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 environmental and social characteristics. With the adoption of the sustainable and responsible investment ("SRI") (Proprietary Scoring) strategy ("SRI (Proprietary Scoring) Strategy"), the Fund takes into account sustainability factors based on United Nations Global Compact Principles and follows the principles of SRI. 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 (Proprietary Scoring) 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, particularly if such HSC are applying the IRD Neutral Policy.

What Happened in September

In September global investment grade corporate spreads tightened -2bps to 100bps (USD unchanged at 92bps, EUR +1bp to 117bps and GBP +1bp to 121bps) versus government bonds and generated +35bps of excess returns. During September the US Federal Reserve's (Fed) 50bp rate cut provided a boost to markets pushing equity markets to highs and causing credit spreads to tighten. The cut was much anticipated albeit higher than expected with Powell cooling any market speculation that this was the new normal but a "recalibration" toward target rates. Meanwhile, in the UK, the Bank of England (BoE) held interest rates at 5% after the consumer price index (CPI) remained a bit stickier than expected in August but indicated it may lower rates again as soon as November. In China, economic stimulus announcements led to the best week for Chinese equities since 2008, with the CSI 300 up +15.7%. The People's Bank of China (PBoC) introduced several measures including a cut in the required reserve ratio and a reduction in the reverse repo rate, alongside mortgage rate cuts and relaxed rules for second-home purchases. Additionally, the Chinese politburo has vowed to intensify fiscal efforts, which should support the property sector and boost domestic consumption.

Lower rates could prove to be supportive for some industries namely the real estate sector. The sector has performed strongly over the month and with future funding costs on the decline we would expect good performance from the sector over the next few quarters. Risks have risen in the eurozone area as weak Purchasing Managers' Indices (PMIs, 48.9 vs 50.5 expected) have raised questions on the economic strength of the region as both Germany and France reported flash PMIs below 50. Elsewhere in the region weak demand, especially from China, has led to profit warnings from some of the auto companies causing for further concerns in the region.

Turning to primary, in the US there was record issuance of USD 179.8bn taking the year-to-date (YTD) total in excess of USD 1.35trn surpassing the USD 1.2trn yearly estimates and is over 30% above the same point last year. In Europe this month's issues stood at EUR 103bn seeing a sharp rebound in almost all asset classes and has only been surpassed by September '19 and '21 with YTD issuance now at the EUR 800bn mark.

Portfolio overview

The Fund generated positive gross return in September, slightly ahead of its cash reference index (SOFR). Positive absolute performance was generated by attractive underlying yields inbuilt within the Fund, with SOFR at 4.96% by the end of the period.

Portfolio activity was somewhat limited in September with overall portfolio risk remaining broadly unchanged, while we remained focused on alpha generation through issuer and sector selection as well as harvesting new issue premiums. Of note was our addition of an investment bank and financial services company short call, seasoned, preferred that offer an attractive yield in our view.

We also used the outperformance of a media company's USD denominated paper as an opportunity to switch into the issuer's EUR paper, reversing the switch performed in July. The trade helps illustrate the advantages of the global, multi-currency nature of the Fund's investment universe, and cross currency benefits of the approach.

We note that we are increasingly cautious on the Automotive sector, given the continued challenges of the sector associated with deteriorating demand, shifting Chinese consumer spending preferences (towards domestic demand), and structural challenges associated with the shift to Battery Electric Vehicles (BEVs). However, we believe that the Fund remains well positioned in the context, with a preference for issuers focused on the Truck sector, higher quality issuers or issuers with more limited exposure to China.

Outlook

The strong technical support of elevated all-in yields remains in place despite 50bps rate cut in September, in our view. Additionally, we note that the rate cutting cycle should lead to switching out of money market funds, which we expect to be supportive for the credit positioning of the Fund.

We continue to think that the floating rate note (FRN) space is attractive and have seen continued demand for floating paper associated with the inverted yield curve.

We consider the global corporate market to be at fair value, 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 make this less attractive, at the margin. Consistent with this, we prefer moving up the capital stack in financial issuers. Additionally, we continue to like the defensive nature of US regulated Utilities.

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ADM-W3963782