



Income and Growth Strategy

Active is: Hunting for Income

Adopting a three-sleeve approach with high yield bonds, convertible bonds, and equities. Setting in place the dual opportunities of potential income and growth.

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Road to Recovery and Renewed Growth

2020 was a year of surprises – from the spread of the coronavirus and the speed of monetary and fiscal responses to the severity of the economic fallout and the magnitude of the risk-asset rebound. As the worst of the recession is now behind us, 2021 is expected to bring renewed growth and a reacceleration of economic activities and corporate earnings.

Vaccine Rollout: A rise in COVID-19 cases has forced a return of restrictions and interrupted growth in the near term. However, the widespread rollout of vaccines should eventually bring a return to normal social behaviour and release pent-up demand, particularly in areas like travel and leisure. The reopening of the economy is expected to accelerate growth and corporate earnings. The impact of this may not be felt until the second half of 2021 and confidence will be tested along the way.

Blue Wave: With the Democrats set to control both chambers of Congress and the presidency, albeit only with a slim majority, it will be easier for the Biden administration to pass legislation and promote its agenda. This raises the probability of additional fiscal stimulus and/or the passing of an infrastructure bill that could significantly boost GDP growth. A “Biden-lite” agenda makes tax increases possible, but the hike is likely to be small and will not be a priority until economic growth is on a more solid footing. Overall, Biden’s policies are growth-focused.

Strong Policy Support: 2020 brought an unprecedented fusion of fiscal and monetary policy. In 2021, the US Federal Reserve (US Fed) will carry forward its ultra-accommodative monetary policy by keeping rates close to zero and maintaining its monthly asset purchases. The US government will also

provide additional stimulus to underpin growth and reflation. Overall, central banks around the world will continue to provide support for risk assets against what was already expected to be a recovery year.

Given that interest rates are expected to stay very low for the foreseeable future, it is important for investors to build a resilient portfolio by balancing risk and reward. A strategy with the potential for consistent income distribution, capital growth, and downside risk management could improve the resilience of a portfolio.

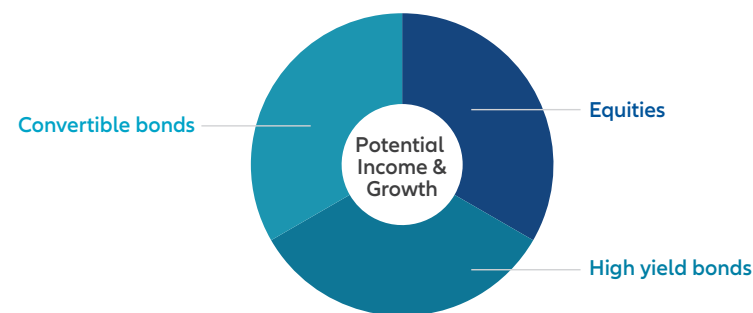
A Three-Sleeve Approach for Income and Growth

In the current market environment, investors can consider a three-sleeve approach, by investing in high yield bonds, convertible bonds, and equities.

Investors could enjoy three potential benefits:

1. A steady flow of potential income, including coupons from high yield bonds and convertible bonds, and dividends from equities.
2. Upside potential when markets rise.
3. Downside risk management against declining markets.

A “three-sleeve” approach for optimal performance



There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for the long term based on their individual risk profile especially during periods of downturn in the market.

High Yield Bonds: A Diversifier against Low Yields

What are high yield bonds?

As the name implies, high yield bonds could offer a higher yield than other fixed income instruments.

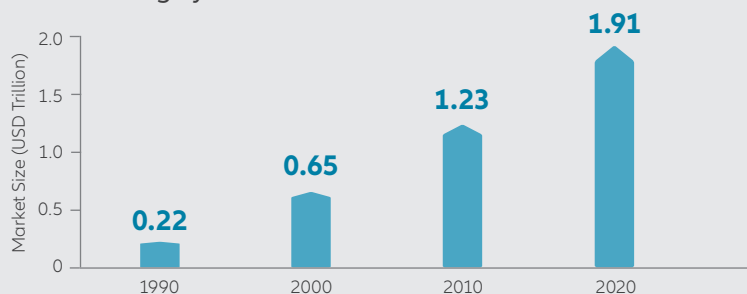
The credit ratings of high yield bonds are lower than BBB-. For this reason, the interest rates offered by such bonds are usually more attractive than issues with higher ratings such as US Treasuries and investment grade corporate bonds. The past few decades have seen strong growth

in both the breadth and depth of the high yield market, and the asset class is now a globally popular investment instrument.

US high yield gross issuance was only USD 220 billion in 1990, but by the end of December 2020, the size of the market had grown to around USD 1.91 trillion¹.

The US dollar high yield bond market has continued to grow steadily. According to the ICE BofA US High Yield Index, the US dollar high yield market makes up over 50% of the global high yield universe².

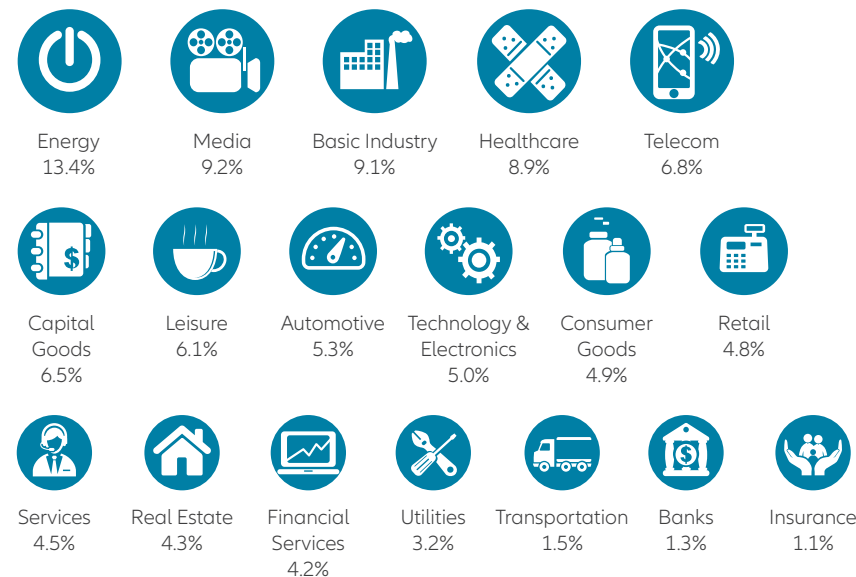
Growth of the high yield bond market¹



Source
¹ JP Morgan, as at 31 December 2020.
² Bloomberg, as at 31 December 2020.

The US high yield bond universe is well diversified. It covers a wide range of sectors, allowing investors to allocate across a broad range of bond holdings.

Industry diversification by ICE BofA US High Yield Index³



Info Corner: What is bond rating?

Bonds can be divided into two segments: investment grade and non-investment grade. Investment grade bonds have a stronger creditworthiness but lower yields, while non-investment grade bonds are considered riskier due to the weaker credit profiles of their issuers. Issuers of non-investment grade bonds are more willing to offer higher interest rates to attract investors, and are therefore known as high yield bonds. It is worth mentioning that the creditworthiness of high yield bonds has greatly improved in recent years.

³ ICE Data Services. Weights are based on ICE BofA US High Yield Index. This is for guidance only and not indicative of future allocation. Diversification does not assure a profit or protect against loss. Data as at 31 December 2020.

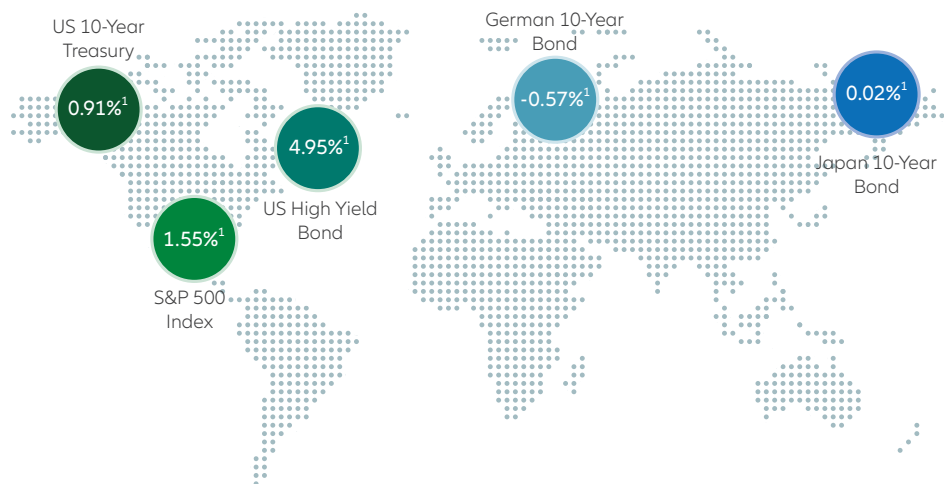
Why Invest in High Yield Bonds?

1. Potential yields

In the current market environment, the relative value proposition of high yield bonds is clear. As of 31 December 2020, the US 10-year Treasury bonds and US investment grade corporates offered yields of 0.91% and 1.83% respectively¹. US stocks have also delivered dividend yields, with the S&P 500 Index offering

1.55%¹. Meanwhile, the US high yield market generated a yield of 4.95%¹, making it a compelling opportunity for both international and domestic investors. Many people now include high yield bonds in their portfolios to enhance potential returns and hedge against inflation. The three-year average inflation rate in Hong Kong is 1.90%².

Potentially attractive yields from US high yield bonds



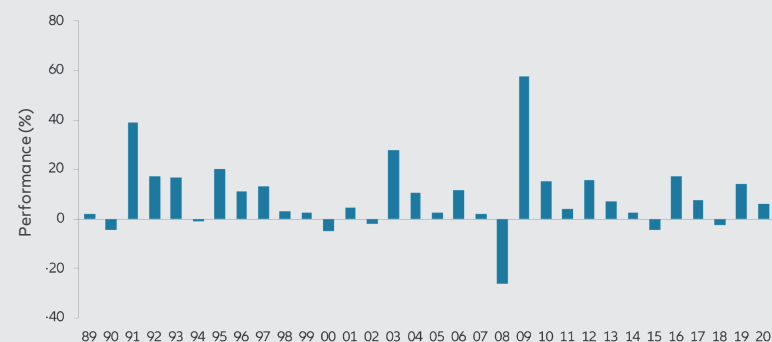
Source
¹ Bloomberg, US investment grade corporates represented by ICE BofA US Corporate Index and high yield bond represented by ICE BofA US High Yield Index, yield represented yield-to-maturity of the index, data as at 31 December 2020.
² Bloomberg, data as of 31 December 2020.

2. A proven track record

US high yield bonds have an outstanding past performance record, with an average annual return of 6.62%³ and 8.43%³ over the past 10 and 5 years, respectively.

In addition, the US high yield market has posted negative returns in only 7 years between 1989 and 2020. With 25 years of positive returns⁴, it is undoubtedly a front-runner in the global fixed income universe, which explains why it is so attractive to investors.

Performance of US high yield market in the past 30 years⁴



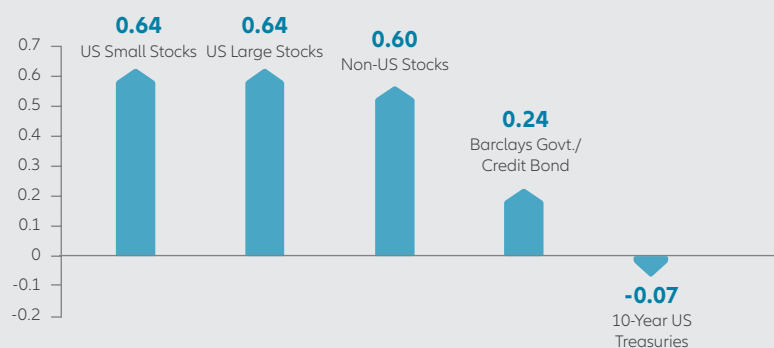
³ Morningstar, high yield bond represented by ICE BofA US High Yield Index, data as of 31 December 2020.
⁴ Morningstar, ICE Data Services, Bloomberg, Allianz Global Investors, as at 31 December 2020. High yield bond performance is measured by ICE BofA US High Yield Index.

3. Fixed income diversification benefits

Historically, high yield bond have delivered equity-like returns, with less volatility than stocks. They also provide fixed income diversification benefits given their relatively low correlations with US Treasuries and other core

fixed income issues. US Treasury bonds are very sensitive to changes in interest rates and their prices will normally decline when interest rates rise. By contrast, high yield bonds are generally driven by the fundamentals of their issuers. As such, their correlation with 10-year US Treasuries is relatively low, currently only -0.07¹.

Correlations between US high yield and other asset classes²



Source

¹ Barclays, ICE Index, FactSet, Allianz Global Investors, as at 31 December 2020. 10-year Treasuries: ICE BofA US Treasury Current 10-Year Index.

² Barclays, ICE Index, FactSet, Allianz Global Investors, as at 31 December 2020. US Small Stocks: Russell 2000 Index; US Large Stocks: Russell 1000 Index; Non-US Stocks: MSCI EAFE Index; Barclays Government/Credit Bond: Barclays US Aggregate Bond Index; 10-year US Treasuries: ICE BofA US Treasury Current 10-Year Index.

Risks of High Yield Bonds

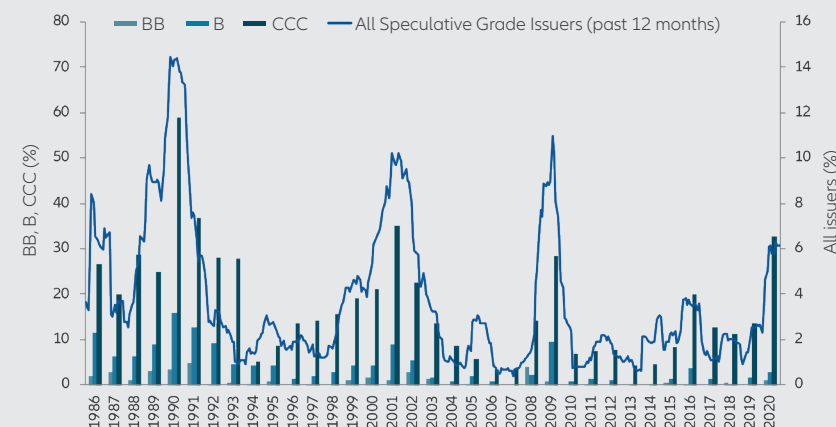
1. Default rates are concentrated in the energy industry

The main risk associated with high yield bonds is corporate default (also known as default risk). High yield defaults in 2021 are expected to decline toward their long-term historical average. Spreads continue to be well supported by the improving fundamental outlook and strong technical backdrop for most issuers. The US high yield bond default rate ended the year at 6.17%³.

2. Beware of market fluctuations

The high yield market can be volatile, and investors need to be aware of market fluctuations. The path toward achieving positive results is hardly linear, and periods of heightened volatility should be expected. The annualized volatility of US high yield bonds between 1988 and the end of December 2020 amounted to 8.23%⁴, lower than the S&P 500 Index (14.51%)⁴ during the same period.

Default rates at low level³



³ ICE Data Services, JP Morgan, as at 31 December 2020. US high yield bonds are represented by the ICE BofA US High Yield Index.

⁴ Morningstar, data from 1 January 1988 to 31 December 2020. US high yield bonds are represented by the ICE BofA US High Yield Index.

Convertible Bonds: Combining the Advantages of Bonds and Stocks

What are convertible bonds?

Convertible bonds combine the features of both stocks and bonds, and are typically issued by a company.

Similar to other bonds, convertible bonds provide coupon income at a fixed rate. Moreover, investors

may convert these bonds into stocks when the share price rises to capture the upside potential of the underlying stock.

The coupon rates of convertible bonds are usually lower than traditional corporate bonds but are higher than the typical dividend yields of stocks.



Info Corner: How do convertible bondholders react to change in share price?

For example, in December 2015, company ABC issued five-year convertible bonds with a coupon rate of 3% p.a. and an exercise price of USD 5. Investors may exercise their right to convert the bonds into shares before December 2020.

Scenario 1: The share price rises

Assuming the share price of company ABC rises to USD 6, holders of the convertible bonds may purchase the shares through conversion at a lower price and make a profit.

Scenario 2: The share price declines

Assuming the share price of company ABC falls to USD 4, which is lower than the exercise price, the holder may continue to hold onto the bonds and receive coupon income.

Note: The above examples are for illustration only and does not represent actual results. Hypothetical example – not representative of any specific convertible bond. Convertibles involve the risk factors of both stocks and bonds. They fluctuate in value with the price changes of the underlying stock. If interest rates on the bonds rise, the value of the corresponding convertible bond will fall. Investors in convertibles may have to convert the securities before they would otherwise, which may have an adverse effect on their ability to achieve the investment objective.

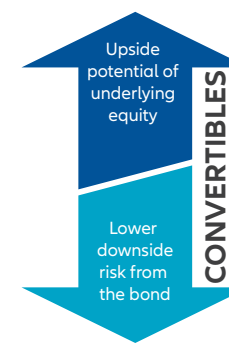
Why Invest in Convertible Bonds?

1. Offensive yet defensive

Convertible bonds enjoy the advantages of both bonds and stocks. Most importantly, they provide investors with the flexibility to cope with market volatility.

For instance, when the stock market is doing well, investors can convert these bonds into shares in order to capture the potential market upside. When the stock market is doing poorly, investors may hold the convertible bonds and enjoy a stream of potential income.

Combining the advantages of bonds and stocks

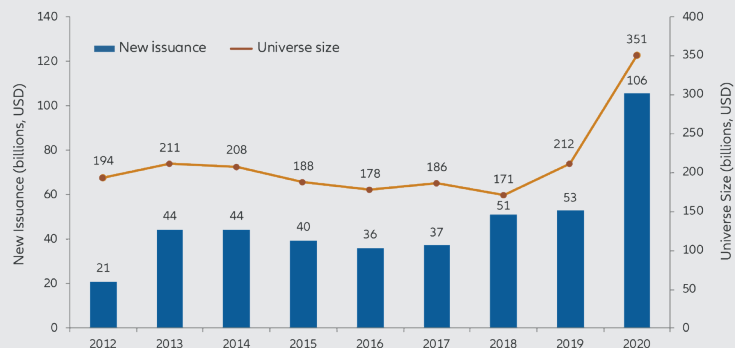


2. Market and investment opportunities continue to widen

Similar to the US high yield market, the size of the US convertible bond market is also the largest in the world, offering a variety of investment opportunities.

Convertible bond issuance has been on the rise since 2017. In 2020, US convertible bond issuance broke a record high (since 2001), contributing to strong net supply growth.

The market size of US convertible bonds is projected to grow¹



3. Less volatile than stocks; lower interest rate risk than US Treasuries

Historically, convertible bonds have exhibited a high correlation to equities, meaning their price movements are quite similar to the stock market. In contrast, the correlation between convertible bonds and US Treasuries is relatively low, meaning their prices rarely move in tandem.

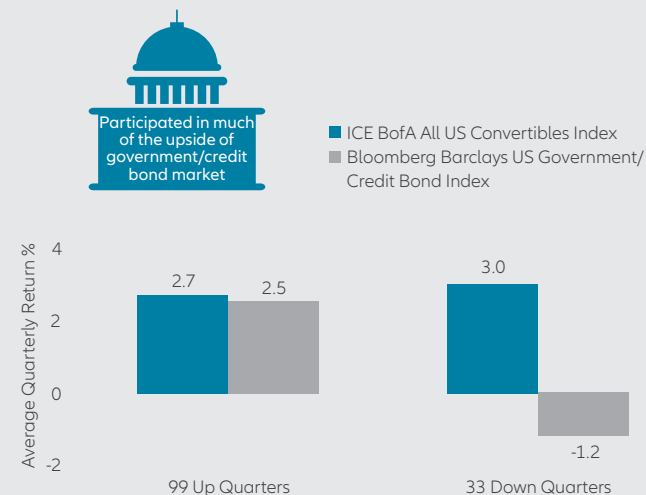
As convertible bonds share the same characteristics as stocks, they behave more like equities irrespective of the interest rate cycle.

Between January 1988 and December 2020, US government/credit bonds rose in 99 quarters and fell in 33 quarters (by an average of 1.2% in each quarter). Convertible bonds managed to rise by an average of 3.0% in each of the quarters when US government/credit bonds fell².

Source
¹ ICE Data Services, BofA. Data as of 31 December 2020. US convertible bonds are represented by the ICE BofA All US Convertibles Index. Projections are based on assumptions with respect to future events. Actual future events may differ from the assumptions.

² FactSet, ICE Data Services, Morningstar. Data as of January 1988 to December 2020. US convertible bonds are represented by the ICE BofA All US Convertibles Index. US government credit bonds are represented by the Bloomberg Barclays US Government/Credit Bond Index. Past performance is not a reliable indicator of future results.

Performance of convertible bonds between January 1988 and December 2020²



² FactSet, ICE Data Services, Morningstar. Data as of January 1988 to December 2020. US convertible bonds are represented by the ICE BofA All US Convertibles Index. US government credit bonds are represented by the Bloomberg Barclays US Government/Credit Bond Index. Past performance is not a reliable indicator of future results.

Risks of Convertible Bonds

Convertible bonds are subject to the same risks associated with stocks and bonds. These bonds can fluctuate in value when interest rates rise and/or the price of the underlying stock changes.

If interest rates rise, the value of convertible bonds may decline.

Some of the companies that issue convertible bonds are below investment grade, which means these bonds can be more risky than investment grade issues.

Convertible bonds are often issued by smaller companies and may be more volatile than securities issued by larger companies. It is worth noting that the convertible bond market is relatively complicated and difficult for retail investors to access. A more practicable way of

investing in convertible bonds is to entrust the task to a professional management team.

In general, a fund management team analyses different aspects of each investment, such as:

- Financial condition
- Valuation
- Credit rating
- Bond spread

The team decides whether to buy a convertible bond only after reviewing the above fundamentals. As market conditions change, holdings are adjusted by selling, holding or converting the bonds into shares.



Info Corner: Are convertible bonds subject to limitations?

Many companies issue convertible bonds with a call option that gives them the right to repurchase the convertible bond from the holder at a specified price (usually the par value of the bond). This call option can limit the opportunity to capture any potential upside from the underlying common stock. On the other hand, if the bond is structured with a put option, the holder has the right to sell the bond to the issuer on a specified date. This type of feature can limit risk should the underlying stock price drop sharply.

US Equities: Earnings to Reaccelerate

1. Earnings could surprise on the upside

After bottoming in 2020, corporate profits is expected to reaccelerate in 2021 amid a strong economic recovery. According to market strategists, quarterly earnings are expected to trend higher throughout the year, likely to bring double-digit year-over-year earnings growth for the S&P 500 Index. US companies are well positioned to benefit from operating leverage, as strengthening top-line growth is met with productivity gains, driving margin expansion and bottom-line growth.

2. More fiscal spending

A successful vaccination distribution could release pent-up consumer demand and broaden out the recovery to areas like travel and leisure that had suffered disproportionately during the pandemic. Upside growth is possible if further fiscal stimulus is introduced and/or an infrastructure spending bill is later signed into law, which may lead to a quicker-than-anticipated reopening of the US economy.

Use of Covered Call Options: An Opportunistic Approach to Dampen Volatility

What are covered call options?

This is an option strategy that pairs a long position with a short-call option on the same stock in exchange for an upfront premium paid by the buyer.

An option is the right to buy or sell a stock at a specified price on or before a specified date. There are two types of options: call options and put options.

If investors expect the stock market to remain flat, they may sell an option on a stock and use the premium to cover part of the potential volatility.

If investors expect the overall market to be increasingly volatile, they may sell an index option to obtain a premium to cover part of the market drop.

Understanding how covered calls actually work

Let's look at a hypothetical example to understand how

covered calls actually work.

- An investor buys 100 shares of ABC Co. for USD 30 a share, the total cost being USD 3,000.
- At the same time, the investor sells a call option of ABC Co. The exercise price is USD 35.
- Option premium: USD 4 per contract (one contract per share).

Scenario 1: The investor benefits from additional cash flow and appreciation but does not participate in additional profits*.

Scenario 2: The investor benefits from additional cash flow from premium and appreciation.

Scenario 3: The investor benefits from additional cash flow from premium.

Scenario 4: The investor benefits from additional cash flow and the premium earned is enough to offset any downside.

Scenario 5: The additional cash flow from premium can only offset part of the stock depreciation.

How covered calls work



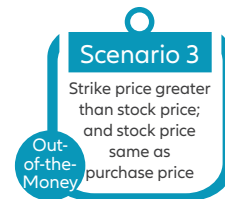
Market price of ABC Co.: USD 37 per share; Stock up 23.3%

- Gain = USD 400 (premium)
- Realized gain of common stock = USD 500 [(USD 35 - USD 30) x 100 shares]
- Net portfolio effect = USD 900



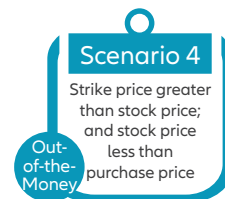
Market price of ABC Co.: USD 35 per share; Stock up 16.7%

- Gain = USD 400 (premium)
- Realized gain of common stock = USD 500 [(USD 35 - USD 30) x 100 shares]
- Net portfolio effect = USD 900



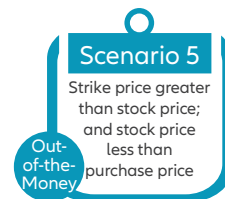
Market price of ABC Co.: USD 30 per share; Stock flat

- Gain = USD 400 (premium)
- Net portfolio effect = USD 400



Market price of ABC Co.: USD 27 per share; Stock down 10%

- Gain = USD 400 (premium)
- Unrealized depreciation of common stock = USD 300 [(USD 27 - USD 30) x 100 shares]
- Net portfolio effect = USD 100



Market price of ABC Co.: USD 25 per share; Stock down 16.6%

- Gain = USD 400 (premium)
- Unrealized depreciation of common stock = USD 500 [(USD 25 - USD 30) x 100 shares]
- Net portfolio effect = -USD 100

Note: The example above and on the next page is for illustration only and does not represent actual results.
* Additional profits = market price - exercise price.

Allianz Income and Growth ("the Fund") Q&A

- 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, currency, valuation, asset allocation, country and region, emerging market, interest rate, 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 is also exposed to risks relating to securities lending transactions, repurchase agreements and reverse repurchase agreements.
- 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 will be exposed to prepayment risk, 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. Monthly dividend payments are applicable for Class AM Dis (monthly distribution) and for reference only but not guaranteed. Positive distribution yield does not imply positive return. For details, please refer to the Fund's distribution policy disclosed in the offering documents.



How did the Fund navigate the challenging market environment in 2020?

During the most volatile period of 2020, the Fund adhered to a static allocation that enabled it to achieve the goals of providing monthly income (aims for regular distribution, yields are not guaranteed, dividends may be paid out from capital)^{Note} and an asymmetric return profile.

The investment team focused on taking advantage of market dislocations to add or establish new positions in non-cyclical issuers with operating visibility, low leverage, and balance sheet strength.

In 2020, the Fund performed as expected, lowering downside risks due to its exposure to US high yield bonds and US convertibles. These asset classes have defensive characteristics that helped buffer volatility and limit downside participation when US equities came under pressure, while providing current income. A covered call strategy was opportunistically utilized to help mitigate downside volatility.

1



What is the outlook for the Fund in 2021?

After slowing in 2020, the US economy and corporate earnings are expected to reaccelerate in 2021. US economic growth in 2021 will be supported by a highly accommodative US Fed, additional US government aid, pent-up consumer demand, and an expected increase in business spending and investment.

Against this backdrop, US equities have the potential to produce a high-single-digit to low-double-digit potential return in 2021. Better-than-expected quarterly earnings reports could result in equity market upside. The low-rate environment should continue to provide a supportive framework for equities and valuations.

US convertible securities could benefit from continued equity market strength in 2021. The asset class has the potential to produce a return in line with broad equity markets. Market strategists are projecting convertible new issuance for 2021 to remain robust. The convertible market remains well positioned to participate in any upside potential and lower downside risks.

Meanwhile, a coupon-like return is possible for the US high yield bond market in 2021. Although there is limited opportunity for significant spread tightening, spread widening is not anticipated given an improving fundamental outlook and a strong technical backdrop. Credit metrics, default rates, and ratings trends are projected by market strategists to improve over the course of the year.

2



What role does the Fund play in an investor's portfolio?

The Fund complements both core fixed income and equity allocations.

In the current low-rate environment, income generation has become increasingly difficult, while traditional fixed income asset classes have high interest rate risks. This backdrop calls for a broader investor-income toolkit. The Fund may offer investors a consistent potential stream of income and provide a good complement to their traditional fixed income exposure.

The Fund could be considered as an equity surrogate, as it has historically, provided equity-like returns with less volatility than stocks. It could be an option for investors who are risk adverse and looking to manage or trim volatility from their portfolio, but still want some equity-like exposure. At the same time, it is also a choice for those who are seeking to increase equity exposure but don't want the volatility associated with pure equity.

Almost any portfolio could benefit from the many advantages that income could provide, from lowering volatility to contributing to potential total return. The bottom line for investors is that they must not allow short-term market uncertainty to derail their long-term goals. Investors would be wise to "re-risk" their portfolios and consider a range of income-generating strategies that have historically held up well during down markets, offering both stock-like potential returns and a way to moderate volatility.

3



How does the Fund meet its potential monthly distribution?

4

The distribution share classes of the Fund seek to generate income potential through monthly distributions (aims for regular distribution, yields are not guaranteed, dividends may be paid out from capital)^{Note}. These distributions predominantly come from the several potential sources of income in the Fund: namely, high yield coupons, convertible bond coupons, equity dividends, and potential capital gains from the three sleeves. Distributions may comprise both income and/or realized gains and will vary depending on market conditions.



What are the differences between total return and distribution (yield)?

5

The Fund aims to earn a potential regular income for investors. However, investors who focus exclusively on distribution yield must also consider total return, which is the combination of yield and the return provided by the underlying asset classes. A typical bond fund generally distributes its earned coupon income; while the Fund generates its payout from multiple sources of potential income, including coupons, dividends, and capital gains. When a fund distributes income, the fund's NAV will drop by the equivalent amount in price, but the total return remained unchanged. The difference in distributions also make up the total return. Besides income distribution, fluctuations in underlying asset class can have varying degrees of impact on return. Hence, investors should not confuse yield with total return.

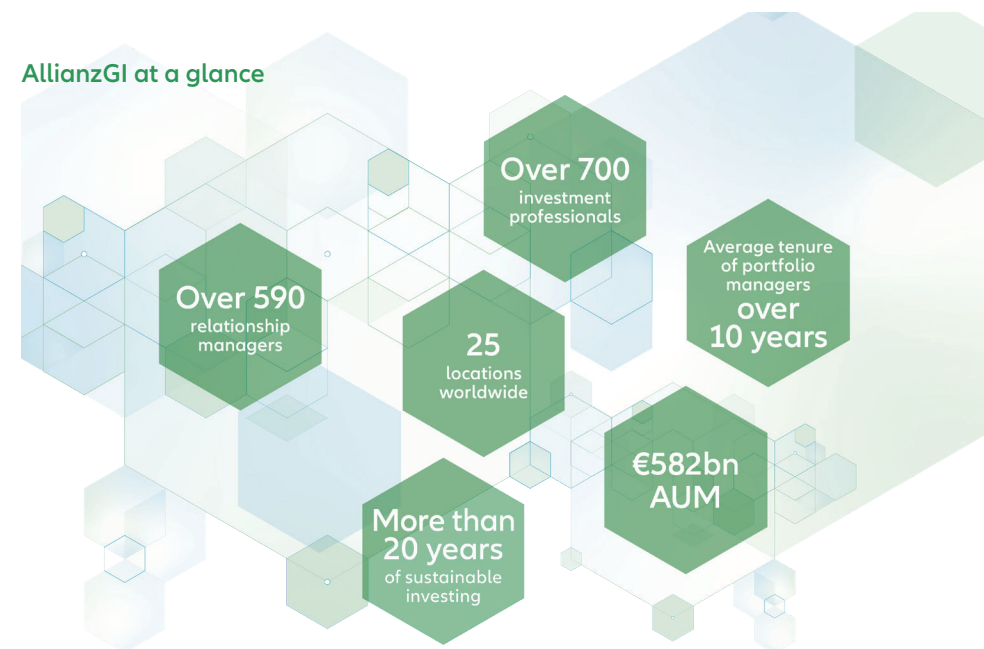
About Allianz Global Investors

Allianz Global Investors is a leading active asset manager with over 700 investment professionals in 25 offices worldwide managing EUR 582 billion in assets for individuals, families and institutions.

We see investing as a journey and we seek to create value for our clients every step of the way. We do this by being active. As part of Allianz Group, we invest on behalf of one of the world's largest and most financially robust

organisations, with more than 130 years of corporate history. We invest for the long term, employing our global investment and risk capabilities and our sustainable investing expertise to create innovative solutions that anticipate future needs. It is our deep conviction that human insight – with the support of analytical tools – is essential to finding the best solution for our clients' needs.

AllianzGI at a glance



Source
Allianz Global Investors, as at 31 December 2020.

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All data are sourced from Allianz Global Investors dated 31 December 2020 unless otherwise stated.

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There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.

Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance, or any prediction, projection or forecast, is not indicative of future performance. Investors should read the offering documents for further details, including the risk factors, before investing. This material and website have not been reviewed by the Securities and Futures Commission of Hong Kong. Issued by Allianz Global Investors Asia Pacific Limited.

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