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 April

Risk assets were mixed in April, with convertible securities finishing higher, high-yield bonds ending flat, and large-cap equities closing lower. Early in the month, markets sold off after President Trump announced sweeping tariffs as well as subsequent retaliatory measures; however, over the remainder of the month, markets rallied. Several factors contributed to the positive shift in market tone, including a softened stance on tariffs, stabilization in the US dollar and 10-year US Treasury yield, trade deal optimism, and a better-than-feared start to the first quarter earnings season. On the other hand, corporate outlooks were cautious with many companies pulling full-year guidance and warning of price hikes. Economic reports released during the month were generally balanced, although most strategists expect trade policy and uncertainty to begin dragging on growth mid-year.

Equity and Option Market Environment

The S&P 500 Index returned -0.68% for the month.*

Sector performance was mixed in April. Technology, consumer staples, and communication services were the top-performing sectors, while energy, healthcare, and materials were the bottom-performing sectors in the period.

Equity volatility finished modestly higher month to month at 24.70, closing well off the intra-month high of 60.13.*

Convertible Market Environment

The ICE BofA US Convertible Index returned +1.35% for the month.^

Convertible sector performance was also mixed. Technology, industrials, and consumer discretionary outperformed, whereas energy, materials, and consumer staples underperformed.

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

Monthly new issuance saw 2 issues priced, raising USD 1.5 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index was flat for the month.^ BB, B, and CCC rated bonds returned +0.17%, -0.06%, and -0.62%, respectively.^

Spreads widened to 394bp from 355bp, the average bond price fell to 94.44, and the market's yield rose to 8.05%.^

Industry performance skewed positive with healthcare, cable, and utilities outperforming, while energy, retail, and transportation underperformed.

Trailing 12-month default rates finished the period at 1.25% (par) and 0.68% (issues). **

Monthly new issuance saw 8 issues priced, raising USD 8.6 billion in proceeds. **

Portfolio Review

The portfolio was positively impacted by strength in equity, convertible security, and high-yield bond holdings.

Top contributors in the period were Microsoft* on reaccelerating cloud growth and a streaming platform provider on favorable engagement, pricing and advertising trends. An electric vehicle manufacturer gained on optimism around its robotaxi and low-priced vehicle offerings, and multiple software holdings benefited from the industry's low perceived risk to tariffs. Conversely, highly tariff-impacted positions, such as a semiconductor designer, a big-box retailer, and a pharmaceutical developer, outperformed as trade-related angst eased mid-month. An investment services company that reported strong trends in trading activity and cash balances also aided performance.

Top detractors in the period included a healthcare provider that reduced full-year earnings guidance. Regulatory scrutiny and tariff uncertainty pressured Meta* and Amazon*, respectively, but both stocks finished well above intramonth lows. An offshore drilling company was negatively impacted by a move lower in the price of crude oil, an insurance provider missed consensus estimates, and a large coffee retailer reported a contraction in operating margins. Other top detractors for the period were Wells Fargo* and several fintech holdings, among others.

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

Exposure increased the most in technology, financials, and consumer staples, and decreased the most in consumer discretionary, communication services, and utilities. Covered call option positioning decreased month over month.

Outlook and Strategy

In our 2025 outlook, we wrote that the equity market's path would not be linear, with bouts of volatility throughout the year. We also noted convertible securities and high-yield bonds – given their defensive characteristics – could mitigate equity market weakness. This scenario materialized in the first quarter. The portfolio is well positioned if volatility persists without sacrificing upside participation and income-generation potential.

The US economy could expand in 2025, but tariff, government reform, and immigration measures are becoming a bigger headwind than previously thought. However, tailwinds such as deregulation and taxation measures still exist. As trade and budgetary clarity improves, uncertainty should lessen, and spending, investment, hiring, M&A, etc. can resume. Productivity gains, industrialization, onshoring, and private sector demand are additional potential growth drivers.

The Fed likely remains on hold as they assess the effect of trade policies on inflation, employment, and the potential for stagflation. Interest rate cuts could restart later this year to support their dual mandate. A resumption of monetary policy easing would closer align the Fed with accommodation by central banks overseas.

While the range of near-term outcomes for the US equity market is broad, its directionality will likely hinge on economic and earnings growth. Evidence supporting a stabilization or positive inflection in either of these metrics could benefit the equity market.

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 leadership broadens, and new issuance remains steady. USD 60-65 billion of new issuance is expected in 2025 due to coupon savings demand, elevated refinancing needs, and a positive outlook for price appreciation among small- and mid-cap companies. 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 nearly 8%[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 aim to provide high monthly potential income, the potential for capital appreciation, less volatility than an equity-only fund.

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

*Source: FactSet, as at 30 April 2025.

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

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

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

ADM-W4520922