Allianz US Short Duration High Income Bond

Monthly commentary

- The Fund aims at long-term income and lower volatility by investing in short duration high yield rated corporate bonds of the United States of America ("US") bond markets in accordance with environmental and social characteristics. The Fund aims to achieve the Sustainability KPI with the adoption of the Sustainability Key Performance Indicator Strategy (Absolute) ("KPI Strategy (Absolute)"). 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, creditworthiness/credit rating/downgrading, default, interest rate, valuation, sovereign debt, country and region, 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 (Absolute) (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 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. Convertible 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.

What Happened in July

High-yield bonds finished higher in July. The second quarter earnings season got off to a strong start. Thus far, most S&P 500 companies have surpassed top- and bottom-line estimates and earnings growth has paced well ahead of projections. Trade deals were announced with Japan, Vietnam, and the European Union. The One Big Beautiful Bill Act was signed into law and released economic data was mixed. Unemployment remained low, manufacturing and services surveys advanced, and retail sales and gross domestic product (GDP) growth surprised to the upside; however, inflation measures accelerated, and the housing market cooled. Against this backdrop, the US Federal Reserve (Fed) kept interest rates steady despite some dissent from the committee.

The ICE BofA US High Yield Index returned +0.40% for the month. * BB, B, and CCC rated bonds returned +0.17%, +0.45%, and +1.39%, respectively.*

Spreads narrowed to 286bp from 296bp, the average bond price fell to 97.00, and the market's yield fell to 7.33%.*

Industry performance was mostly higher with metals, media, and cable outperforming, while transportation, services, and retail underperformed.

Trailing 12-month default rates finished the period at 1.37% (par) and 0.91% (issues). ^ The upgrade/downgrade ratio rose to 1.1.^

Monthly new issuance saw 44 issues priced, raising USD 37.5 billion in proceeds. ^ High-yield funds reported estimated net flows of +USD 2.0 billion.^

Portfolio Review

The strategy remains focused on offering fixed income diversification with the goals of preserving capital, generating high income, and providing liquidity. Opportunity exists for new capital to invest at a discount to par.

The US Short Duration High Income Strategy remains an attractive and actively managed solution as investors adjust to high for longer rates without taking excessive credit risk or price volatility in passive fixed income strategies. In the current market environment, the US Short Duration High Income Strategy can purchase securities at discounts to par, or selectively invest in high coupon new issue producing yields well above money market accounts, management fees and hedging expenses.

Fundamental research, credit analysis, low duration, and liquidity are key tenets and goals for the US Short Duration High Income strategy that seeks to strike an attractive balance between risk, opportunity and expected return. The shorter maturity profile of the Fund should protect capital going forward as there are fewer years to repayment to close the average price discount. Goals of the strategy are unchanged to reinvest capital prudently to defend and evaluate credit risk and company fundamentals against a challenging global environment.

Since inception over fifteen years ago, the US Short Duration High Income strategy remains US centric with coupons and repayment of principal in US dollars. The portfolio is focused on energy, transportation leasing and infrastructure. The portfolio continued to stay up in quality while generally avoiding the lowest quality credits with average credit quality in the portfolio unchanged at B1/BB-. Emphasis remains on credit selection, liquidity, and downside risk mitigation versus the broader market.

The US Short Duration High Income strategy is an actively managed solution with historically relatively high security turnover. This active approach to security selection and portfolio construction should also allow the Fund to avoid some of the riskiest segments of the market further mitigating downside volatility. Passive strategies may carry greater tail risk and show greater dispersion of investment returns. The US Short Duration High Income strategy selectively invests in opportunities that may present lower price volatility, risk-adjusted returns in line within the mandate, investment philosophy and Fund guidelines and importantly seeks to side-step and avoid many of the risks not appreciated by markets.

Industries contributing the most to performance were Financial Services, Support-Services, and Technology. Strength in Financial Services was broad, driven primarily by holdings in payments and mortgage services that rallied. Select issues in commercial and industrial services were sources of strength in Support-Services. Within Technology, an issue in trading and automation software was the largest contributor.

Industries detracting from performance in the period were Energy, Retail, and Automotive. An issuer in Energy specializing in liquefied natural gas infrastructure was the primary detractor. Weakness in Retail stemmed from a luxury department store operator. Within Automotive, an issue from an auto repair chain drove underperformance.

Liquidity remained in focus to pay distributions, meet redemptions and to take advantage of reinvestment opportunities. Transactions in the period included new purchases in Cable & Satellite, Trading Companies/Distributors, and Health Care Facilities, and complete sells in Steel, Specialized Finance, and Leisure Facilities.

Outlook and Strategy

Despite a strong recovery in risk assets, the macroeconomic outlook remains clouded given uncertainty around trade and monetary policy. On the other hand, economic data has been resilient, trade tensions while elevated have stabilized, earnings estimates may have inflected, Fed commentary has been less hawkish, capital markets have been active, and government spending has emerged as a tailwind.

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 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 reindustrialization movement are potential growth drivers.

A resumption of monetary policy easing – currently, the market is pricing in three 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.

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.

Longer-duration issues are the most likely to be impacted by high and volatile rates, but the overall high-yield market should have a dampened response due to its larger coupon relative to other fixed income alternatives. As a result, US high-yield bonds contribute from both a diversification and a relative-performance perspective, offering a very compelling yield opportunity.

The Short Duration High Income strategy remains an attractive fixed income solution without taking excess credit risk, the shorter maturity puts securities first in line to repayment at par, and the strategy lessens price volatility that may be highly amplified in passively managed strategies.

All data are sourced from Allianz Global Investors, S&P Dow Jones Indices and FactSet dated 31 July 2025 unless otherwise stated.

*Source: BofA Merrill Lynch, as at 31 July 2025.

^Source: J.P. Morgan, as at 31 July 2025.

[1]Source: ICE Data Services; data as at 31 July 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").