Allianz Global Investors

Allianz Income and Growth

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in US and/or Canadian corporate debt securities and equities.
- The Fund is exposed to significant risks of investment/general market, company-specific, creditworthiness/credit rating/downgrading, default, valuation, asset allocation, country and region, emerging market, interest rate, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation. The Fund's investments focus on US and Canada which may increase concentration risk.
- 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 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 June

In June, equities, convertibles, and high-yield all finished higher on easing geopolitical tensions, further clarity around trade, and US economic resiliency. Inflation measures subsided, wage growth exceeded expectations, and employment data surprised to the upside, while consumer confidence fell, and key manufacturing and services surveys showed contraction. The US Federal Reserve (Fed) kept interest rates steady and continued to project two cuts by year-end. Against this backdrop, the 10-year US Treasury yield fell to 4.23% in the month.

Equity and Option Market Environment

The S&P 500 Index returned +5.09% for the month.*

Sector performance was mostly positive in June. Technology, communication services, and energy were the top-performing sectors, while consumer staples, real estate, and utilities were the bottom-performing sectors in the period.

Equity volatility finished lower month to month at 16.73.*

Convertible Market Environment

The ICE BofA US Convertible Index returned +4.04% for the month.^

Convertible sector performance was mostly higher. Telecoms, materials, and technology outperformed, whereas consumer staples, utilities, and healthcare underperformed.

Below-investment grade issues outperformed investment grade issues. Equity sensitive issues outperformed total return (balanced) and yield-oriented (busted) issues.

Monthly new issuance saw 23 issues priced raising USD 17.4 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.86% for the month.^ BB, B, and CCC rated bonds returned +1.74%, +2.06%, and +1.71%, respectively.^

Spreads narrowed to 296 basis points (bp) from 322 bp, the average bond price rose to 97.12, and the market's yield fell to 7.36%.^

Industry performance was broadly higher with metals, energy, and chemicals outperforming, while utilities, gaming, and capital goods underperformed.

Trailing 12-month default rates finished the period at 1.41% (par) and 1.03% (issues). **

Monthly new issuance saw 44 issues priced, raising USD 36.7 billion in proceeds. **

Portfolio Review

The portfolio benefited from strength across equities, convertibles, and high-yield bonds.

Top contributors in June were driven by renewed optimism around the artificial intelligence buildout, following management guidance around capex and infrastructure spending during second quarter earnings season. Beneficiaries comprised several semiconductor companies, including Nvidia* and Broadcom*, as well as hyperscalers such as Microsoft*, Meta*, and Amazon*. The other top contributors were a major bank and a financial exchange operator, both of which stand to benefit from a new regulatory framework around cryptocurrency.

Top detractors in the period included multiple electric vehicle manufacturers that were negatively impacted by the potential elimination of tax credits. Potential regulatory headwinds hampered a major utility operator, while a waste collection company declined alongside industry peers. Mastercard* fell on concerns related to changing legislation, and a digital infrastructure platform detracted after guiding for higher-than-expected annual capex. Other top detractors for the period were a big-box retailer and multiple insurance providers.

Most option positions expired below strike and the portfolio was able to retain the set premiums.

Exposure increased the most in technology, industrials, and financials, and decreased the most in utilities, healthcare, and energy. Covered call option positioning decreased month over month.

Outlook and Strategy

Despite a strong recovery in risk assets, the macroeconomic outlook remains clouded given uncertainty around trade, monetary policy, government spending and geopolitics. On the other hand, economic data has been resilient, trade tensions while elevated have stabilized, earnings tailwinds have begun to emerge, Fed commentary has been less hawkish, capital market activity has been healthy, interest rates have fallen and energy prices have declined.

The US economy should expand in 2025, even with tariffs potentially hampering growth. Trade policy clarity could begin to improve and as the range of outcomes continue to narrow, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, capex tailwinds, productivity gains, and a reindustrialisation movement are potential growth drivers.

A resumption of monetary policy easing – currently, the market is pricing in two 25 basis point interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas. Early signs of labor market softening or minimal tariff price pass through could pull forward rate cuts, while steady employment or higher inflation could cause the Fed to move later.

US large-cap equities have recovered this year's losses as odds of a recession and global shock receded and first quarter earnings results came in better than expected. Market tailwinds include subdued investor sentiment and positioning, dollar weakness, lower oil prices, and a decline in interest rates, among other potential catalysts. The impact of tariffs remains a headwind, and valuations will continue to be debated. Ultimately, change on the margin around expectations for corporate earnings, management outlooks and the economy will determine the direction of the stock market over the remainder of the year.

US convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. The asset class may outperform the broad equity market if volatility continues. USD 75-80 billion of new issuance is now expected in 2025 due to coupon savings demand and elevated refinancing need. Aside from diversification benefits, new issuance expands the opportunity set of investments with attractive terms and the desired risk/reward characteristics.

The US high-yield market, yielding more than 7%[1], could deliver a coupon-like return in 2025. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. In this environment, new issuance is expected to remain steady, and the default rate should stay below the historical average of 3-4%.

A covered call options strategy can be utilised to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualised yields.

Collectively, these three asset classes can provide a steady source of income and a compelling "participate and protect" return profile.

The Income and Growth strategy is a client solution designed to provide high monthly potential income, the potential for capital appreciation, less volatility than an equity-only fund.

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Source: Allianz Global Investors dated 30 June 2025 unless otherwise stated.

*Source: FactSet, as at 30 June 2025.

^Source: BofA Merrill Lynch, as at 30 June 2025 .

**Source: J.P. Morgan, as at 30 June 2025.

[1] Source: ICE Data Services; data as at 30 June 2025.

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

[#]The information above is provided for the purpose to demonstrate the Fund's investment strategy only, it should not be considered a recommendation nor investment advice to buy or sell any shares of securities. There is no assurance that any securities discussed herein will remain in the Fund at the time you receive this document.

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