

Allianz

Global Floating Rate Notes Plus

Monthly commentary

- The Fund aims to capture income from a global universe of floating-rate notes and seeks potential for long-term capital growth in accordance with the Sustainable and Responsible Investment Strategy (SRI Strategy). The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, currency, creditworthiness/credit rating, interest rate, default, valuation, volatility and liquidity, and sovereign debt.
- The Fund is exposed to risks relating to SRI strategy investment (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or reducing risk diversifications compared to broadly based funds) which may result in the Fund being more volatile and have adverse impact on the performance of the Fund and consequently adversely affect an investor's investment in the Fund.
- The Fund may invest in high-yield (non-investment grade and unrated) investments 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 increase the risk of loss of original investment.
- 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 May

In May global investment grade corporate spreads tightened -3bps to 95bps (USD -3bps to 88bps, EUR -4bps to 108bps and GBP -7bps to 114bps) versus government bonds and generated +30bps of excess returns, taking YTD excess returns to +160bps. US April inflation data was in line with expectations with headline personal consumption expenditure (PCE) rising by 0.3% month-over-month (MoM) and core increasing by 0.2% while Q1 annualized stood at 3.6%. Progress on inflation has stalled with core inflation stuck at 2.8% YoY for three consecutive months. Q1 spending data pointed to risks of re-acceleration in services demand, which could derail the disinflation process with markets now pricing in the first rate cut in November from June just last month. In the UK, the Bank of England (BoE) held its base rate at 5.25%, with a 7-2 vote

to hold the base rate as is given the implications for still persistently higher inflation in the region. Eyes are on the ECB which is expected to move ahead of the Fed and cut rates in June.

Demand for investment grade credit remains robust as yield levels hold strong despite the aggregate US investment grade (IG) market leveraging up while spreads have tightened. Investment grade market fundamentals are better than what leverage implies. Ratings are improving, as is the "loan to value" measure of net debt to enterprise value (EV). Leverage is the key credit fundamental metric, but for IG other factors often dominate. To note markets are pricing out the probability of Fed cuts in June and July. European credit will be spurred by an almost impending base rate cut that will be welcomed for European companies to help manage funding costs and a tailwind for credit investors.

Turning to supply, Europe has had its busiest May in recent years in the European primary market, on a par with last year's record May, when issuance amounted to EUR 115bn. Reverse Yankees have dominated the corporate primary market in May (EUR 19bn) and now is just EUR 1bn off the tally for all 2023 (EUR 45bn) underpinned by the lower funding costs when factoring in foreign exchange (FX) hedging. Across the Atlantic gross supply totalled to USD 132.7bn in May, up from USD 105.3bn in April and down from USD 153.9bn in May '23. May supply consisted of USD 75.3bn non-financials and USD 57.4bn financials. Investment grade new issue performance weakened in May the average new issue concession decreased to 5.3bps from 5.5bps in April, while the average break performance widened to 2.0bps from 4.1bps tighter.

Portfolio Review

The fund generated well ahead return as compared of its cash reference index (SOFR). Positive absolute performance was generated by attractive underlying yields inbuilt within the fund, with SOFR at 5.34% by the end of the period.

The largest positive excess return generation came from banking, transportation and securitized. Utilities detracted for the month. In May, we remained focused on participation in primary supply, investing inflows we have seen to the fund as well as seeking to capture new issue premiums, that remain attractive, in our view. Strategy and positioning remains broadly unchanged.

Similarly, we remain focused on idiosyncratic risk and issuer selection opportunities. As an example, we exited our position in US Apparel company. It was recently announced that the Federal Trade Commission (FTC) was investigating its acquisition of peer, increasing the risk of an exercise of the special mandatory redemption. However, with the move in underlying government bond yields, spreads have tightened back to pre-news levels which we used as an opportunity to exit the position. Conversely, we added to the new deal from a Danish based, pharma company. In our view spreads are attractive in the context of the significant demand for its GLP1 weight-loss products.

Spread tightening was supported by fundamentals, with the Q12024 earnings cycle producing results broadly ahead of consensus. Additionally, all-in yield buying and the lower supply associated with earnings season remained strong technicals for the market.

Outlook

We continue to think that the floating rate notes (FRN) space is attractive and have seen demand for floating paper pick up as rate cuts have been priced out and the benefits associated with the inverted yield curve support the bid for short dated assets.

We still consider the global corporate market to be fair value, to modestly risk, as the market is pricing in strong fundamentals across the majority of sectors, as evidenced by the recent earnings season, but also discounting future growth concerns. Generally, we continue to favour financial issuers given the benefits associated with the elevated interest rate environment and attractive valuations relative to industrial issuers, while acknowledging the recent compression has made this less attractive, at the margin. Consistent with this, we prefer moving up the capital structure in Financial issuers.

Elevated all-in yields should serve as a strong technical factor that is likely to remain for some time.

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