash flow from premium.

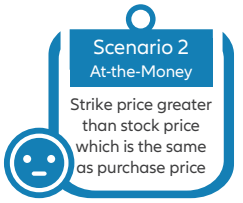
Scenario 3: The additional cash flow from premium can only offset part of the stock depreciation.

Note: The example above and on the next page is for illustration only and does not represent actual results.
* Additional profits = market price - exercise price.

How covered calls work

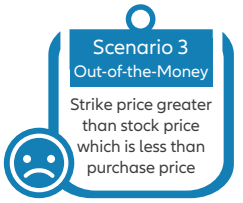
Market price of ABC Co.: USD 37 per share; Stock up 23.3%

- Gain = USD 400 (premium)
- Realised gain of common stock = USD 500 [(USD 35 - USD 30) x 100 shares]
- Net portfolio effect = USD 900



Market price of ABC Co.: USD 30 per share; Stock flat

- Gain = USD 400 (premium)
- Net portfolio effect = USD 400



Market price of ABC Co.: USD 25 per share; Stock down 16.6%

- Gain = USD 400 (premium)
- Unrealised depreciation of common stock = USD 500 [(USD 25 - USD 30) x 100 shares]
- Net portfolio effect = -USD 100

Why include a covered call strategy in a portfolio?

Selling covered call options on the stocks in a portfolio provide an additional source of potential income from the call premium received. Besides income, selling covered call option can help dampen downside volatility when the stock price declines. However, a covered call strategy also limits the upside potential of a stock when stock price rises.

Hence, it is also important to consider the coverage percentage, moneyness of the options and the maturity of the option contracts when implementing a covered call strategy.

BULL Market: Portfolio return is likely to lag the market despite option premium received but upside is being capped.

FLAT Market: Portfolio return is likely to outperform the market from the option premium received.

BEAR Market: Portfolio return is likely to outperform the market from the option premium received, which helps offset some of the stock decline.

Chapter Two: Short Duration High Income Bonds

Allianz US Short Duration High Income Bond

- The Fund aims at long-term income and lower volatility by investing in short duration high yield rated corporate bonds of the United States of America ("US") bond markets in accordance with environmental and social characteristics. The Fund aims to achieve the Sustainability KPI with the adoption of the Sustainability Key Performance Indicator Strategy (Absolute) ("KPI Strategy (Absolute)"). The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, creditworthiness/credit rating/ downgrading, default, interest rate, valuation, sovereign debt, country and region, RMB and the adverse impact on RMB share classes due to currency depreciation.
- The Fund is exposed to sustainable investment risks relating to KPI Strategy (Absolute) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or reducing risk diversifications compared to broadly based funds) which may result in the Fund being more volatile and have adverse impact on the performance of the Fund and consequently adversely affect an investor's investment in the Fund.
- The Fund may invest in high-yield (non-investment grade and unrated) investments and convertible bonds which may subject to higher risks, such as volatility, loss of principal and interest, creditworthiness and downgrading, default, interest rate, general market and liquidity risks and therefore may adversely impact the net asset value of the Fund. Convertible may also expose to risks such as prepayment, equity movement and greater volatility than straight bond investments.
- The Fund may invest in financial derivative instruments ("FDI") which may expose to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. The Fund's net derivative exposure may be up to 50% of the Fund's net asset value.
- This investment may involve risks that could result in loss of part or entire amount of investors' investment.
- In making investment decisions, investors should not rely solely on this material.

Note: Dividend payments may, at the sole discretion of the Investment Manager, be made out of the Fund's capital or effectively out of the Fund's capital which represents a return or withdrawal of part of the amount investors originally invested and/or capital gains attributable to the original investment. This may result in an immediate decrease in the NAV per share and the capital of the Fund available for investment in the future and capital growth may be reduced, in particular for hedged share classes for which the distribution amount and NAV of any hedged share classes (HSC) may be adversely affected by differences in the interests rates of the reference currency of the HSC and the base currency of the Fund.

INCOME AND GROWTH STRATEGIES

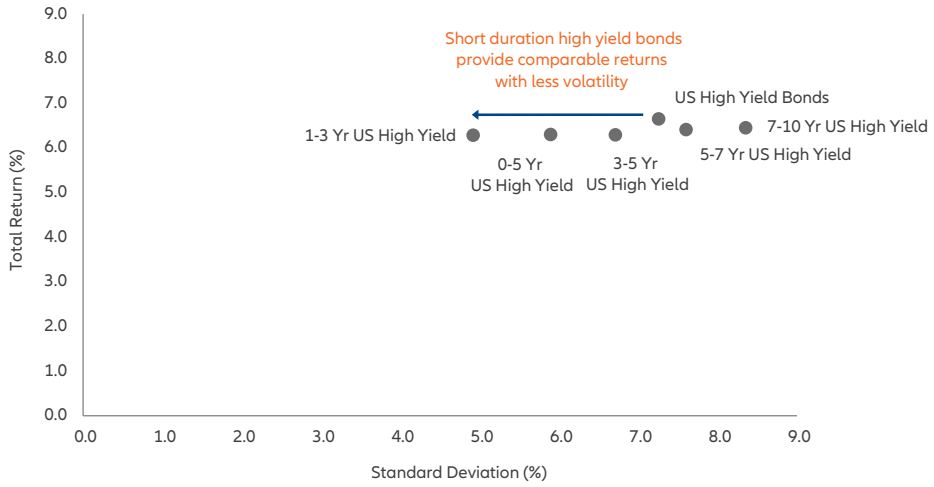
Why Invest in the Short End of High Yield Markets?

There are three primary benefits to investing in the front end of this asset class:

1. Better risk/return ratio

The front end of the US high yield market (as measured by the 1-3 Year US High Yield Index) has provided comparable returns to the broader US high yield market, but with significantly lower volatility.

US high yield market exhibits risk/return variability by maturity[1]



Source

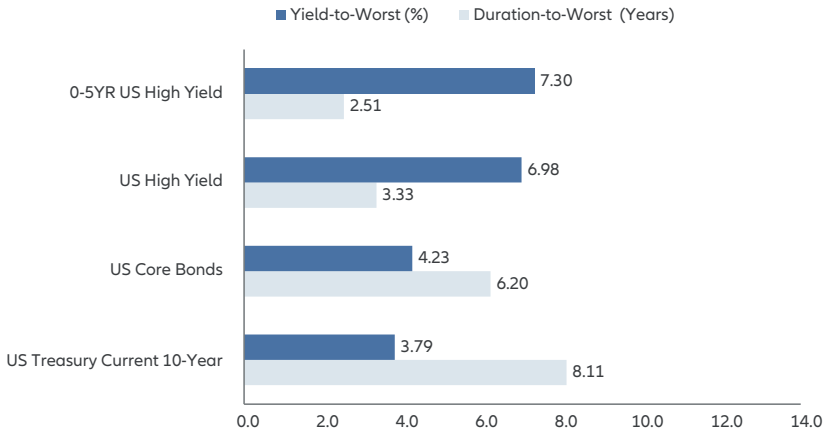
[1] Voya Investment Management, FactSet, ICE Data Services, data from November 2009 to September 2024. Past performance does not predict future returns. This statement reflects performance and characteristics for the time period shown, results over a different time period may have been more or less favorable. The performance shown above is gross and does not reflect the deduction of investment advisory fees.1-3 YR: ICE BofA 1-3 Year US Cash Pay High Yield Index , 3-5YR: ICE BofA 3-5 Year US Cash Pay High Yield Index, 5-7YR: ICE BofA 5-7 Year US Cash Pay High Yield Index, 7-10YR: ICE BofA 7-10 Year US Cash Pay High Yield Index, US High Yield Bonds: ICE BofA US High Yield Index; 0-5Yr:: ICE BofA 0-5 Year US High Yield Constrained Index.

2. Compelling yield-to-duration

Put simply, yield-duration measures how far a bond's price would have to fall before wiping out its yield, resulting in a capital loss (this is often called the "breakeven point"). Today's elevated yields thus provide a cushion against potential price falls in US high yield if recession fears re-emerge.

Record-high new issuance and refinancing activity in 2020 and 2021 pushed coupons and interest expense down and maturities out, creating an even more compelling yield-to-duration trade-off at the short end of the US high yield market.

Short duration high yield bonds offer greatest yield relative to duration[1]

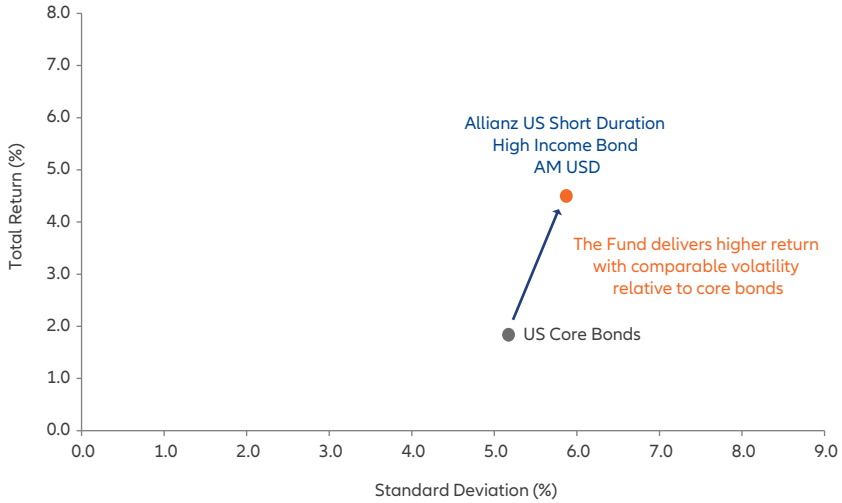


Source
[1] Voya Investment Management, FactSet, ICE Data Services, data as at September 2024. US High Yield Bonds: ICE BofA US High Yield Index, 0-5 Yr US High Yield Bonds: ICE BofA 0-5 Year US High Yield Constrained Index, US Core Bonds: Bloomberg US Aggregate Bond Index, US Treasury Current 10-Year: ICE BofA US Treasury Current 10 Year Index.

3. Attractive risk-adjusted return

Short duration high yield has been overlooked by many investors despite its consistent income and strong risk-adjusted performance. The strategy has outperformed core bonds with similar volatility, and delivered broad high yield bond market returns with less volatility. With the Fed started its easing cycle with few signs of recession, short duration strategies tend to outperform long duration when rate-cutting cycles coincide with soft landings.

Active management of short duration high yield bonds delivers a core alternative[2]

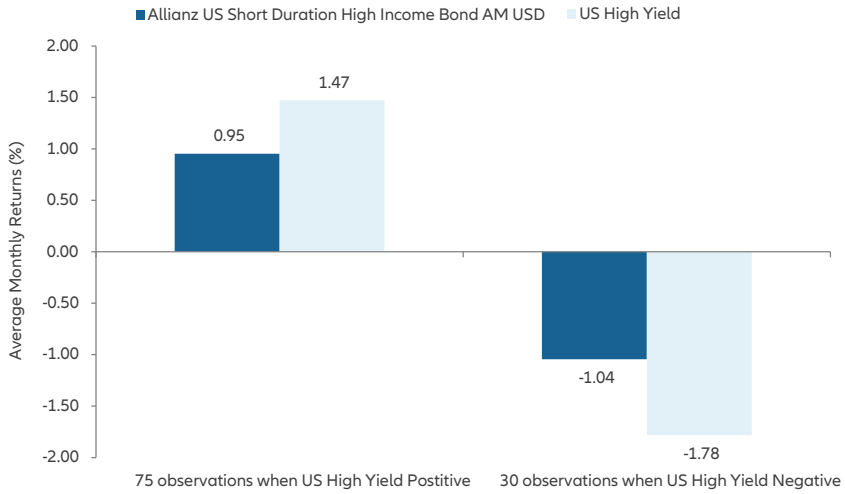


Source
[2] Voya Investment Management, FactSet, ICE Data Services, Morningstar, data from January 2016 to September 2024. US Core Bonds: Bloomberg US Aggregate Bond Index.
Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance.

Allianz US Short Duration High Income Bond

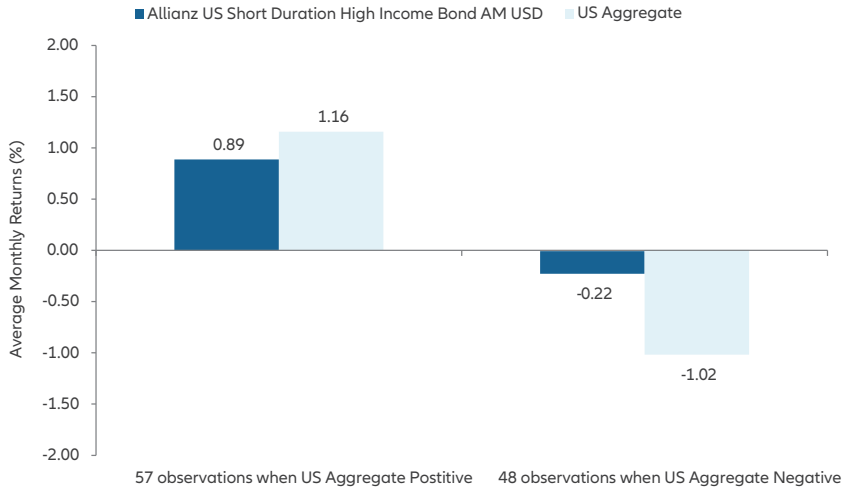
A key aspect of Allianz US Short Duration High Income Bond's history is its asymmetrical return profile. It has provided attractive upside with lower risk than the broader high yield market – including less price volatility, less drawdown and lower interest rate risk.

This chart highlights the Fund's upside and downside participation relative to the US high yield market.



Source: IDS, FactSet. Data from 10 December 2015 to 30 September 2024. US High Yield: ICE BofA US High Yield Index.
Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance.

The Fund can also be a good complement to a core fixed income allocation given its strong risk adjusted performance. Its low correlation to core bonds also helps diminish the magnitude of negative performance outcomes and reduces overall volatility.



Source: IDS, FactSet. Data from 10 December 2015 to 30 September 2024. US Aggregate: Bloomberg US Aggregate Bond Index.
Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance.

Chapter Three: Q&A

Allianz Income and Growth

- The Fund aims at long-term capital growth and income by investing in US and/or Canadian corporate debt securities and equities.
- The Fund is exposed to significant risks of investment/general market, company-specific, creditworthiness/ credit rating/downgrading, default, valuation, asset allocation, country and region, emerging market, interest rate, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation. The Fund's investments focus on US and Canada which may increase concentration risk.

Allianz US Short Duration High Income Bond

- The Fund aims at long-term income and lower volatility by investing in short duration high yield rated corporate bonds of the United States of America ("US") bond markets in accordance with environmental and social characteristics. The Fund aims to achieve the Sustainability KPI with the adoption of the Sustainability Key Performance Indicator Strategy (Absolute) ("KPI Strategy (Absolute)"). The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, creditworthiness/credit rating/ downgrading, default, interest rate, valuation, sovereign debt, country and region, RMB and the adverse impact on RMB share classes due to currency depreciation.
- The Fund is exposed to sustainable investment risks relating to KPI Strategy (Absolute) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or reducing risk diversifications compared to broadly based funds) which may result in the Fund being more volatile and have adverse impact on the performance of the Fund and consequently adversely affect an investor's investment in the Fund.

- These Funds may invest in high-yield (non-investment grade and unrated) investments and convertible bonds which may subject to higher risks, such as volatility, loss of principal and interest, creditworthiness and downgrading, default, interest rate, general market and liquidity risks and therefore may adversely impact the net asset value of the Funds. Convertible may also expose to risks such as prepayment, equity movement and greater volatility than straight bond investments.
- These Funds may invest in financial derivative instruments ("FDI") which may expose to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. These Funds' net derivative exposure may be up to 50% of the Funds' net asset value.
- This investment may involve risks that could result in loss of part or entire amount of investors' investment.
- In making investment decisions, investors should not rely solely on this material.

Note: Dividend payments may, at the sole discretion of the Investment Manager, be made out of these Funds' capital or effectively out of these Funds' capital which represents a return or withdrawal of part of the amount investors originally invested and/or capital gains attributable to the original investment. This may result in an immediate decrease in the NAV per share and the capital of these Funds available for investment in the future and capital growth may be reduced, in particular for hedged share classes for which the distribution amount and NAV of any hedged share classes (HSC) may be adversely affected by differences in the interests rates of the reference currency of the HSC and the base currency of these Funds, particularly if such HSC are applying the IRD Neutral Policy (applicable to Allianz Income and Growth only).

INCOME AND GROWTH STRATEGIES

Q1

What are the Fund solutions on the Income and Growth's platform?

We offer the following Funds that could fit your investment needs.

1. **Allianz Income and Growth** is a US and/or Canada multi-asset strategy with allocations to US and/or Canada high yield, US and/or Canada convertibles, and US and/or Canada equities with a covered call strategy.

2. **Allianz US Short Duration High Income Bond** primarily invests in shorter-maturity, US high yield corporate bonds and seeks capital appreciation, consistent income, and liquidity.

Q2

What is the performance of Allianz Income and Growth and Allianz US Short Duration High Income Bond so far this year?

As of 30 September 2024, the Allianz Income and Growth Class AM (USD) Dis. returned +8.20%, and the Allianz US Short Duration High Income Bond AM (USD) Dis. returned +7.80%. Both funds benefitted from the underlying strength across equities, convertible securities, and high yield bonds.

For the first three quarters of 2024, risky assets were mostly positive, with US stocks continuing to post strong gains, while high yield and convertibles bonds performance also picked up after the Fed surprised the market with a larger-than-expected rate cut. Q2 earnings results were better than expected, with most companies beating top- and bottom-line forecasts, which helped to further boost full-year 2024 and 2025 earnings growth estimates.

The US economy has proved to be more resilient as gross domestic product (GDP) growth surpassed forecast. With inflation easing and labour market softening, Fed has started rate cut in September with the expectation of further easing going forward.

Source: IDS, as at 30 September 2024. Fund performance is calculated in USD based on NAV-to-NAV of Class AM (USD) Dis. with gross dividends reinvested. Past performance, or any prediction, projection or forecast, is not indicative of future performance. Class AM (USD) Dis. performance information: Allianz Income and Growth Class AM (USD) Dis.: 8.20% (YTD 30 September 2024), 17.32% (2023), -19.70% (2022), 11.66% (2021), 21.94% (2020) and 19.49% (2019); Allianz US Short Duration High Income Bond AM (USD) Dis.: 7.80% (YTD 30 September 2024), 12.35% (2023), -6.63% (2022), 4.19% (2021), 4.75% (2020) and 7.24% (2019).

INCOME AND GROWTH STRATEGIES

Q3

What is the outlook on US high yield, US convertibles and US equities?

The easing cycle has begun as inflation normalises and labour market softens. Apart from lower policy rates, potential economic tailwinds include steady consumption, continued government spending, improving productivity, increasing capital expenditures, and the proliferation of AI. Risk to the economy may increase if these trends weaken. Other potential headwinds include escalating geopolitical tensions, prolonged labour market softening, deteriorating consumer sentiment, and continued manufacturing contraction.

In the short term, US equity volatility could increase due to labour disputes, foreign conflicts and US elections. But over the long term, equity market could move higher on continued Fed easing and economic expansion, secular growth drivers, such as AI, and accelerating earnings growth or an earnings inflection from more companies.

The US high yield market, yielding over 7%[1], offers the potential for equity-like returns but with less volatility. The US convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. The increased in new issuance has expanded investment opportunity set and a sustained broadening of the equity market could be a positive development for the asset class.

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.

[1] Source: ICE Data Services, as at 30 September 2024.

Q4

Why may investors consider investing in Income and Growth?

A multi-asset portfolio makes sense, being a great way for investors to potentially generate income and capital gains over time. It is clear that today's investing environment is characterised by high uncertainty, fears of both equity and rate volatility, and rising inflation which can erode wealth. The Fund consists of three underlying asset classes – high yield, convertibles and equities, and is designed as a solution to address these risks. It aims to provide monthly income (yields are not guaranteed, dividend maybe paid out from capital)[Note], the potential for capital appreciation, less volatility than an equity-only fund, and a low correlation to rate-sensitive investments.

For investors looking to supplement income in a portfolio, the high yield asset class provides coupon-like returns. Convertibles offer an asymmetric risk return, allowing investors to participate on the upside of the equity market while being cushioned from downside volatility. And equities provide the potential to grow the principal investment. Collectively, these three asset classes may provide a source of potential income and a compelling return profile. The bottom line for investors is that they must not allow short-term market uncertainty to derail their long-term goals. Market-timing is not easily achievable. Investors would be wise to "re-risk" their portfolios and consider a range of income-generating strategies that have historically held up well during down markets, and be able to capture market upside when bull market returns.

Note: Dividend payments may, at the sole discretion of the Investment Manager, be made out of the Fund's capital or effectively out of the Fund's capital which represents a return or withdrawal of part of the amount investors originally invested and/or capital gains attributable to the original investment. This may result in an immediate decrease in the NAV per share and the capital of the Fund available for investment in the future and capital growth may be reduced, in particular for hedged share classes for which the distribution amount and NAV of any hedged share classes (HSC) may be adversely affected by differences in the interests rates of the reference currency of the HSC and the base currency of the Fund. Monthly dividend payments are applicable for Class AM Dis (monthly distribution) and for reference only but not guaranteed. Positive distribution yield does not imply positive return. For details, please refer to the Fund's distribution policy disclosed in the offering documents.

INCOME AND GROWTH STRATEGIES

Q5

Why may investors consider investing in US Short Duration High Income Bond?

Short duration high yield has been an asset class overlooked by many investors despite its consistent income and strong risk-adjusted performance relative to the traditional core bond strategies.

Income-seeking investors with a higher risk tolerance, who want to earn attractive income while avoiding interest rate volatility, may want to consider short duration high yield. The strategy can be a good complement to fixed income allocation as it helps diminish the magnitude of negative performance outcomes and reduce overall volatility, while enhancing returns and improving positioning with a higher yield and a lower duration.

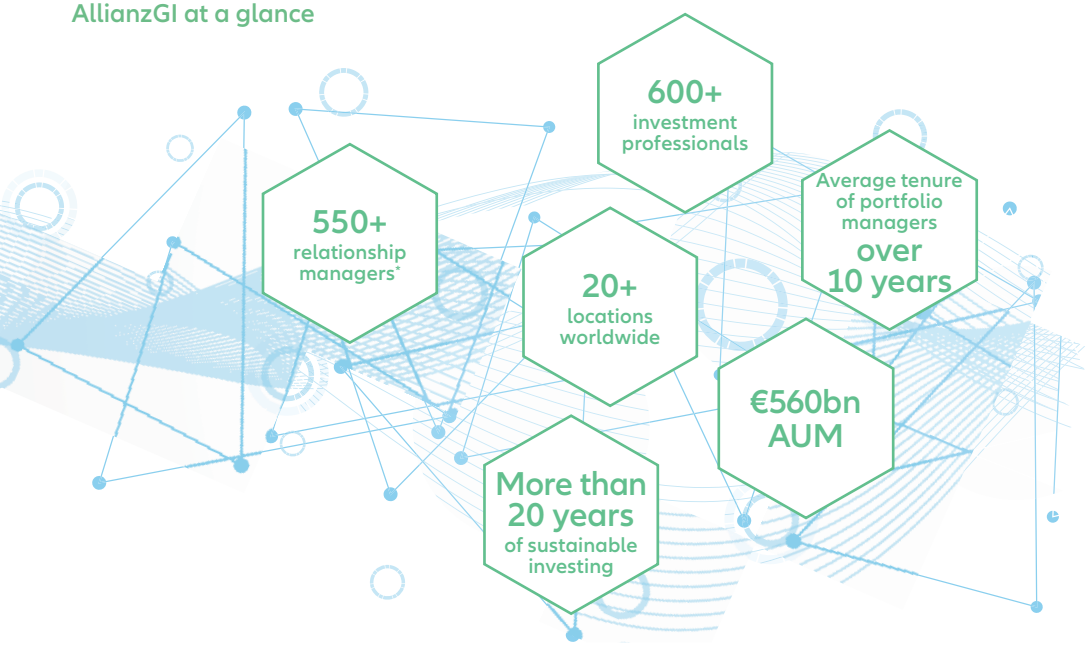
About Allianz Global Investors

Allianz Global Investors is a leading active asset manager with over 600 investment professionals in over 20 offices worldwide and EUR 560 billion in assets under management.

We invest for the long term and seek to generate value for clients every step of the way. We do this by being active – in how we partner with clients and anticipate their changing needs, and build solutions based on capabilities across public and private markets.

As part of Allianz Group, we invest on behalf of one of the world's largest and most financially robust organisations, with more than 130 years of corporate history. Our goal is to elevate the investment experience for clients, whatever their location or objectives.

AllianzGI at a glance



Allianz Global Investors, as at 30 September 2024.
*Including Sales (responsible for client acquisition and contact) and Account Management (responsible for existing client account services).

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Allianz Global Investors and Voya Investment Management have entered into a long-term strategic partnership, and as such, as of 25 July 2022, the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

All data are sourced from Allianz Global Investors dated 30 September 2024 unless otherwise stated.

Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this material but should seek independent professional advice. However, if you choose not to seek professional advice, you should consider the suitability of the product for yourself.

There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.

Investment involves risks including the possible loss of principal amount invested and risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance. Investors should read the offering documents for further details, including the risk factors, before investing. This material and website have not been reviewed by the Securities and Futures Commission of Hong Kong. Issued by Allianz Global Investors Asia Pacific Limited.