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 October

October saw notable volatility in U.S. Treasury yields, with the 10-year yield bottoming at 3.94% before retracing to 4.08%, on the back of Powell's hawkish tone at the last Federal Open Market Committee (FOMC) meeting, marking a modest month-on-month decline of 7bps. This is the second consecutive month of 25bps cut in the US Federal Reserve (Fed) funds rate. Due to the US government shutting down during the month, we did not receive much data releases. Of importance would be the jobs data which was not produced.

The JACI Composite Index delivered a solid 0.73% return, 0.4% attributed to rates and 0.3% to spread compression. Investment Grade (IG) credits matched this performance, while High Yield (HY) outperformed with a 1.2% return, supported by a 23bps tightening in spreads to 438bps—now below the 450bps threshold. This continued strength sets a positive tone as we enter November. Asia Pacific USD credit supply slowed down pace in the month of October, with 40 new deals totaling USD 17.46 billion issued during the month.

Asian High Yield (HY)

Asian high-yield (HY) credit markets saw spreads tighten by 23bps, delivering a 1.2% return, with Hong Kong real estate leading the rally. A Hong Kong-based company focused on property, hotels, infrastructure and services and department stores was in the spotlight amid market speculation of an equity raise, which the company denied. Despite this, the company is reportedly pursuing a USD 3 billion equity financing via convertible preference shares, with the Cheng family expected to contribute half. Bond prices have corrected but remain above pre-rumor levels, reflecting investor optimism. While equity raising and liability management are seen as necessary to normalize operations and improve the capital structure, investors should remain cautious, as coupon deferrals on preference shares may persist. Sri Lanka's sovereign curve firmed following strong fiscal performance, with tax revenue rising 32.5% YoY to LKR 3.56 trillion and a primary budget surplus exceeding International Monetary Fund (IMF) targets. This led to a narrowed budget deficit and the initial approval of a USD 347 million IMF loan tranche. Additionally, the Asian Development Bank (ADB) approved a USD 100 million financing package aimed at revitalizing Sri Lanka's tourism sector through improved governance and increased private sector participation. These developments signal improving macroeconomic stability and external support, which could bolster investor confidence in Sri Lanka's credit outlook.

Portfolio Review

The Fund returned trailing the benchmark's return. The key drag to performance was our underweight allocation to the Hong Kong Real Estate sector, which saw a rebound in some weaker issuers although there was no change to the credit fundamentals of these issuers. Our underweight to the low yielding Chinese Financials sector also proved to be a drag. Our long-standing overweight allocation to the Indian Utilities sector contributed positively again to performance as credit spreads in this sector grind tighter. We continue to focus on high interest carry for now while long-term performance expected to be driven by security selection and allocation.

Outlook and Strategy

As we moved through October, spreads remained tight amid fundamental risks and late-cycle concerns, yet we believe the case for selective buying remains compelling. Importantly, there is little evidence of excessive risk-taking or broad-based deterioration in fundamentals. Pro-cyclical catalysts—such as the Fed's shift toward easing and Germany's fiscal expansion—support a more favorable market backdrop. With risk reduced during the month, positioning has normalized to more neutral levels, reducing the likelihood of forced selling and historically aligning with moderately positive returns.

Corporate fundamentals remain broadly intact, external risks are stabilizing, and technicals continue to provide a tailwind. Our base case is for steady performance in Asia credit, supported by constructive sentiment and ongoing spread compression. We maintain a preference for HY over IG for carry, while in HY space, we prefer BB over B, consistent with our more defensive stance.

Source: from Bloomberg, IDS and Allianz Global Investors and as at 31 October 2025 unless otherwise stated.