

Allianz Income and Growth

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in United States of America ("US") and/or Canadian corporate debt securities and equities.

What Happened in October

Equities, convertible securities, and high yield bonds finished higher in October. The Q3 earnings season got off to a strong start. With 64% of S&P 500 companies having reported, 83% topped estimates for an earnings growth rate of 10.7%. Management outlooks highlighted artificial intelligence (AI) demand, cautious consumer spending signals, inflationary/tariff pressures, and cost cutting measures. China trade tensions eased, and most economic reports were delayed due to the government shutdown. The US Federal Reserve (Fed) cut interest rates by 25 basis points (bps) and announced plans to end quantitative tightening. Against this backdrop, the 10-year US Treasury yield fell to 4.09%.^

Equities Market Environment

The S&P 500 Index returned +2.34% for the month.*

Information Technology, Health Care, and Consumer Discretionary were the top-performing sectors in the period, while Materials, Financials, and Real Estate were the bottom-performing sectors.

Equity volatility was higher month to month at 17.44.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +3.13% for the month.^

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Sector performance skewed positive with Telecoms, Consumer Staples, and Materials outperforming, while Transportation, Consumer Discretionary, and Media 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 12 issues priced, raising USD 9.8 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.20% for the month.^

Credit-quality subsector returns for the month^:

BB rated bonds: +0.46%B rated bonds: -0.06%CCC rated bonds: -0.42%

Spreads widened to 294 bps from 280 bps, the average bond price fell to 97.71, and the market's yield rose to 7.17%.

Industry performance was generally higher with Health Care, Metals, and Telecoms outperforming, while Packaging/Paper, Chemicals, and Autos underperformed.

Trailing 12-month default rates finished the period at 1.40% (par) and 1.38% (issues).**

Monthly new issuance saw 20 issues priced, raising USD 18.7 billion in proceeds.**

Portfolio Review

The portfolio benefitted from strength across equities, convertible securities, and high yield bonds.

Top contributors in October were driven by strong corporate profits and continued optimism around the AI buildout following further colour from management teams around capital expenditures (capex). Beneficiaries included Nvidia, Broadcom, Alphabet, Amazon, and several data centre operators. Apple was higher after reporting a top- and bottom-line beat and notable margin improvement. The other top contributors in the period were a heavy equipment manufacturer, a packaged software provider, and a biotech company.

Top detractors in the period included Meta, which increased its capex and operating expense outlook, and an online real estate marketplace operator that reported weak bookings. Retailers with exposure to auto parts, home improvement, and pet supplies were lower on consumer spending concerns. A pharmaceutical company saw an executive departure and a telecom hardware provider missed expectations. The other top detractors were an airframe manufacturer, a live entertainment company, and a financial data services provider.

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

Exposure increased the most in Technology, Utilities, and Health Care, and decreased the most in Consumer Discretionary, Financials, and Consumer Staples. Covered call option positioning decreased month-over-month.

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Market Outlook and Strategy

The macro outlook is improving following a stronger-than-expected economic rebound, an inflection in earnings estimates, a shift in the Fed's stance, the One Big Beautiful Bill Act (OBBBA) being signed into law, and increased visibility around trade policy.

US economic growth for Q3 is tracking ahead of forecasts due to resilient consumption and strong corporate spending. Unemployment and inflation have increased but only modestly. Potential growth tailwinds include rising capex, reshoring, deregulation, and credit expansion, whereas a sharp rise in either unemployment or inflation could increase the odds of an economic slowdown.

The Fed is targeting a more neutral policy position with the market expecting additional interest rate cuts over the coming quarters. However, Chair Powell has noted that future rate decisions remain highly data dependent.

US equity market strength is the result of better-than-expected top- and bottom-line results and inflecting earnings estimates. Potential earnings growth tailwinds include reaccelerating economic momentum in 2026, rising productivity, the proliferation of AI, low oil prices, and falling borrowing costs. Headwinds include rising operating expenses as well as the impact of tariffs, but clarity has improved on this point. There is evidence earnings breadth is beginning to expand. This dynamic could lead to a broadening out of the market, aided by industries that have underperformed since 2022. The Fed's shift in stance is also notable because equities are generally higher a year after the first rate cut.

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's year-to-date outperformance of the broad equity market can continue if volatility rises or breadth expands. Strategist forecasts for annual new issuance continue to be revised higher, currently sitting at USD 95-100 billion* compared to an initial forecast of USD 60-65 billion. Heavy primary market activity is a function of 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 more than 7%^^, offers equity-like returns but with less volatility. Currently, the asset class is on track to deliver a coupon-plus return in 2025. 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. Additionally, the market's credit quality composition continues to improve. In this environment, new issuance is expected to remain steady, spreads can stay tight, and the default rate should continue to reside below the historical average.

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

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sg.allianzgi.com

+65 6438 0828

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All data are sourced from Allianz Global Investors dated 31 October 2025 unless otherwise stated.

- * Source: FactSet, as at 31 October 2025
- ^ Source: BofA Merrill Lynch, as at 31 October 2025
- ** Source: J.P. Morgan, as at 31 October 2025
- ^^ Source: ICE Data Services, as at 31 October 2025
- *Source: BofA Research, as at 31 October 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").

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