Income and Growth Strategy

Fighting against volatility from changes in interest rate policies and rising inflation in post-COVID era

Adopting a three-sleeve approach with high yield bonds, convertible bonds, and equities. Setting in place the dual opportunities of potential income and growth.

Allianz Global Investors

Content

2022:
Year of Normalisation

Following the global economic fallout in 2020, US growth and corporate earnings returned with a vengeance in 2021. Entering 2022, economic growth in the US is expected to return to some normality and the US Federal Reserve (Fed) will soon start to withdraw some of its pandemic-related stimulus programmes. Although COVID may be here to stay, vaccinations have proven to be effective and along with the availability of an antiviral drug, the adverse healthy and economic impacts should be mitigated.

Fed Tapering: Economic growth in US will continue albeit at a more moderate pace. The baseline forecast is for a strong, sustained recovery where growth will normalise back to trend. The Fed began tapering in November 2021 to prepare for a policy liftoff in 2022. After all, Fed tapering reflects optimism over economic growth and **higher rates are generally accompanied with faster economic and earnings growth**. Historically, higher interest rates have been associated with higher instead of lower stock prices.

Inflation Scare: The economic recovery has fueled a rapid rise in inflation. However, the high rates of inflation caused by the pent-up demand, labour shortages and supply chain bottlenecks will moderate as the factors that created them fade. **As economic growth continues to normalise**, inflation should peak in late 2021 to early 2022 (6.8% as of November 2021) and will return to pre-pandemic levels in late 2022.

Potential Risks: COVID-related inflation could persist longer than expected, leading to a faster-than-anticipated monetary normalisation and a sudden tightening of financial conditions. Other potential risks include China property market contagion, further contention in the Congress around future US fiscal stimulus, and the potential for corporate tax increases.

Despite Fed tapering, interest rates are expected to stay very low for longer, it is important for investors to build a resilient portfolio by balancing risk and reward. A strategy with the potential for consistent income distribution, capital growth, and downside risk management could improve the resilience of a portfolio.

A Three-Sleeve Approach for Income and Growth

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

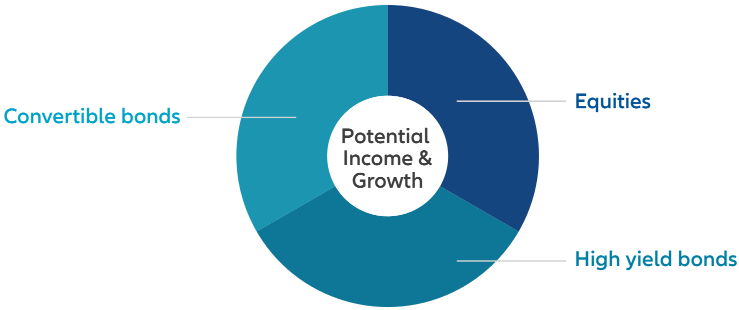
Investors could enjoy three potential benefits:

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.

A “three-sleeve” approach for optimal performance



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: A Diversifier against Low Yields

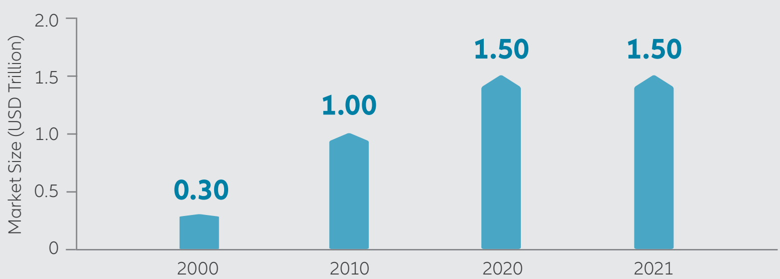
What are high yield bonds?

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 300 billion in 2000, but by the end of 2021, the size of the market had grown to around USD 1.50 trillion[1].

Growth of US high yield bond market[1]



Source
[1] ICE Data Indices, ICE BofA US High Yield Index, as at 31 December 2021.

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 over 50% of the global high yield universe[2].

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 a stronger creditworthiness but lower yields, while non-investment grade bonds are considered riskier 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 are therefore known as high yield bonds. It is worth mentioning that the creditworthiness of high yield bonds has greatly improved in recent years.

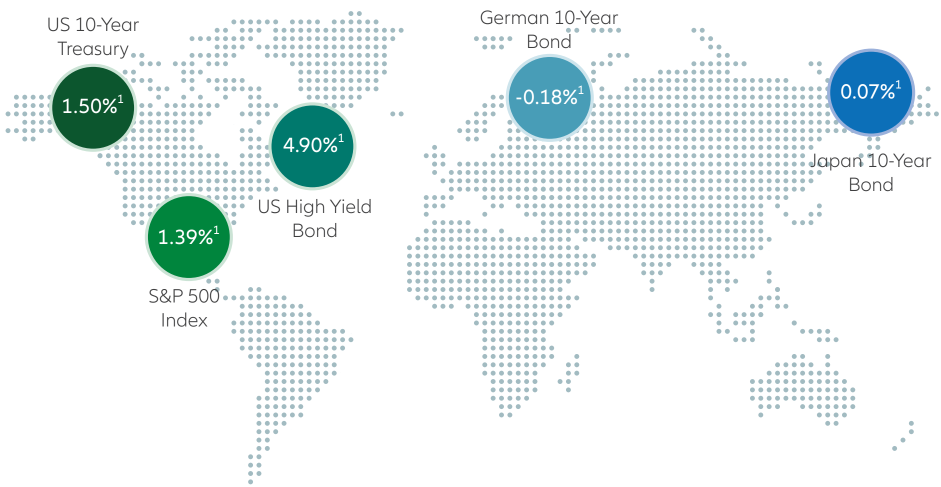
[2] Bloomberg, as at 31 December 2021.

Why Invest in High Yield Bonds?

1. Potential yields

In the current market environment, the relative value proposition of high yield bonds is clear. As of 31 December 2021, the US 10-year Treasury bonds and US investment grade corporates offered yields of 1.50%[1] and 2.40%[1] respectively. US stocks have also delivered dividend yields, with the S&P 500 Index offering 1.39%[1]. Meanwhile, the US high yield market generated a yield of 4.90%[1], 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. The three-year average inflation rate in Hong Kong is 1.60%[2].

Potentially attractive yields from US high yield bonds



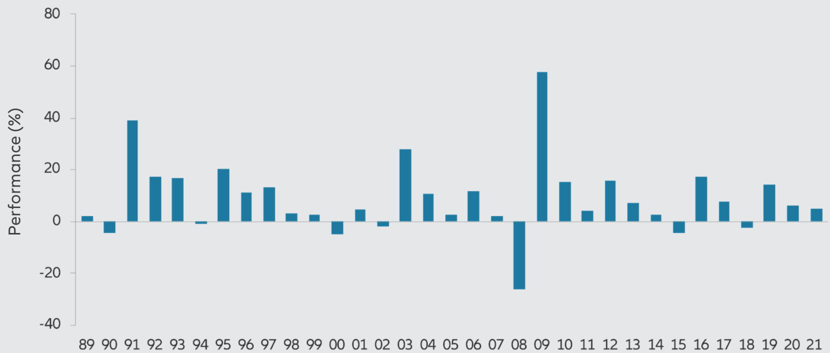
Source
[1] Bloomberg, US investment grade corporates represented by ICE BofA US Corporate Index and high yield bond represented by ICE BofA US High Yield Index, yield represented yield-to-maturity of the index, data as at 31 December 2021.
[2] Bloomberg, data as of 31 December 2021.

2. A proven track record

US high yield bonds have an outstanding past performance record, with an average annual return of 6.72%[3] and 6.10%[3] over the past 10 and 5 years, respectively.

In addition, the US high yield market has posted negative returns in only 7 years between 1989 and 2021. With 26 years of positive returns[4], it is undoubtedly a front-runner in the global fixed income universe, which explains why it is so attractive to investors.

Performance of US high yield market in the past 30 years[4]

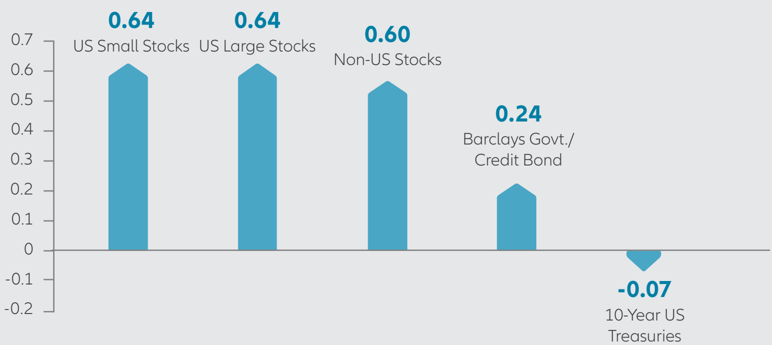


[3] Morningstar, high yield bond represented by ICE BofA US High Yield Index, data as of 31 December 2021.
[4] Morningstar, ICE Data Services, Bloomberg, Allianz Global Investors, as at 31 December 2021. High yield bond performance is measured by ICE BofA US High Yield Index.

3. Fixed income diversification benefits

Historically, high yield bond 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 core fixed income issues. US Treasury bonds are very sensitive to changes in interest rates and their prices will normally decline when interest rates rise. By contrast, high yield bonds are generally driven by the fundamentals of their issuers. As such, their correlation with 10-year US Treasuries is relatively low, currently only -0.07[1].

Correlations between US high yield and other asset classes[2]



Source

[1] Barclays, ICE Index, FactSet, Allianz Global Investors, as at 31 December 2021. 10-year Treasuries: ICE BofA US Treasury Current 10-Year Index.

[2] Barclays, ICE Index, FactSet, Allianz Global Investors, as at 31 December 2021. US Small Stocks: Russell 2000 Index; US Large Stocks: Russell 1000 Index; Non-US Stocks: MSCI EAFE Index; Barclays Government/Credit Bond: Barclays US Aggregate Bond Index; 10-year US Treasuries: ICE BofA US Treasury Current 10-Year Index.

Risks of High Yield Bonds

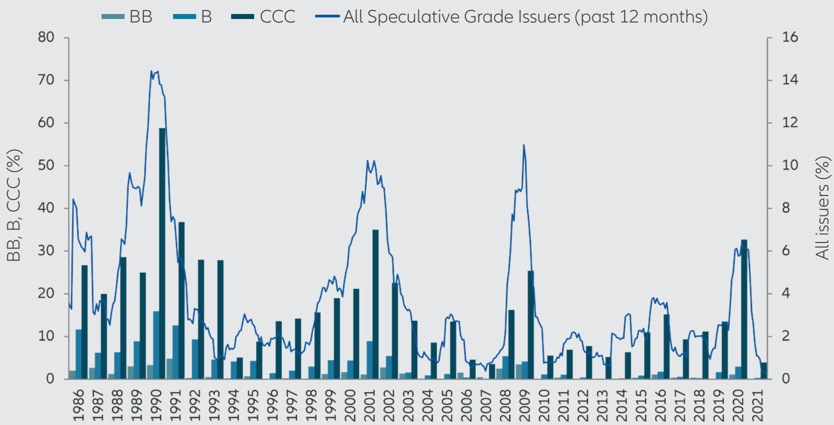
1. Default rates are concentrated in the energy industry

The main risk associated with high yield bonds is corporate default (also known as default risk). Although high yield defaults in 2021 has declined to 0.27%[3] (as of December 2021) due to improved credit fundamentals, their long-term historical default is at 3.7%[3].

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 between 1988 and the end of 2021 amounted to 8.12%[4], lower than that of S&P 500 Index (14.43%[4]) over the same period.

Default rates at low level[3]



[3] ICE Data Services, JP Morgan, as at 31 December 2021. US high yield bonds are represented by the ICE BofA US High Yield Index.
[4] Morningstar, data from 1 January 1988 to 31 December 2021. 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?

Convertible bonds combine the features of both stocks and bonds, and are typically issued by a company.

Similar to other bonds, convertible bonds provide coupon income at a fixed rate. Moreover, investors may convert these bonds into stocks when the share price rises to capture the upside potential of the underlying stock.

The coupon rates of convertible bonds are usually lower than traditional corporate bonds but are higher than the typical dividend yields of stocks.

Info Corner: How do convertible bondholders react to change in share price?

For example, in December 2016, company ABC issued five-year convertible bonds with a coupon rate of 3% p.a. and an exercise price of USD 5. Investors may exercise their right to convert the bonds into shares before December 2021.

Scenario 1: The share price rises

Assuming the share price of company ABC rises to USD 6, holders of the convertible bonds may purchase the shares through conversion at a lower price and make a profit.

Scenario 2: The share price declines

Assuming the share price of company ABC falls to USD 4, which is lower than the exercise price, the holder may continue to hold onto the bonds and receive coupon income.

Note: The above examples are for illustration only and does not represent actual results.
Hypothetical example – not representative of any specific convertible bond. Convertibles involve the risk factors of both stocks and bonds. They fluctuate in value with the price changes of the underlying stock. If interest rates on the bonds rise, the value of the corresponding convertible bond will fall. Investors in convertibles may have to convert the securities before they would otherwise, which may have an adverse effect on their ability to achieve the investment objective.

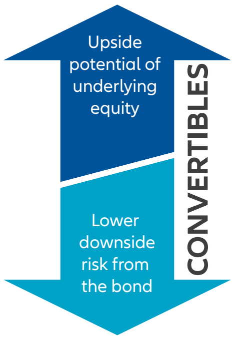
Why Invest in Convertible Bonds?

1. Offensive yet defensive

Convertible bonds enjoy the advantages of both bonds and stocks. Most importantly, **they provide investors with the flexibility to cope with market volatility**.

For instance, when the stock market is doing well, investors can convert these bonds into shares in order to capture the potential market upside. When the stock market is doing poorly, investors may hold the convertible bonds and enjoy a stream of potential income.

Combining the advantages of bonds and stocks

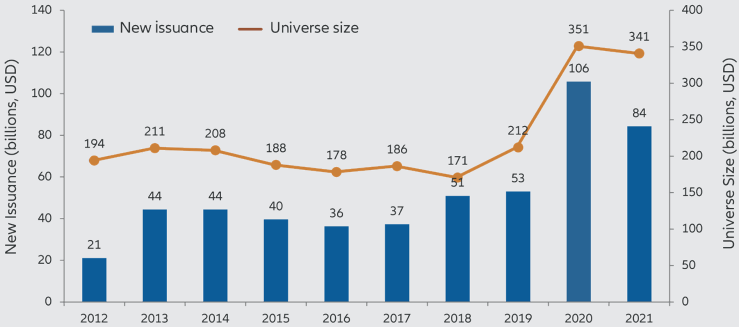


2. Market and investment opportunities continue to widen

Similar to the US high yield market, the size of the US convertible bond market is also the largest in the world, **offering a variety of investment opportunities**.

Convertible bond issuance has been on the rise since 2017. In 2020, US convertible bond issuance broke a record high (since 2001), contributing to strong net supply growth.

The market size of US convertible bonds is projected to grow[1]



3. Less volatile than stocks; lower interest rate risk than US Treasuries

Historically, convertible bonds have exhibited a high correlation to equities, meaning their price movements are quite similar to the stock market. In contrast, the correlation between convertible bonds and US Treasuries is relatively low, meaning their prices rarely move in tandem.

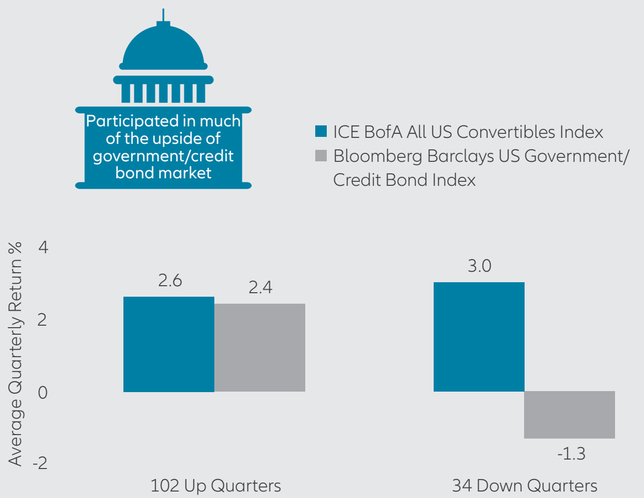
As convertible bonds share the same characteristics as stocks, they behave more like equities irrespective of the interest rate cycle.

Source

[1] ICE Data Services, BofA. Data as of 31 December 2021. 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.

Between January 1988 and December 2021, US government/credit bonds rose in 102 quarters and fell in 34 quarters (by an average of 1.3% in each quarter). Convertible bonds managed to rise by an average of 3.0% in each of the quarters when US government/credit bonds fell[2].

Performance of convertible bonds between January 1988 and December 2021[2]



[2] FactSet, ICE Data Services, Morningstar. Data as of January 1988 to December 2021. US convertible bonds are represented by the ICE BofA All US Convertibles Index. US government credit bonds are represented by the Bloomberg Barclays US Government/Credit Bond Index. Past performance is not a reliable indicator of future results.

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 more risky 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: No End to Record-Breaking Rally?

1. All about earnings

After bouncing back strongly in 2021, corporate profits heading into 2022 are expected to moderate somewhat but still on a growth trend. According to market strategists, earnings are expected to trend higher, **likely to bring a high single-digit year-over-year earnings growth for the S&P 500 Index in 2022**. In a post-COVID environment, strong pent-up demand should drive revenue growth, while pricing power and operating leverage should help offset the impact of higher input costs and wages and near-term bottlenecks.

2. Tapering fears overblown

Tapering started in November 2021 and is expected to end by March 2022, when the first rate hike would follow. However, **a tighter monetary policy is unlikely to end the equity rally**. The gradual shift in central bank policy reflects optimism over economic growth rather than worries over inflation. Additionally, the 10-year Treasury yield remains very low in absolute and relative term. Notably, over the past four rate hike cycles ('94, '99, '04, '15) the S&P 500 Index gained 9.5% in the twelve months prior to the first hike, and 26.0% over the subsequent three years, according to Credit Suisse.

Use of 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 and appreciation.

Scenario 3: The investor benefits from additional cash flow from premium.

Scenario 4: The investor benefits from additional cash flow and the premium earned is enough to offset any downside.

Scenario 5: 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

Scenario 1

Strike price less than stock price

In-the-Money

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

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

Scenario 2

Strike price same as stock price

At-the-Money

Market price of ABC Co.: USD 35 per share; Stock up 16.7%

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

Scenario 3

Strike price greater than stock price; and stock price same as purchase price

Out-of-the-Money

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

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

Scenario 4

Strike price greater than stock price; and stock price less than purchase price

Out-of-the-Money

Market price of ABC Co.: USD 27 per share; Stock down 10%

- Gain = USD 400 (premium)
- Unrealized depreciation of common stock = USD 300 [(USD 27 - USD 30) x 100 shares]
- Net portfolio effect = USD 100

Scenario 5

Strike price greater than stock price; and stock price less than purchase price

Out-of-the-Money

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

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

Allianz Income and Growth ("the Fund") Q&A

- 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, currency, valuation, asset allocation, country and region, emerging market, interest rate, 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.
- The Fund is also exposed to risks relating to securities lending transactions, repurchase agreements and reverse repurchase agreements.
- 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. Convertibles will be exposed to prepayment risk, 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. 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.

Why may investors consider investing in the Fund?

A multi asset portfolio makes sense, being a great way for investors to potentially diversify their portfolios.

It is clear that today's investing environment is characterised by low yields, fears of both equity and rate volatility, and rising inflation which can erode wealth. The Fund consists of three sleeves – US high yield, US convertibles and US 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. Additionally, they serve as a diversification tool to core fixed income in a rising interest rate environment.

1

What is the liquidity like for the convertible bond market, given that its market cap is smaller than that of the high yield market?

Liquidity in the convertibles market is often misunderstood due to the relative size of the asset class.

The size of the US convertibles market is roughly USD 350 billion as at the end of 2021; the high yield market is roughly 1.6 to 1.9 trillion[1]. This, however, does not mean that the convertibles market is less liquid. The most important element to look at is the liquidity of the underlying issuer. And if we look at the trend of the convertible market in 2021, we've seen larger cap companies and issuers come into the marketplace.

In the past year, the US convertible bond market grew organically as scheduled maturities slowed and the new issuance calendar remained strong. New issuance closed at over USD 80 billion, lower than the USD 106 billion in 2020, but much higher than the USD 53 billion in 2019[1].

Along with the rise in new issuance, liquidity in the convertible bond market has also improved significantly. According to Financial Industry Regulatory Authority (FINRA), the average monthly TRACE trading volume surged +65% to approximately USD 46.2 billion in 2021 from USD 27.9 billion in 2019[2.] The average daily trading volume of the convertible market has also increased from USD 1.3 billion in 2019 to USD 2.2 billion in 2021[2].

2

Source
[1] ICE Data Services. Data as of 31 December 2021.
[2] FINRA. Data as of 30 September 2021.

How has the Fund performed during market volatility?

Since the beginning of October 2018, there has been a divergence between US economic data and corporate profits versus the market price action. The market was focused on US-China trade tension, slowing global economic growth and the risk of Fed overtightening. The Fund returned -10.44% in the period from 1 October 2018 to 31 December 2018, and the recovery period took 4 months (31 December 2018 to 30 April 2019).

In Q1 2020, risk assets sold off aggressively as the COVID-19 global outbreak intensified. The short-term trajectory of the global economy and corporate profitability became highly uncertain. This uncertainty led to indiscriminate selling pressure across most US asset classes and created dislocations in credit markets. The Fund returned -15.65% in the period from 1 February 2020 to 31 March 2020, and the recovery period took 4 months (31 March 2020 to 31 July 2020).

Despite these headwinds, the investment team took advantage of attractive valuations, focusing on earnings growth. The Fund maintained monthly distributions (yields are not guaranteed, dividend maybe paid out from capital)[Note] regardless of volatile market environments.

3

Source: Morningstar, as at 31 January 2022. Fund performance is calculated in USD based on NAV-to-NAV of Class AM (USD) Distribution with gross dividends reinvested. Past performance, or any prediction, projection or forecast, is not indicative of future performance. AM (USD) Dis. Performance Information: -7.29% (YTD 31 January 2022), 11.66% (2021), 21.94% (2020), 19.49% (2019), -4.89% (2018) and 12.55% (2017).

Major Market Events from 2012 to 2021

2012

Jan: US fiscal cliff; Fed cut rate 0.08%

Sep: QE3 begins; 10yr Treasury yield 1.67%

2013

May: Taper tantrum

2014

Jan: Fed funds rate 0.07%; Fed tapering begins; 10yr Treasury yield 3.00%

Oct: QE3 terminated; 10yr Treasury Yield 2.3%

Dec: Oil price plummeted by 50%

2015

Jan: ECB announced QE

Dec: Fed started to hike interest rate; 10yr Treasury Yield 2.27%

2016

June: Britain voted to exit from EU

Nov: Trump elected as president of US

2017

Mar: Fed hike continued at a gradual pace

Dec: Trump's Tax Reform signed into law

2018

Mar: US China Trade War

Sep: Unemployment rate reached 3.7% in the US, a 49-year low

Dec: Market crashed on growth concerns

2019

Jul: Fed cut rates

Aug: Yield curve inversion

2020

Mar: COVID-related crashed

April: Aggressive monetary and fiscal response

Nov: Biden elected as president of US

2021

Jan: Vaccine rollout

June: Persistently high inflation

Nov: Fed starts tapering

3

Source: Bloomberg, as at 31 December 2021.

What role does the Fund play in an investor's portfolio?

The Fund complements both core fixed income and equity allocations.

In the current low-rate environment, income generation has become increasingly difficult, while traditional fixed income asset classes have high interest rate risks. This backdrop calls for a broader investor-income toolkit. The Fund may offer investors a consistent potential stream of income and provide a good complement to their traditional fixed income exposure.

The Fund could be considered as an equity surrogate, as it has historically, provided equity-like returns with less volatility than stocks. It could be an option for investors who are risk adverse and looking to manage or trim volatility from their portfolio, but still want some equity-like exposure. At the same time, it is also a choice for those who are seeking to increase equity exposure but don't want the volatility associated with pure equity.

Almost any portfolio could benefit from the many advantages that income could provide, from lowering volatility to contributing to potential total return. The bottom line for investors is that they must not allow short-term market uncertainty to derail their long-term goals. 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, offering both stock-like potential returns and a way to moderate volatility.

4

How does the Fund meet potential monthly distributions?

The distribution share classes of the Fund seek to generate potential income through monthly distributions (aims for regular distribution, yields are not guaranteed, dividends may be paid out from capital)[Note]. These distributions predominantly come from several potential sources of income in the Fund: namely, high yield coupons, convertible bond coupons, equity dividends, and potential capital gains from the three sleeves. Distributions may comprise both income and/or realized gains and will vary depending on market conditions.

5

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. 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.

What are the differences between total return and distribution (yield)?

The Fund aims to earn a potential regular income for investors. However, investors who focus exclusively on distribution yield must also consider total return, which is the combination of yield and the return provided by the underlying asset classes. A typical bond fund generally distributes its earned coupon income; whereas the Fund generates its payout from multiple sources of potential income, including coupons, dividends, and capital gains. When a fund distributes income, the fund's NAV will drop by the equivalent amount in price, but the total return remains unchanged. The difference in distributions also make up the total return. Besides income distribution, fluctuations in the underlying asset classes can have varying degrees of impact on return. Hence, investors should not confuse yield with total return.

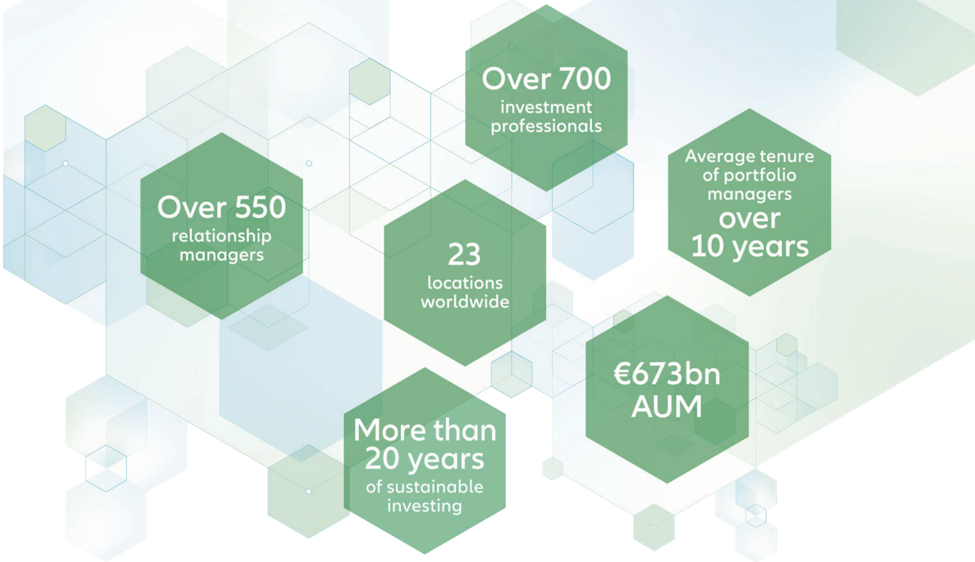
6

About Allianz Global Investors

Allianz Global Investors is a leading active asset manager with over 700 investment professionals in 23 offices worldwide managing EUR 673 billion in assets for individuals, families and institutions.

We see investing as a journey and we seek to create value for our clients every step of the way. We do this by being active. 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. We invest for the long term, employing our global investment and risk capabilities and our sustainable investing expertise to create innovative solutions that anticipate future needs. It is our deep conviction that human insight – with the support of analytical tools – is essential to finding the best solution for our clients' needs.

AllianzGI at a glance



Source
Allianz Global Investors, as at 31 December 2021.

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