Allianz Dynamic Asian High Yield Bond

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in high yield rated debt securities of Asian bond markets.
- The Fund is exposed to significant risks of investment/general market, interest rate, valuation, sovereign debt, creditworthiness/credit rating/downgrading, default, emerging market, country and region and currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- 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 may also be exposed to risks such as 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.

What Happened in June

Sentiment for Asia credit was mixed in June with the positive development on trade talks being offset by the escalation of tensions in the Middle East. On the trade side, the US and China established a framework for implementing the Geneva consensus following the high-stakes trade talks in the first week of June. A deal was signed between the two nations later in the month and the US Commerce Secretary hinted to potential agreements with more major trading partners in the weeks ahead. For Middle East, Israel and Iran exchanged attacks since mid-June, with international concern growing that the crossfire will spread across the oil-producing region. A tentative ceasefire was later announced and confirmed by both parties, but the market remained skeptical of the truce. Despite all the uncertainties and volatilities in the market, Asia credit continued to demonstrate resilience with both Investment Grade and High Yield reporting positive returns in June. On the rates side, US treasury yields fell significantly during the month, driven by benign inflation data and dovish commentary from Fed Governors backing an earlier rate cut.

Asian credit (J.P. Morgan Asia Credit Index - Composite) was up 1.2% in June. High Yield (HY) credits was up 0.8% with all of the returns coming from interest rates.

New issuance was very active in June with a total issue size of USD 39 billion, up 80% from the previous month. With close to USD 37 billion of maturities, net supply was slightly positive in June. Most of the new issuance was from the financial sector and rated Investment Grade. Primary demand remained strong and most of the issues closed flat or above issuance levels.

Asian High Yield (HY)

Despite the outbreak of the Israel-Iran conflict, Asia HY held up well in June, where spreads merely widened by 19 bps. The most dramatic name within the HY space was a major Hong Kong property developer, where the price of its perpetual bonds dropped to a historical low after the announcement of a coupon deferral for all outstanding perpetuals on the last day of May. The liquidity concern spilled over to the bullet bonds as well, dragging their prices down by 3-7 points. Subsequently, bond prices recovered gradually throughout the month as the company made progress on refinancing its existing offshore loans. Outside of New World, the sovereign space continued to perform well in June with both Pakistan and Sri Lanka ranked among the top performers. On detractors, despite the improving macro environment in the China property space, a prominent developer was one of the weakest performers in Asia HY during the month. Its bond prices fell after the company launched a consent solicitation to pay payment-in-kind (PIK) interests and waive any default.

Portfolio Review

The Fund returned relative to benchmark returns for the month.

For the Fund, positive returns were primarily driven by selection, given that spreads remained largely unchanged. Once again, most of the accretive performance can be attributed to our positioning in a Hong Kong developer as we re-engage in the bonds of the issuer. Separately, our null exposure to a Philippines developer paid off as their bonds continued to sell off in June. The Fund also benefited from an overweight in India and Macau Gaming. We remain long carry in the strategy and expect security selection to be the key long term positive contributor.

Outlook and Strategy

With the Middle East conflict being temporarily resolved, market focus is now turning back to the US economy which should remain highly uncertain given Trump's unpredictable policies. As global investors reassess the concentration of risk in US credits, Asia stands out as a compelling destination for diversification, underpinned by the strong fundamentals with limited tariff exposure. Asian IG credits provide a resilient high-quality alternative to US issuers while HY credits offer the highest yield among peers with contained default risk. Technicals continued to be supportive to Asia credits with year-to-date net supply remaining negative after factoring in coupon payments. As a result, we remain constructive on Asia credit with a slight preference of high yield to investment grade. We maintain our long carry position, expect security selection to be the key long-term positive contributor and look to increase credit beta on the back of global-induced sell-offs.

Source: from Bloomberg, IDS and Allianz Global Investors and as at 30 June 2025 unless otherwise stated.

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