Allianz Global Investors

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October 2022

Introduction of Swing Pricing Methodology

FAQs – Frequently asked questions

I. General Information

a. The Goal

The idea behind Swing Pricing is to protect existing investors from dilution caused by high transaction cost associated with a fund's portfolio trades resulting from significant purchasing, selling and/or switching activity by investors of a fund.

b. Introducing Swing Pricing

Swing pricing means that the fund unit price is adjusted for significant purchasing, selling and/or switching activity by investors. Thanks to this procedure, transaction costs are only borne by those who cause them. Hence, swing pricing protects the other investors from capital dilution.

How is dilution caused?	Cost allocation according to the liability principle:
Due to subscriptions or redemptions of fund units, the fund manager may have to buy or sell securities for the portfolio. The related **transaction costs** are charged to the fund's assets. They reduce the fund's net asset value (NAV). The transaction costs are borne by all investors in the fund.	**Swing pricing:** In case of large-scale subscriptions or redemptions, an **adjustment of the fund unit price** can be implemented to charge the transaction costs to those investors who caused them on that day. **Existing investors are not affected** by this adaptation.

c. Funds which are impacted by Swing Pricing

Allianz Global Investors implemented the swing pricing methodology for the sub-funds of Allianz Global Investors Choice Fund (except the Allianz Choice HK$ Liquidity Fund) in particular out of the following categories with additional categories following in the future:

- Government Bonds
- Credit Developed Market Investment Grade Bonds

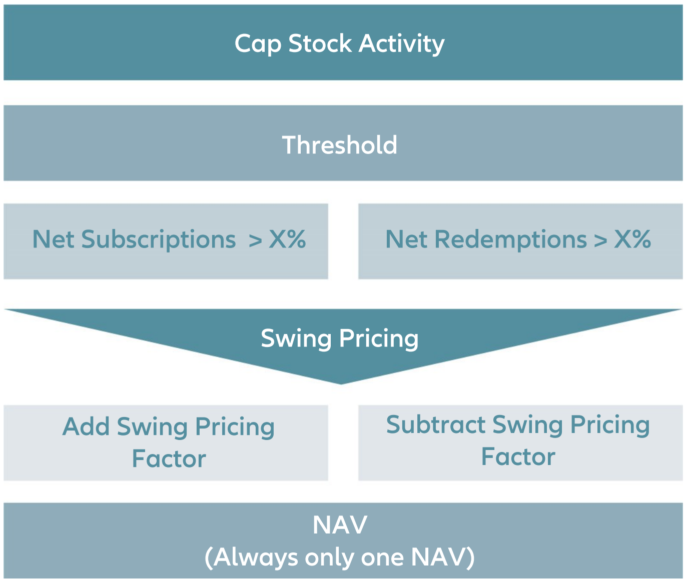
The exhaustive list of funds applying Swing Pricing can be find here: **https://hk.allianzgi.com/Retirement**
This website has not been reviewed by the SFC and may contain information of funds which are not authorised by the SFC and therefore not available to the public in Hong Kong.

II. Process of Swing Pricing

a. Implementation of Swing Pricing within Allianz Global Investors

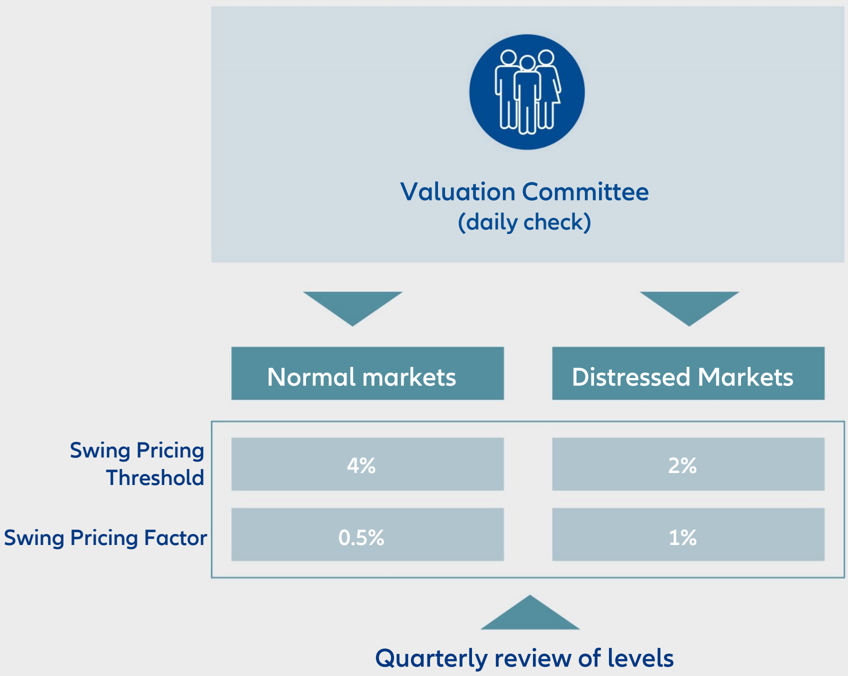
When will the swing pricing be applied?
The swing pricing will be applied when the net volume of subscriptions and redemptions reaches a threshold that could significantly affect existing investors (Swing Pricing Threshold).

A simple and transparent method:
The swing pricing factor
The NAV of the fund is adapted according to the volume and type of transactions on a given day. Transaction costs are charged only to investors who subscribed or redeemed capital on that day. The adjustment (Swing Pricing Factor) is based on normal transaction costs for the underlying securities.



b. Swing Pricing Threshold Mechanism and Swing Pricing Factor at a Glance

Sample illustration



Swing Pricing Threshold:
When the net volume of subscriptions and redemptions reaches an amount that could significantly affect existing investors

Swing Pricing Factor:
The adaption of the fund price

The diagram is for illustrative purpose only. Please refer to the prospectus of Allianz Global Investors Choice Fund for further details of Swing Pricing Mechanism.

c. Swing Pricing Factors for the funds have been defined

Please find the complete fund list with its Swing Pricing Factors here: **https://hk.allianzgi.com/Retirement**
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Possible scenarios in case of a NAV per share of HKD 100

Sample illustration

<table>
<tr><th></th><th>Normal Market
(Threshold = 4% of fund volume)</th><th>Distressed Market
(Threshold = 2% of fund volume)</th></tr>
<tr><td>If Net flow < 2% net fund volume</td><td colspan="2">**No swing pricing applied**
NAV per share = HKD 100</td></tr>
<tr><td>Net flow > 2% net fund volume and < 4% net fund volume</td><td></td><td rowspan="2">If subscriptions > redemptions: NAV per unit = HKD 101 (+1.0%)
If subscriptions < redemptions: NAV per unit = HKD 99 (-1.0%) ✓</td></tr>
<tr><td>Net flow > 4% net fund volume</td><td>If subscriptions > redemptions: NAV per unit = HKD 100.5 (+0.5%)
If subscriptions < redemptions: NAV per unit = HKD 99.5 (-0.5%) ✓</td></tr>
</table>

Swing Pricing Factor applied

d. Advantages for Clients

Protection against dilution

Without swing pricing, large-scale redemptions or subscriptions of fund units result in transaction costs which must be borne by the existing investors.

Transparency

Transaction costs are borne only by those who have caused them. Medium to long-term investors who retain their investments in the fund are not affected.

Liability Principle

Swing pricing adaptation will only affect investors who buy or sell units on a given day.

Protection against Speculation

Short-term investors and players who speculate on price volatility.

III. Questions

1. What effects on the fund unit price should long-term investors expect?
Fund unit prices are likely to be more stable in the long run, as expenses are borne by those who cause them. In the short run, fund unit prices are likely to be more volatile if swing pricing is used more often. This may have an impact on key performance indicators for the fund, for example on comparisons to a benchmark index.

2. How does swing pricing affect current investors in the fund?
Potential adjustments of the NAV result in temporary book gains or losses for investors, which are, however, be reversed on the following valuation day, provided that no further swing pricing takes place.

3. What rights do investors have?
According to the prospectus of the Allianz Global Investors Choice Fund, all sub-funds (except the Allianz Choice HK$ Liquidity Fund) may apply Swing Pricing.

It is not possible to exempt existing investors from swing pricing.

4. How does the decision-making process work?
Allianz Global Investors relies on its Swing Pricing Committee, which regularly analyses the current influencing factors and thresholds for all product groups and adjust them, if necessary. This process usually takes place once every quarter and is based on external analyses (such as the Barclays Liquidity Cost Score) and internal assessments of current and actual market liquidity and transaction expenses (for example by the trading desk).

5. How are investors informed about the use of swing pricing?
Allianz Global Investors discloses the list of funds applying Swing Pricing in the Internet **https://hk.allianzgi.com/Retirement**. This website has not been reviewed by the SFC and may contain information of funds which are not authorised by the SFC and therefore not available to the public in Hong Kong.

However, there will not be an ex ante or ex post information on whether or at what time swing pricing took place.

6. Is there still be a uniform redemption price?
Yes, only one NAV will be published.

7. Is Allianz Global Investors planning to introduce swing pricing for other funds as well?
Allianz Global Investors is continuously evaluating, if further funds should apply Swing Pricing.

8. How is the swing pricing factor (SPF) determined?
The initial SPF is determined on the basis of independent internal analysis including an underlying quantitative model and the market opinion of the relevant segment/strategy CIO. It is regularly (i.e. once every quarter) reviewed by the Swing Pricing Committee.

9. How is the swing price threshold (SPT) determined, and is it communicated?
The initial SPT is determined on the basis of external analyses and the market opinion of the relevant segment/strategy CIO. It is regularly (i.e. once every year) reviewed by the Valuation Committee. The SPT is not communicated.

10. When does swing pricing take place?
If net subscriptions or redemptions exceed a certain percentage of the fund volume's swing price threshold (SPT).

11. How does swing pricing work?
If the swing price threshold (SPT) is exceeded, the fund unit price is adjusted by the swing pricing factor (SPF), for example by 0.5%. This may have the following effects (example for illustrative purpose only):
Net subscriptions: upward adjustment of the price to 100.5 instead of 100
Net redemptions: downward adjustment of the price to 99.5 instead of 100

12. Who is affected by swing pricing?
Only those investors who buy or sell fund units on the relevant day. Investors who remain invested in the fund are not affected. They will experience a temporary book gain or loss, which will usually be reversed on the following valuation date.

13. What advantages does swing pricing have for investors?

1. Protection against investors who speculate on short-term price volatility.
2. Long-term protection against dilution, as major fund unit subscriptions or redemptions lead to transaction cost which would have to be borne by the existing investors otherwise.
3. Transaction costs are borne only by those who cause them. Medium to long-term investors who remain invested in the fund will not be affected.
4. Transparent functioning: swing pricing adjustments will only affect investors who buy or sell fund units on the relevant date transaction costs are only borne by those who cause them. Hence, swing pricing protects the other investors from capital dilution.

14. Can investors benefit from swing pricing if they buy or sell fund units?

Yes. If investors subscribe on a day with large net redemptions, they will pay a lower price for their units; if they redeem their units on a day with large net subscriptions, they will get a higher redemption price. However, investors will not know in advance what effect potential price adjustments may have.

15. Who determines whether the market situation is normal or tense?

Allianz Global Investors determines an SPT and an SPF for both normal and tense market situations. If swing pricing takes place, the AllianzGI Valuation Team (referred to as Valuation Team) in cooperation with AllianzGI Risk Team decide on every single trading day whether market conditions are normal, distressed or severely stressed.

Distressed markets are identified on asset class level, i.e. it may be there is a stressed market in Credit Developed Market Investment Grade Bonds and NOT in Government Bonds and vice versa.

The process works in a two-step process:
First Step, if there are signs for a distressed market the Distressed Market Flag is raised. If the flag is raised the Valuation Team makes in a second step the decision to utilize the Stressed Market Swing Pricing Parameters or not.

There are two ways how the Distressed Market Flag may be raised:

1. In case the portfolio manager sees signs of a tense market, he sets the Distressed Market Flag and provides a written rationale to the Valuation Team.
2. Independent of the portfolio management the Valuation Team performs a daily quantitative screening comprising general market indicators for the overall market (like volatility or certain general bond spreads), as well as asset class specific indicators e.g. certain spread indicator. For the different indicators there are defined stress level thresholds. In case a threshold is reached the Distressed Market Flag is set. The quantitative screening indicators and thresholds will be reviewed regularly and ad-hoc depending on the market conditions.

Once a flag is raised, the independent Valuation Team will make a market analysis based on all available information, like market data, portfolio manager opinion and other third party information. Based on that analysis it will decide, if Normal or Stressed Market Swing Pricing Factors are applied and document the result accordingly.

For severe market events, which lead to a situation where the Swing Pricing parameters for distressed markets are no longer appropriate, an ad-hoc process can be initiated by anyone including portfolio management, Risk or the Valuation Team. The Swing Pricing Committee will make a decision on a case-by-case basis to apply or not to apply swing pricing, based on a wise and reasonable judgement of the situation and the appropriateness or not of using that tool.

16. Are the swing price thresholds and the swing price factors constant over time?

No. The AllianzGI Swing Pricing Committee assesses once every quarter whether the SPT and the SPF are still adequate. The AllianzGI Swing Pricing Committee consists of representatives of the Risk, Compliance, Investments (Portfolio Management) and Valuation Team.

17. Are ad-hoc reviews possible in unusual situations?

Yes, in case of extraordinary exogenous events (such as Brexit) the AllianzGI Valuation Committee will review the SPT and the SPF and adjust them to the situation. However, in principle the SPT and the SPF will be reviewed and adjusted once every quarter.

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Source: Allianz Global Investors as at 14 October 2022.