

How to read the dividend composition information?

1. What is the Dividend Composition Information about?

The Hong Kong Securities and Futures Commission ("SFC") has issued a Frequently Asked Questions ("FAQs") which requires SFC authorised funds to publish the compositions of the dividends for the last 12 months ("Dividend Composition Information"), that is, the relative amounts paid out of: (i) net distributable income; and (ii) capital

The 12 months period is intended to be a rolling 12 months period starting from the date on which payment of dividends is being made by an SFC-authorized fund after November 2012.

2. What does "net distributable income" mean?

Net distributable Income = Investment Income – Fees and Expenses

and

Investment Income includes 1) dividend income 2) Interest income 3) Coupons from bonds 4) Net realised gains

and

Net realised gains (ie., realised gains minus realised losses) include capital gains/losses from selling of securities, option premiums, F/X appreciations/ depreciations, as well as any F/X gains/losses on the F/X forward contracts from currency hedged share classes.

"Net distributable income" does not include any net unrealised gains (ie. increase in the value of the holdings of the fund, which have not been sold off by the fund manager).

Based on the above formula, if the fund/share class suffered a huge realised loss during the relevant period, even if there is other investment income generated, the split may indicate that the fund/share class is paying dividends out of capital.

It is also a SFC requirement that the net distributable income must be shown net of fees and expenses.

3. What is "capital"?

It is important to note that the "capital" referred to in the Dividend Composition Information is **not the same as the investors' original investments.**

Capital includes 1) net unrealised gains (ie., unrealised gains minus unrealised losses); and 2) Any net distributable income that has been accrued as at the end of a financial year but is not declared and paid as dividends at the next distribution date immediately after that financial year end will become "capital" for the next financial year.

Even if there are net realised losses, the NAV of the fund may not experience a negative performance as there may be net unrealised gains.

(Note: any "net distributable income" that is not declared and paid as dividends in a period of a financial year can be carried forward as net distributable income for the next period(s) within the same financial year. "Net distributable income" that has been accrued as at the end of a financial year and is declared and paid as dividends at the next distribution date immediately after that financial year end could be treated as "net distributable income" in respect of that financial year.)

4. How is net distributable income calculated?

For the purpose of calculating the net distributable income in the Dividend Composition Information, the investment income component described above (including the net realised gains) is calculated using the same accounting principles adopted in preparing the financial reports, subject to the requirements of the SFC as set out in its FAQ.

As required by the SFC, the net distributable income in the Dividend Composition Information does not factor in any income equalization adjustments.

5. Why is the dividend composition for some of the share classes of the same fund different?

The currency hedged share classes aim to hedge currency risk and provide investors with returns correlated to the fund performance measured in its base currency. The dividend composition for currency hedged share classes is different from that of the base currency share classes as the former is affected by the following:

- **The impact of the F/X forward contracts on the hedged share class level –**

The currency hedged share classes aim to hedge the currency risk to a large extent by entering into F/X forward contracts on the hedged share class level.

The F/X movement between the base currency and the hedged currency is reflected in the value of the F/X forward contract, which is booked as unrealised gains or losses on the hedged share class level until the contract matures.

Upon maturity of the contract, the realized gains or losses of the contract are also booked on the hedged share class level and a new contract is entered into (so called "rollover").

Hence, all gains and losses (including realised and unrealised) associated with a currency hedging transaction entered into in relation a hedged share class will be allocated solely to that hedged share class and reflected in the NAV of that hedged share class.

- **The mismatch between the reporting period and the hedging period of the F/X forward contracts –**

Only realised gains/losses will be counted towards net distributable income for the reporting period, which will be triggered upon rollover of the F/X forward contracts. The rollover of the F/X forward contracts does not necessarily coincide with the reporting period.

- **The inflows and outflows into the hedged share class –**

The value of the F/X forward contracts and the value of the currency hedged share class assets are monitored daily to ensure the class remains effectively hedged.

In case of net subscriptions, the share class will enter into an F/X forward contract corresponding to the net subscription amount; in case of net redemptions, the share class will close out the positions corresponding to the net redemption amount.

The timing and amount of inflow and outflow will therefore impact the realized gains/losses of the F/X forward contracts as the contracts are rollovered.

Investors should note that even though there may be F/X gains or losses on the currency hedged share class level, when the performance of the share classes are aggregated on the fund level in the base currency, the F/X gains or losses will be off-setted.

The NAV performance of the hedged share classes are in line with unhedged share classes.

To sum up, the hedging strategy of the currency hedged share classes aims at mitigating the risk of currency fluctuation against the base currency of the respective funds. Due to execution of the hedging strategy and its technical impact, the dividend composition (as between net distributable income and capital) may vary from that of the base currency share classes. Investors in the currency hedged share classes may refer to the NAV and dividend composition of the base currency share classes of the respective funds for a representative illustration of the performance of their investment.

6. What are AMg and AMg2 distribution share classes?

Distribution share classes which distribute income according to the Gross Distribution Policy are named with the additional letter "g", i.e. "AMg". Paying dividends out of gross income while charging/ paying all of the fund's fees and expenses to/ out of the capital of the fund, will result in an increase in distributable income for the payment of dividends by the fund and therefore, the fund may effectively pay dividend out of capital and resulting in an immediate decrease in the NAV per Unit.

Additional notation "2" to "99" indicates share classes which may have different characteristics (including, but not limited to, charges, fee structures, persons authorised to invest, and minimum investment amount). For details, please refer to the Prospectus.

In case of Allianz Income and Growth, AMg2 share class, a lower distribution share class, declares a distribution predominantly from multiple potential sources of income. While AM share class declares a higher distribution as its source of distribution is predominantly from multiple potential sources of income and capital gains. Impact on AM share class NAV should be more pronounced than that of AMg2 share class given its higher payout.

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