

Allianz

Flexi Asia Bond

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in debt securities of Asian bond markets denominated in EUR, USD, GBP, JPY, AUD, NZD or any Asian currency in accordance with environmental and social characteristics. With the adoption of the Sustainability Key Performance Indicator Strategy (Relative) ("KPI Strategy (Relative)"), the Fund aims to achieve the reduction in greenhouse gas emissions ("GHG") of the Fund's portfolio which shall be at least 20% lower than that of its benchmark index within the same period ("Sustainability KPI").
 - The Fund is exposed to significant risks of investment/general market, country and region, interest rate, creditworthiness/credit rating/downgrading, default, valuation, sovereign debt, emerging market, RMB debt securities, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
 - The Fund is exposed to sustainable investment risks relating to KPI Strategy (Relative) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, and/or selling securities when it might be disadvantageous to do so or relying on information and data from third party ESG research data providers and internal analyses which may be subjective, incomplete, inaccurate or unavailable). The Fund focuses on the Sustainability KPI which may reduce risk diversifications and may be more volatile compared to broadly based funds. Also, the Fund may be particularly focusing on the GHG emission efficiency of the investee companies rather than their financial performance which may have an adverse impact on the Fund's performance.
 - Investing in share class with fixed distribution percentage (Class AMF) is not an alternative to fixed interest paying investment. Investors should note that fixed distribution percentage is not guaranteed. The percentage of distributions paid by these share classes is unrelated to expected or past income or returns of these share classes or the Fund. Distribution will continue even the fund has negative returns and may adversely impact the net asset value of the Fund. Positive distribution yield does not imply positive return.
 - 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 expose to risks such as prepayment, equity movement and greater volatility than straight bond investments.
 - The Fund may invest the assets in interest-bearing securities issued or guaranteed by a non-investment grade sovereign issuer (e.g. Philippines) and is subject to higher risks of liquidity, credit, concentration and default of the sovereign issuer as well as greater volatility and higher risk profile that may result in significant losses to the investors.
 - 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 February

In February, Asian credit managed to deliver a total return of 1.7%, primarily driven by a rally in US Treasuries in the second half of the month while credit spreads continued to tighten. While investment grade (IG) spreads were trading in a tight range, Asian high yield (HY) performed strongly with 33bps of spread compression, leading to a 2.5% total return for the month.

ALLIANZ FLEXI ASIA BOND: MONTHLY COMMENTARY

Year to date, Asian credit returned 2.2%, underpinned by a rally in US Treasuries and continuous spread compression. Asia HY continues to outperform IG in both total return and spread return terms.

New issue market was active with 55 deals and US\$22bn printed. Issuer profiles were diverse and overall debut performances were decent. While majority of the new issues came from investment grade credits, there has been pickup in new issues from high yield names, even high-yield Chinese property names, a first in years.

Asian Investment Grade (IG)

In February, US Treasury narrative flipped from the fear of reflation to the fear of low growth. As a result, US Treasury rallied nearly 40bps since the middle of the month, which drove most of the investment grade returns. Asian investment-grade spreads continued to trade in a tight range and ended the month 1bp tighter, defending the widening trend observed in most of the other credit markets.

Spread performance has shown more divergencies in terms of sectors and countries. In terms of sectors, China technology firms were boosted by buoyant sentiments towards tech names after Deep Seek made a surprising debut and China AMCs also tightened 3-5bps. Bonds from a large Indian conglomerate also did well, boosted by positive corporate news. In terms of countries, Thailand, India, and China did well while Indonesia and Philippines underperformed.

New issue market was very active in February, with new issues coming from a wide range of countries and sectors in the investment-grade space. New issue debut performances were decent in general, despite little new issue premium, implying strong flow backdrop.

Overall, while Asian investment-grade spreads are tight by historical standards, it is justified by solid corporate fundamentals and a strong technical picture. There remains some premium in the Asian BBB space compared to BBB credits in the US.

Asian High Yield (HY)

Asia High Yield (HY) staged a turnaround in February after a sleepy January, returning 2.5%, and outperforming Global High Yield and US High Yield. All sectors were humming along while China and Hong Kong led the performance, as sentiments were boosted by buoyant equity performance. Within China and Hong Kong, real estate performed the best, underpinned by increasing signs of bottoming out in the property market, as well as the government's swift response to a struggling major Chinese real estate developer to avoid another leg down in confidence should the developer go under. In terms of sales performance, secondary property sales were up 33% in 2 months, driven by strong sales performance in Tier 1 cities, which increased by 46%. In addition, Tier 2 and Tier 3 cities sales also rose by 29% and 14% respectively. In the primary market, 35 listed property names delivered 4% year-on-year sales growth in February as well.

A further encouraging development this month is the successful new issue and solid debut performance by a Chinese developer, which was the first since the real estate crisis. This could open doors for perceived stronger developers to refinance debt in the public market, which is a positive development for sentiments towards the sector.

We remain constructive on Asian high-yield, thanks to an improving credit cycle, a much more diversified market profile, decent yield pickup over other high-yield markets, and gradually improving sentiment and flows towards the asset class.

Portfolio Review

The Fund's performance was driven by both our overweight in duration and high-yield vs investment-grade. Our security selection in Hong Kong and China has also contributed positively. Given the volatility in US Treasuries, our strategy is to be nimble on duration positioning. We maintain long credit spread via high yield.

Outlook and Positioning

While macro narratives tend to flip week by week, particularly under an unpredictable Trump administration, fundamentally speaking, US growth remains reasonably resilient while moderating from high levels. In addition, recent high-frequency data in China have looked a little stronger as the country starts to roll out policy support. Regional growth data have also picked up in recent months. It is pretty much safe to say that APAC can still lead global growth in 2025 based on current growth trends. This is an encouraging macro backdrop for Asia to continue to perform.

The latest corporate earnings have shown evidence of stable to improving profitability and decreasing leverage with businesses right-sizing across most sectors in the Asian credit space. Therefore, despite tight spreads, solid credit fundamentals and strong technicals should continue to support Asian credit valuation. With attractive all-in yields, we remain constructive on Asia credit with a slight preference for high yield over investment grade and expect carry and security selection to be the key positive contributors to performance.

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Source: Bloomberg, IDS and Allianz Global Investors and as at 28 February 2025 unless otherwise stated.

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