

Allianz Select Income and Growth

Monthly commentary

Investment Objective

The Fund aims at long term capital growth and income by investing in investment grade corporate Debt Securities and Equities of US and/or Canadian Equity and Bond markets.

What Happened in March

Markets finished lower in March with convertible securities and investment grade bonds faring better than equities. Concerns around the pace and magnitude of tariff and government reform measures pressured markets due to their potential impact on consumer and corporate spending, economic growth, earnings, employment, and inflation. Economic reports released during the period were balanced with durable goods and factory orders, industrial production, and a key services survey all topping expectations. Conversely, consumer confidence declined, Atlanta Fed GDPNow estimates remained subdued, and a major manufacturing survey missed projections. Inflation, housing, and labour gauges were mixed. The US Federal Reserve (Fed) kept interest rates steady, slowed its balance sheet drawdown, and updated its economic projections to show a decrease in 2025 gross domestic product (GDP) growth estimates and an increase in 2025 inflation estimates. Against this backdrop, the 10-year US Treasury yield was largely unchanged month-over-month.

Equities Market Environment

The S&P 500 Index returned -5.63% for the month.*

Sector performance was mostly lower in March. Energy, Utilities, and Health Care were the top-performing sectors, while Consumer Discretionary, Information Technology, and Communication Services were the bottom-performing sectors in the period.

Equity volatility was higher month-to-month with the VIX finishing at 22.28.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned -2.74% for the month.^

Sector performance also skewed negative. Energy, Utilities, and Media outperformed, whereas Consumer Staples, Telecoms, and Transportation underperformed.

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

Monthly new issuance saw 10 issues priced, raising USD 8.2 billion in proceeds.^

Investment Grade Corporate Market Environment

The ICE BofA US Corporate Index returned -0.28%, underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.25%.**

Credit-quality subsector returns for the month**:

- AAA rated bonds: -0.41%
- AA rated bonds: -0.26%
- A rated bonds: -0.19%
- BBB rated bonds: -0.36%

Spreads widened to 97 basis points (bps), the average bond price fell to 93.64, and the market's yield rose to 5.20%.**

Gross new issuance for the month was USD 190.4 billion.^

The 10-year US Treasury returned +0.23%.^ The note's yield rose to 4.21% compared to 4.20% the prior month.^

Portfolio Review

The portfolio was negatively impacted by weakness across financial markets.

Top contributors included a health care provider that gained on news of easing legal scrutiny, and a pharmaceutical distributor that advanced following management commentary around limited tariff exposure. Another pharmaceutical holding rallied on the Food and Drug Administration (FDA) approval of a new treatment, a tower REIT advanced following an increase to its dividend payment, and a travel services platform outperformed on an executive appointment. A software holding with bitcoin exposure executed a successful capital raise, and an insurance company saw strong auto policy growth. The other top contributors in the period were a payments company and multiple utility operators.

Top detractors in the period included Nvidia, Meta, and Microsoft, in addition to several other holdings across the internet services and semiconductor industries, all of which were adversely impacted by increasing uncertainty around the artificial intelligence (AI) secular growth narrative and what an economic slowdown might mean for related capital expenditure (capex) spending. Apple and Amazon were pressured by tariff-related volatility as investors struggled to

evaluate a highly dynamic trade environment. Other top detractors from performance in the period included a biotech company and a software provider.

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

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

Market 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 investment grade corporate bonds – given their defensive characteristics – could mitigate equity market weakness. This scenario materialised in Q1. 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, mergers and acquisitions (M&A), etc. can resume. Productivity gains, industrialisation, 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.

The equity markets are now pricing in slower economic and earnings growth. Stabilisation in these estimates or better than expected incoming data/results and corporate guidance could be positive equity market catalysts.

US convertible securities have a favourable 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 60-65 billion of new issuance[#] is expected in 2025 due to coupon savings demand and elevated refinancing needs. Aside from diversification benefits, new issuance expands the opportunity set of investments with favourable terms and the desired risk/reward characteristics.

US investment grade corporate bond's risk/reward opportunity is favourable. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains favourable given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering favourable total return potential and downside cushioning. If the 10-year US Treasury yield finishes 2025 near the lower bound of the expected range of 3.5-4.5%, the asset class return could exceed mid-single digits.

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 favourable annualised yields.

Collectively, these three asset classes can provide a steady source of income and a favourable "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 March 2025 unless otherwise stated.

* Source: FactSet, as at 31 March 2025

^ Source: BofA Merrill Lynch, as at 31 March 2025

** Source: ICE Data Services, as at 31 March 2025

Source: BofA Research, as at 31 March 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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