Allianz Global Investors

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 April

Market sentiment on Asian credits turned slightly negative in April as a result of the increasing geopolitical risk in the middle east and also more sticky inflation in the US. Performance was negatively affected by the rising US treasury yield but partially offset by the decent interest accrual. In April, the JP Morgan Asia Credit Index (JACI) Composite returned -1.2% with the Investment Grade (IG) sub-index returning -1.3% and High Yield (HY) returning -0.6%. Year to date, JACI composite has delivered 0.2% total return and Asia High Yield remained the best performing sector within Global fixed income with a total return of 6.2%.

Asia High Yield ended its 5-month streak of positive returns but still outperformed Global High Yield (-0.7%) and US High Yield (-0.9%) in April. Pakistan sovereign was the key contributor while Sri Lanka sovereign was the major detractor.

APRIL 2024

In April, Pakistan reached an agreement with Saudi Arabia to increase Saudi deposits in the State Bank of Pakistan by USD 5 billion from USD 3 billion. The Finance Minister also mentioned that the government is seeking a 2-3 years loan from the International Monetary Fund (IMF) as quickly as possible with a larger target than the current USD3 billion program. The sovereign also successfully repaid USD 1 billion bond matured in April. On Sri Lanka, investors were disappointed by the headlines that the restructuring talks with the bondholder steering committee had ended without an agreement. Though further headlines also indicated that the talks would restart after the government consults the IMF during the Spring meetings in Washington.

In terms of idiosyncratic movers, higher quality Chinese real estate developers were the outperformers. Sentiment for Chinese real estate sector has turned more positive on the second half of April on the back of media coverage and rumors related to potential policy stimulus for the tumbling property sector.

Portfolio Review

The Fund returned relative to benchmark for the month.

Our Hong Kong and China real estate exposures were a drag for the month but these were partially offset by positive contributions from Philippines, Singapore and Pakistan. In the Chinese real estate sector, we continue to focus on higher quality issuers while holding on to core positions in Macau gaming, Indian Renewables and Sovereign Issuers.

Outlook and Strategy

Despite the push-back on rate cut expectations in the US and rising geopolitical risk in the middle east, Asia credit markets have performed well at the composite level on a year-to-date basis. We expect this to continue given favorable growth and inflation dynamics in the region, well-positioned credit cycle, as well as strong market technicals driven by the expected negative net supply.

Asia high yield has outperformed other credit markets year to date by a large margin and remains reasonably attractive considering its higher rating composition. Favorable credit cycle of most of the sectors in Asian high-yield space gives us comfort to build our core holdings with stable carry, while normalization of default rate in China offers spread compression and credit repricing opportunities. That said, as certain sectors and corporates are navigating the downcycle, credit selection in those sectors is still key to outperformance.

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Source: from Bloomberg, IDS and Allianz Global Investors and as at 30 April 2024 unless otherwise stated.
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