Update Magazine

Active is: Allianz Global Investors

Allianz Global Investors

Contents

A wide field...

Dear Reader,

Are you looking for something too? In a low-interest-rate environment, more and more investors are opting for alternative investments, to exploit additional sources of return besides traditional investments such as bonds and equities. The benefits are obvious: higher risk-adjusted returns can be achieved by supplementing traditional portfolio allocations, while at the same time improving diversification and reducing market sensitivity. But it's not as easy as it sounds. There is a broad, very heterogeneous and at the same time complex range of alternative strategies. A deep understanding of the particular nature of individual strategies, and a well-balanced portfolio structure, are therefore essential for sustained investment success.

Alternative investments are the fastest-growing business segment for Allianz Global Investors, and one in which we are continually expanding our range of solutions. An example is the Trade Finance asset class, which we present in this issue. The Allianz Working Capital strategy is a simple investment solution for a large, complex asset class. What can investors expect? Our strategy offers attractive returns and broad diversification with low volatility and very short maturities, through investment in the financing of trading activities in the real economy.

Investing over the long term and securing stable returns is another important investment theme, as well as the basic principle behind infrastructure investments.

In his article, Dr. Christian Fingerle, CIO of Allianz Capital Partners, writes about the opportunities that the investment gap and the growing number of infrastructure projects can present for institutional investors.

The importance of infrastructure investments for a balanced investment portfolio was also highlighted by our experts at the Investment Forum in London. At the September meeting, we discussed the current state of the global economy, and how investors should proceed in the current environment.

The conclusion: the global economy remains in good shape, but the pressures are increasing all the time. See Neil Dwane's article to learn more.

I hope you find it a stimulating read.

Arne Tölsner

Arne Tölsner, Head of Institutional Germany, Austria & Switzerland, Allianz Global Investors

Spotlights

Outlook

Award

New Silk Road

Six findings from our Investment Forum in London

This September, our experts met up again to discuss the state of the global economy, and what sort of strategy investors should adopt on the financial markets. We reached an agreement on the following points: the global economy is still in good shape, but political and trade-related events are having increasingly unexpected effects on the markets. In this environment, active management of risks and opportunities – in particular, diversification across countries, asset classes and sectors – can be advantageous.

Find out more on pages 6-11 of this issue.

↗ MORE AT
www.updatemagazineonline.com/investmentforum

Greenwich Quality Leader in Europe for the second time

Allianz Global Investors has been named a Greenwich Quality Leader in institutional investment management in Europe for the second time this year. At German level, AllianzGI received this award for what is now the eighth time.

AllianzGI ranks in the first quartile for service quality in all leading markets. It was also able to maintain its position as the leading provider of active asset management in continental Europe, according to the study. AllianzGI has benefited increasingly from its image as a specialist for alternative assets.

The new Silk Road (One Belt, One Road)

China is a country of superlatives, and as such it is not content with straightforward projects. From the world's largest radio telescope to the world's longest bridge over water, – and the Three Gorges Dam – China never ceases to impress when it comes to sensational projects.

The "New Silk Road" project, also known as "One Belt, One Road", is another noteworthy endeavour: almost 70 countries (mainly emerging markets), accounting for 30% of the world's economic output and 60% of the global population, are to be networked more closely, in particular by expanding their infrastructure. However, there are a number of challenges to overcome in order to tap into this enormous economic potential.

Analysis

Artificial intelligence

Inflation could rise more quickly than many think

Inflation or non-inflation? This is the question that a lot of investors are currently asking themselves, as hardly anyone is sure how to interpret the current data. In his latest publication, chief strategist Neil Dwane writes that inflation could rise more quickly than many think, and explains what investors can do to prepare.

↗ MORE AT
www.updatemagazineonline.com/investmentforum/inflation

AllianzGI fund for artificial intelligence exceeds volume of 1 billion euros

The assets under management of the Allianz Global Artificial Intelligence Fund launched in spring 2017 have exceeded the 1 billion euro mark. The fund was the first of its kind in Europe. It invests in companies that are banking on the disruptive potential of artificial intelligence. The fund's strategy is to benefit from rapid technological advances in areas such as big data, learning machines, self-driving cars and the Internet of Things. All in all, AllianzGI manages more than USD 4 billion worldwide as part of this strategy, which was launched in Japan in September 2016, together with Sumitomo Mitsui Asset Management and Nikko.

Six takeaways from our London Investment Forum

AUTHOR: **NEIL DWANE**

This September, our experts gathered to debate the state of the global economy, and discuss how investors should approach the markets. Our consensus? The global economy is still doing fairly well, but politics and trade will drive markets in increasingly unexpected ways. Actively managing risks and opportunities – including diversifying among regions, asset classes and sectors – can help.

1/ Brexit won't be resolved in a single decision – and not all sectors will be losers

Economic growth in the UK has slowed in recent years, and the Brexit process has already undermined real GDP. Whatever happens in early 2019, there will be little immediate clarity; the particulars of this divorce will evolve over months and years. What is clear is that not all sectors will be affected by Brexit in the same way. For example, in the event of a "hard" Brexit, a weaker British pound will likely help larger UK exporters – as will their more diversified exposure.

The UK will also need to make up a large trade gap if it loses access to European Union markets in a hard-Brexit outcome. The EU is the UK's biggest trading partner, but the EU may be less exposed to losing this relationship than the UK is. The same holds true for the UK's other major partners, including China, the US and the British Commonwealth. Investors should look for UK companies that are better prepared for Brexit or do significant business beyond the EU – more likely large corporations than smaller and mid-sized businesses.

2/ Trade wars are bad for markets, but not necessarily for active investors

US President Donald Trump continues to change the terms of global trade, and while this hasn't yet derailed the US markets, some segments are struggling. Soybeans, for instance, represent more than half of US agriculture exports to China, and farmers are suffering from prices that have fallen by more than 20% since March, according to Bloomberg. But companies that lie higher up the supply chain may be able to pass on higher costs to consumers. Finding those firms could provide an opportunity for active investors.

Investors should look for buying opportunities from the volatility that ensues from the US forging new bilateral agreements with Mexico, Canada and Germany, and other major trading partners. China is squarely in President Trump's crosshairs, but it may be inclined to resolve its differences with the US, particularly given China's desire to open up its economy to foreign investors. Still, if there is a slowdown in emerging markets – or if China takes a more retaliatory stance – the US will likely be the safest place for investors.

The Federal Reserve will watch how trade affects growth and inflation as it continues tightening its monetary policy. This is a careful balancing act. The Fed wants to raise rates to keep inflation in check, and create room to manoeuvre in the future. Yet the Fed could make the mistake of raising rates too much or too quickly, slowing down growth and increasing volatility.

Key highlights

1/ Uncertainty and volatility are hallmarks of the global economic outlook; this is an opportunity for active managers to pick out the winners from the losers.

2/ Brexit and President Trump's trade policies are adding to a climate of uncertainty, though the winners will become apparent in the longer term.

3/ Inequality is a genuine threat to economic and social stability, but there are many options open to companies willing to redress imbalances.

4/ Disruption through cyberattacks can damage returns, but engaging with companies can help assess their ability to handle cyber risks.

3/ Economic inequality is disruptive, but focusing on ESG is advantageous

Inequality has become an ever-growing part of political conversations across the US and Europe, where disparities in wealth continue to grow. This is a warning sign that investors must heed – not least because inequality has the potential to cause disruption, instability, environmental degradation and a host of social ills.

There are two primary ways to address this problem from an investment perspective:

- The first is by engaging with corporate management teams on governance issues – a critical part of the increasingly important field of environmental, social and governance (ESG) investing. Executive pay that aligns more closely with performance can reduce income disparities, and a sincere focus on training can help workforces thrive despite the spread of automation and artificial intelligence.
- The second is by increasing participation in capital markets by making them more accessible to more people. This can be done by making financial services more widely available and affordable, thereby improving financial inclusion; by helping to increase financial literacy; and by providing solutions that help more investors manage risk and potentially grow more wealth over time. When investors and asset managers create and share value, we can better address our shared social responsibilities.

Consider infrastructure as a portfolio diversifier that can provide sustainable long-term return potential

4/ It's time for companies to confront cyber risk head-on

Cyberattacks on major companies have gone from being an annoyance to being a critical issue. We are now in an environment of broad, unpredictable assaults across all sectors, geographies and business sizes. Attacks on major companies have stopped production and prevented critical products from being delivered. For investors, this can mean falling share prices stemming from remediation expenditures or damaged reputations.

The good news is that many companies are making a surprising amount of headway in combating cyber disruption, but some are much better equipped than others to handle these problems. The challenge is how to identify these companies – and active engagement with management teams can show which firms are better prepared to deal with cyber risk.

5/ There's a reason infrastructure investing has quadrupled since 2008

Investors are increasingly looking to infrastructure investments as a way to balance their portfolios. The total amount of infrastructure assets under management has more than quadrupled in the last 10 years, according to Prequin.

This alternative asset class is attractive to investors because of its healthy risk-return profile. It provides stable long-term return potential, improved diversification and the ability to help guard against inflation. And it is an area primed to receive significant government support – particularly the field of green infrastructure. According to the International Finance Corporation, demand for urban water infrastructure investments could exceed USD 13 trillion through 2030, and the wind and solar power market could need USD 6 trillion in investments through 2040.

Like any investment, there are risks associated with infrastructure investing. Yet we believe these can be addressed with careful oversight and engagement with the managing companies involved with infrastructure projects.

6/ Combat procyclicality with long-term, active investing

While the global economy is doing relatively well at the moment, the future appears less certain and more volatile. Returns are likely to be more muted over the next five to 10 years, so investors will need to work their money harder – and be less procyclical. Investors shouldn't make the mistake of pursuing only strategies that performed well in the past, ignoring those that may hold the greatest potential in the future. An active, engaged approach to investing can help generate value and minimise risks to portfolios.

Neil Dwane, Global Strategist, Allianz Global Investors

How monetary policy can worsen economic inequality

AUTHOR: **STEFAN HOFRICHTER**

Income and wealth inequality have increased significantly since the early 1980s. This is true not only of developed industrial countries, but also of emerging countries, with few exceptions. The trend in the United States is particularly striking: the Gini coefficient – a common statistical measure of inequality – is at its highest level since the 1930s. A convergence of other factors is also sparking more debate over inequality, including: the tailwind for populist parties and politicians since the mid-1980s, especially since the outbreak of the financial crisis; the use of unconventional monetary-policy instruments; and historically low, and in some cases negative, nominal interest rates.

1/ The conventional explanation for rising inequality

In the academic literature, the automation of production processes from the 1970s and 1980s onwards is generally regarded as the main cause of growing income divergence, with manual and repetitive activities increasingly being taken over by machines and new technologies. The upturn in international trade at the beginning of the 1980s – which was accelerated by the opening-up of China's economy (from 1979) and the collapse of communism (1989-1990) – is closely related to automation, since it contributed to the large-scale relocation of production sites abroad.

The result of increasingly automated production was that the demand for – and the salaries of – highly qualified and well-paid employees increased by more than the average. On the other end of the spectrum, low-skilled employees were in less demand, and saw their wages decline after allowing for inflation. For middle-income earners, the earnings trend was slightly positive, but the proportion of employees in this income bracket declined – and they were particularly affected by new technologies that displaced routine activities.

The declining unionisation of employees is also held up as a reason for increased income divergence. Lower- and middle-income groups have been especially hard hit by the associated reduction in bargaining power in pay negotiations.

The rise of the financial sector is frequently cited as another cause of increased inequality. Large, internationally oriented companies and their staffs have been benefiting from the greater international mobility of capital, which is a result of several decades of deregulation in capital markets. Wider access to financial instruments and the resulting ability to acquire and leverage knowledge and expertise – for example, in the form of training loans – can exacerbate inequality, particularly in emerging markets. However, the financial sector is considered to be a secondary cause of growing inequality compared with real economic developments, such as automation and international trade.

Finally, state redistribution in the form of progressive income tax rates – as well as inheritance and wealth taxes – can lower inequality without taxation necessarily being a drag on growth.

2/ How central banks view monetary policy's role in inequality

Central banks essentially agree with the assessments we have outlined above. For these policy makers, inequality is largely explained by factors beyond the control of monetary policy – namely technological change and globalisation. In this view, the ultra-expansionary central-bank policy adopted all over the world since 2007 is not seen as another cause of inequality, but instead is believed to have positive effects on the distribution of income.

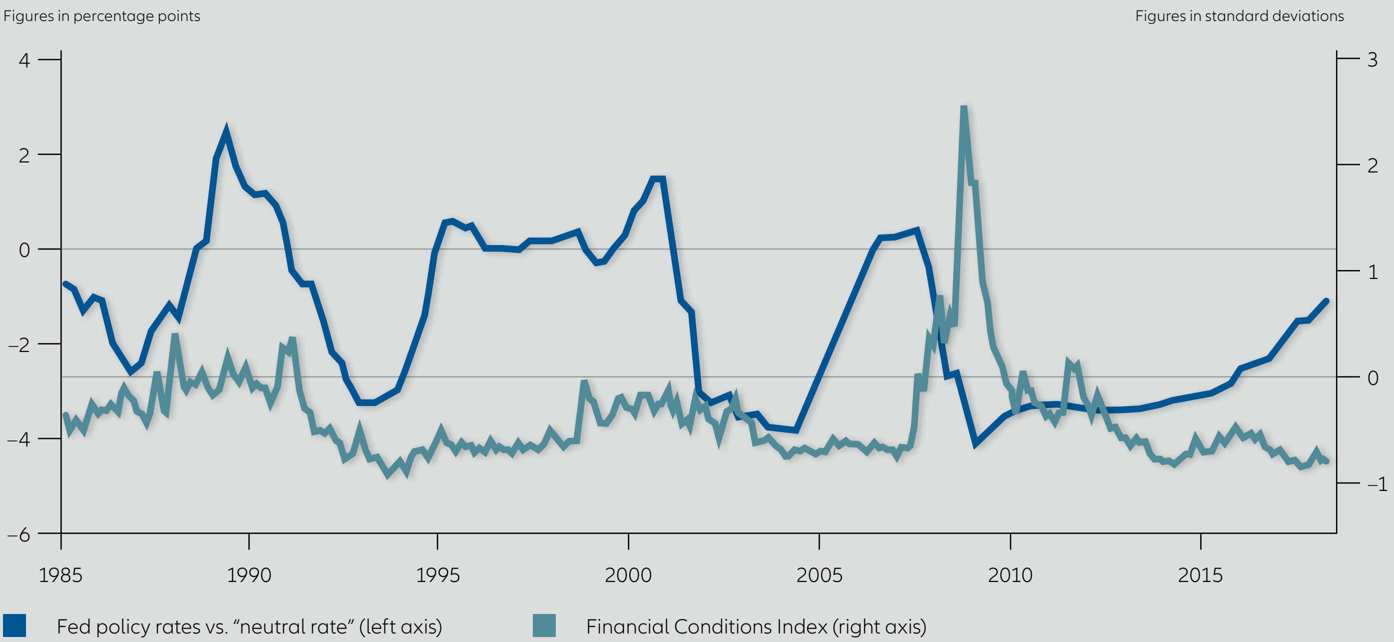
So what is the basis for this thinking? From the perspective of central banks, the unprecedented monetary stimulus of the past decade led to an economic recovery, and therefore led to a significant improvement in labour markets and employee compensation. Admittedly, in a low-interest-rate environment, corporate income increases and private households' net interest income tends to fall, though the net effect on income distribution is positive.

A quote by Mario Draghi from 2016 sums up the beliefs of central banks very well: "Monetary-policy actions that boost the economy typically reduce income inequality." Of course, this does not rule out the possibility that wealth inequality will increase as a result of monetary-policy stimulus. However, the net effect on asset distribution ultimately depends on several factors:

- which asset classes (bonds, equities, real estate) grow and to what extent;
- how assets are allocated by private households (there are significant differences between countries); and
- how the different asset classes are financed (debt or equity).

But central banks believe that monetary policy has a neutral impact on wealth and income distribution in the medium to long term. They believe that if monetary policy is symmetrical – that is to say, if the stimulation and tightening phases of monetary policy are equally pronounced – then the positive and negative distributional effects should balance out over time.

A/ US FEDERAL RESERVE INTEREST RATE RELATIVE TO THE NEUTRAL RATE VS. THE CHICAGO FED'S NATIONAL FINANCIAL CONDITIONS INDEX



Source: Thomson Reuters Datastream, AllianzGI Economics & Strategy. Data as at 13 August 2018.

3/ Monetary policy has been asymmetrical since the 1980s

But it is precisely this assumption that can and must be called into question, as we have already pointed out in previous studies. In this respect, we share the opinion of the Bank for International Settlements, among others: monetary policy has been asymmetrical for several decades.

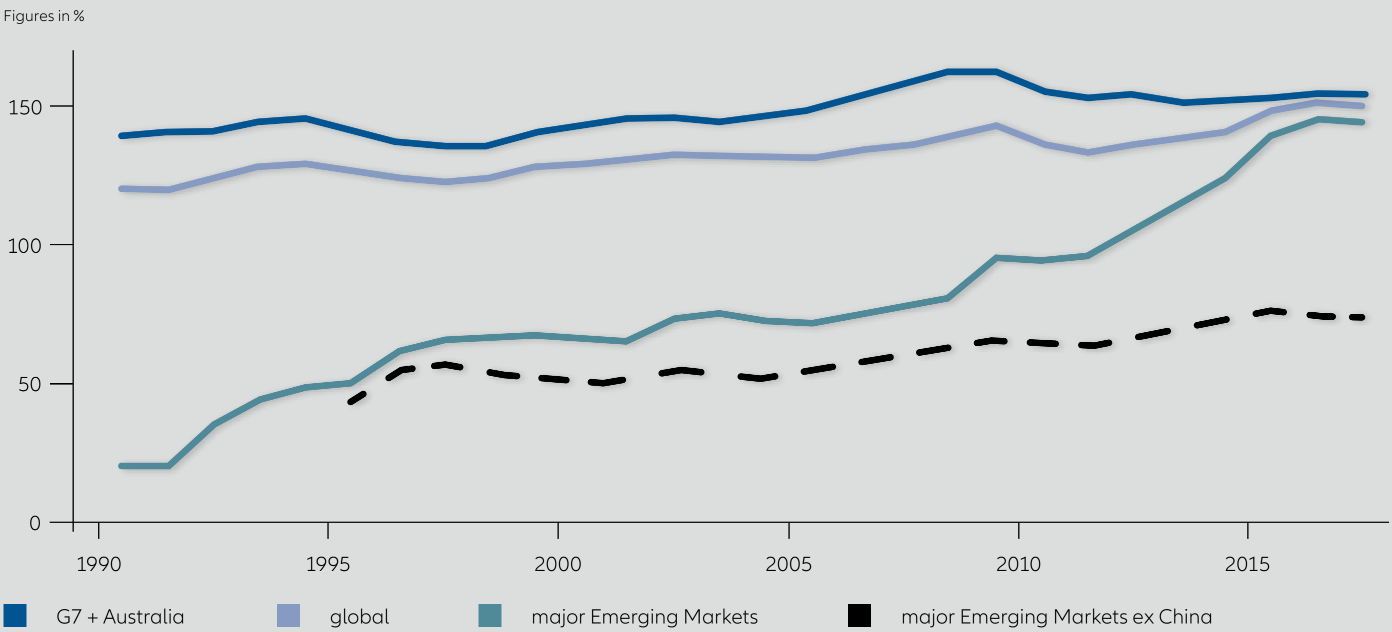
According to our estimates, monetary policy in the US and Europe has been somewhat too loose on average since the 1980s, and below the estimated "neutral" value at which the economy is neither stimulated nor slowed down (see **Chart** A/).

Over approximately the last 35 years, monetary policy has generally been relaxed in times of recession, and in anticipation of possible upheavals on the capital markets. (For example, the Fed boosted liquidity at the end of 1999 to cushion possible financial-market upheaval from "Y2K" computer problems.) At the same time, central banks were slow to normalise monetary policy in economic booms because they focused on goods-price inflation, and did not take into account asset-price inflation. This is what the Jackson Hole Consensus is all about. Even today, more than ten years after the outbreak of the global financial crisis, the relevance of asset prices to monetary policy is anything but clear. At most, they are of secondary relevance to the key function of central banks.

Loose financial conditions for the corporate sector are one result of this approach. This is the case today: with nominal trend growth in the United States of approximately 3.5%, the "neutral" nominal fed funds target rate is 3%, rather than the current rate of around 2%.

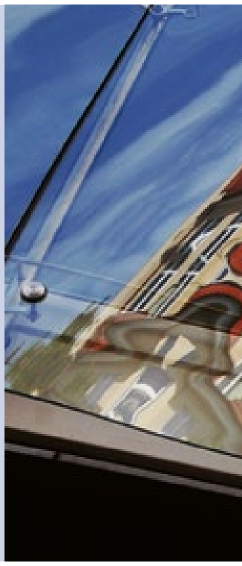
The National Financial Conditions Index calculated by the Chicago Fed also indicates that conditions are far too loose – and have been since 2013. Our assessment is similar for the European Central Bank and the Bank of England. In Japan, especially in the years after the Plaza Accord in 1985 and before the bubble burst in 1989-1990, monetary policy was also too expansionary. During this time, the strength of the yen – and consequently a relatively low rate of goods price inflation – prevented the Bank of Japan from pursuing a more restrictive monetary policy.

B/ CORPORATE AND HOUSEHOLD DEBT IN % OF GDP



Source: Allianz Global Investors, BIS. Data as at 2017.
Legend: Analysis includes G20 countries, GDP (USD weighting)

If financing is too cheap, the profitability hurdle for investments is lowered: even less-efficient investment projects become worthwhile.



4/ Structural support for asset markets through asymmetric monetary policy

So how is monetary policy relevant to the debate over rising inequality? The answer lies in how structurally over-expansionary monetary policy stimulates prices of risky assets, as market participants discount stronger economic activity in the future. In fact, equities have generated above-average returns worldwide since the mid-1980s – despite the bursting of what was probably the largest equity bubble in the history of financial markets in 2000, and despite the financial crisis in 2007-2008.

A closer look at the returns in the mid-1980s emphasises this point:

- Annualised real stock returns in the US were just under 9%, and in Europe close to 7%; compare this to their long-term averages of just below 7% and 6%, respectively.
- Real estate also generated solid average returns in this period (3%-4% per year in real terms), partly because real-estate prices made a strong recovery after 2006–2007, when the bubble burst in many western industrialised countries.
- Even global bond markets achieved slightly higher-than-average returns, though they were well below those generated by equities. This is largely because lower central-bank interest rates led to falling yields at the long end of the yield curve, and thus to higher bond prices.

During more than three decades of too-loose monetary policy, asset owners consequently benefited from the rise in asset prices and capital incomes. As a result, wealth and income inequality has risen structurally, marking a fundamental change in how the global economy operates.

5/ The misallocation of resources hurts growth and increases inequality

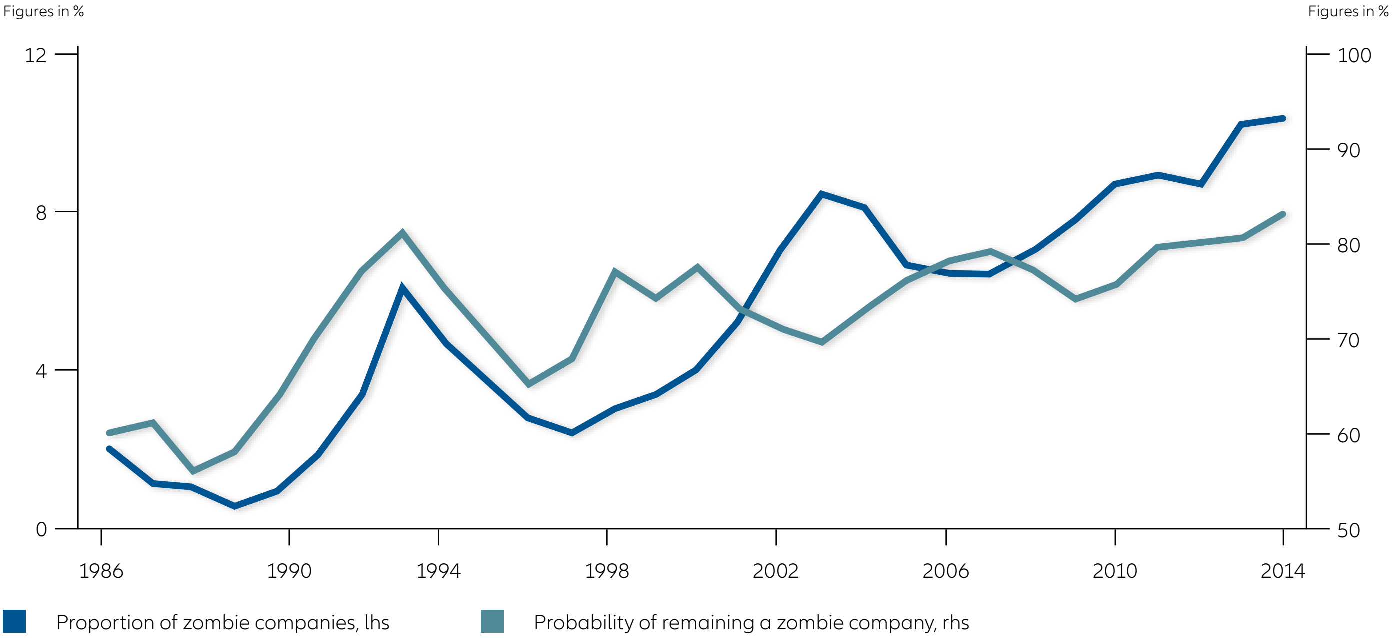
In fairness, interest rates that are too low can still provide an initial boost to economic activity, and they can increase investment activity and demand for loans. In 2015, the global investment rate reached its highest level since 1990 (26%); today, the rate is only slightly lower.

At the same time, worldwide private-sector debt has increased massively in recent decades, especially after the financial crisis: relative to GDP, debt among companies and households is at an all-time high of 150% (see **Chart** B/). Admittedly, debt has fallen slightly in many industrialised countries since the financial crisis. However, debt has increased significantly in some countries that were not or barely affected (Canada, Sweden, Norway, Australia, New Zealand, Hong Kong and Singapore) as well as in some emerging countries (Thailand, Korea, Turkey and especially China). This is because low-cost financing conditions have been, and are still being, exported to the rest of the world through international capital mobility.

Not only does this trend have negative medium- and long-term effects on overall economic productivity, but it also increases inequality over time. Why? If financing is too cheap, the profitability hurdle for investments is lowered: even less-efficient investment projects become worthwhile. This leads to a misallocation of resources.

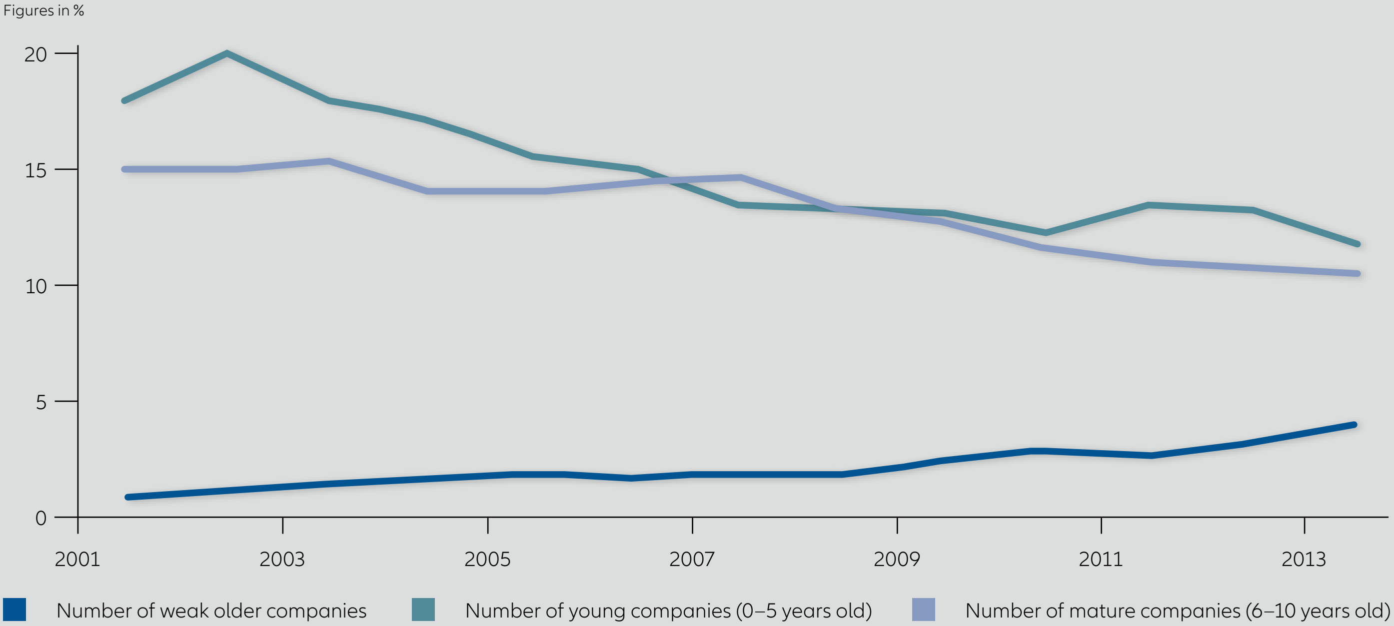
Examples of this can be found in the repeated real-estate bubbles in the last three decades: Japan and Australia at the end of the 1980s; Northern Europe around 1990; and the United States, Britain, Spain and Ireland in the middle of the last decade. Real-estate markets are also overheated today in countries such as Canada, Sweden, Australia, Hong Kong, China and Turkey, to name but a few.

C/ PROPORTION OF ZOMBIE COMPANIES VERSUS PROBABILITY OF REMAINING A ZOMBIE COMPANY



Source: Allianz Global Investors, BIS. Data as at 2014.
BIS definition of zombie companies similar to OECD definition: companies from all sectors except financial sector with interest coverage < 1 for at least 3 years in a row, at least 10 years old and with 20+ employees from the following countries: Australia, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, UK and US. Probability of remaining a zombie company = proportion of companies that were already a zombie company in the previous period.

D/ PROPORTION OF YOUNGER COMPANIES AND WEAK OLDER COMPANIES



Source: OECD, Allianz Global Investors. Data as at 2013.
Data based on companies from all sectors except the financial sector with 20+ employees and more than 10 years old from 24 OECD countries.
BVD database. Weak older companies = companies with negative EBIT for three years in a row or a record loss.

E/ PRODUCTIVITY OF "FRONTIER COMPANIES" VERSUS OTHER COMPANIES (INDEXED)

Source: Andrews D., Criscuolo C., Gal P. (2016), "The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy", OECD Productivity Working Papers, No.5, Orbis data of Bureau van Dijk (BVD), OECD, Allianz GI, data as at 2013.

6/ More high-risk "zombie companies", fewer innovative young companies

High private-sector debt also means that in economic downturns, especially after a debt-financed asset bubble bursts, the need for banks to write down their loan portfolios increases significantly. However, banks have an incentive to minimise writedowns in order to limit losses and avoid expensive recapitalisations. This ultimately leads them to extend the loan payoff period (a process known as "evergreening") for existing, weak borrowers.

As a result, weak companies in recent years have done less to reduce their debt, and they have shown less discipline in their investment activities and in the sale of assets. Various empirical studies – by the Bank for International Settlements, for example – confirm this.

At the same time, banks have been restricting loans to healthy, young and innovative companies so as not to increase the overall risk of their loan portfolio. And the large, healthy and internationally oriented companies that may be a bank's best customers can avoid using bank loans because they can instead turn to the capital markets for financing.

The evergreening trend will be prolonged, maintained and ultimately intensified if central banks do not normalise monetary policy during upturns – or if they do so too late.

Interest rates that are too low mainly help weak companies or industrial sectors that would otherwise have to withdraw from the market or undergo harsh adjustments. Too-low interest rates also increase the likelihood of asset and credit bubbles, such as those observed worldwide since the 1980s. Stricter banking regulation with tighter capital requirements, as is usual after a bubble bursts, can lead to additional limits on lending to new customers.

This is at least a plausible explanation for the fact that in the last three decades, which have been characterised by relatively expansionary monetary policy, there has been a significantly increasing share of older and weaker companies in the overall corporate universe known as "zombie companies" – firms with interest expenses that exceed their operating profits (see **Chart** C/). At the same time, the proportion of younger companies has fallen significantly (see **Chart** D/). The result is weaker overall productivity growth.

This is a key point to consider: in contrast to the economic consensus, the current low-interest-rate environment might not be the result of, but at least to some extent the real cause of, low productivity growth.

7/ Productivity differences between companies are steadily increasing

The OECD's analyses have produced other interesting results: productivity differences between the most-efficient companies ("frontier firms") and the rest have risen significantly (see **Chart** E/). The OECD also concludes that the likelihood of remaining in the group of the most-efficient companies has increased over time.

Increasing digitalisation only explains this to a limited extent, as divergences in productivity are also observed in sectors with low absolute productivity growth. Both observations clearly indicate a loss of market power and competitiveness, consistent with an increase in the share of zombie companies and a decrease in the share of younger companies. Increased M&A activity, favoured by rising share prices, could also explain the decline in competitive momentum.

The increasing productivity gap is also relevant to income distribution, as it explains the growing divergence in the pay of frontier companies' employees relative to those in other companies.

8/ Rising share of the financial sector

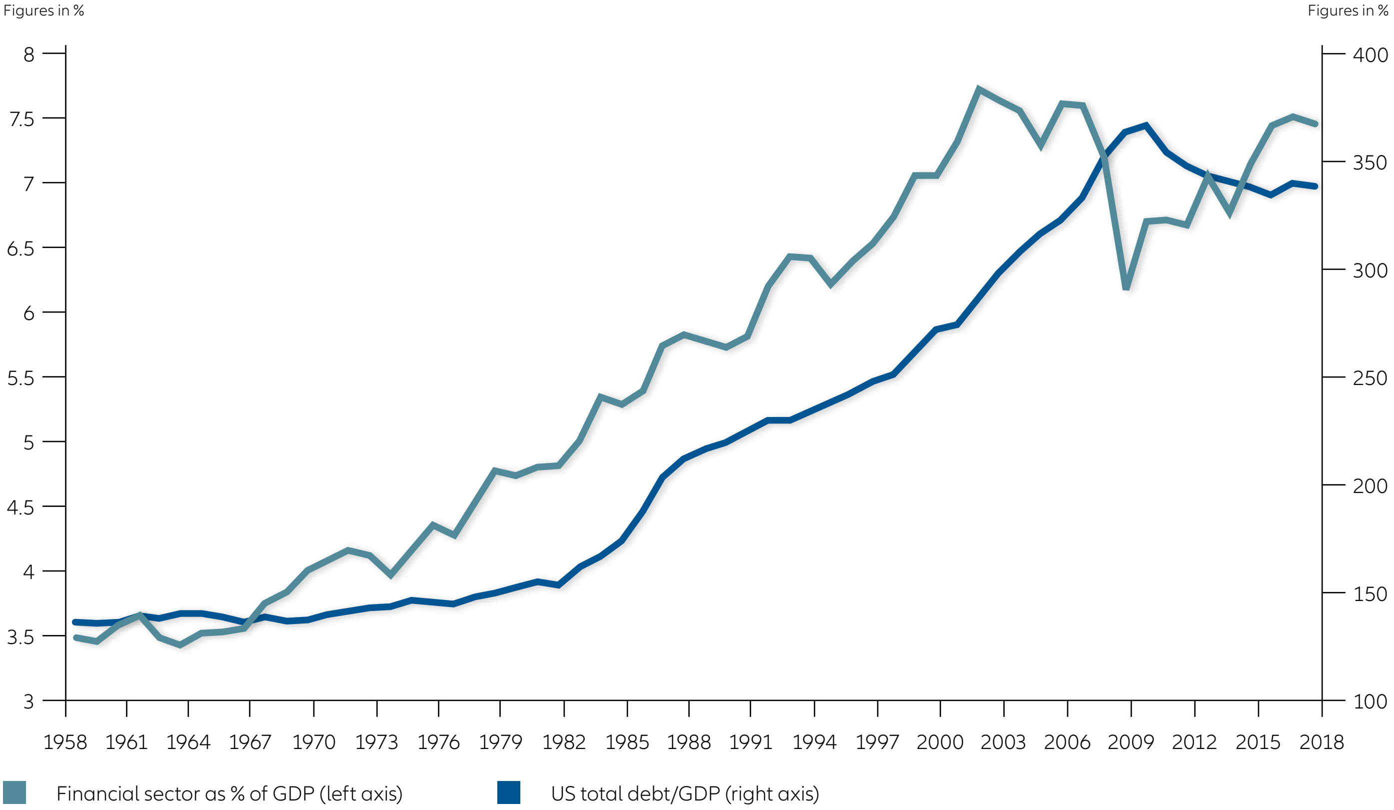
Asymmetric monetary policy can ultimately have a negative impact on income distribution via another channel. The financial sector in particular initially benefits from positive trends on capital and credit markets.

There are two main reasons for this. First, the financial sector invests directly in asset classes (such as equities and bonds) whose prices are positively influenced by an expansionary monetary policy. Lower productivity growth in the real economy and the growing risk of a boom-and-bust scenario also explain why companies themselves invest more in financial assets than in productive ones.

Second, banks achieve above-average increases in commission and interest income in a favourable financial market environment. In fact, banks' and insurance companies' share of total value added has increased significantly since the mid-1980s. (In the United States, for example, this figure rose from around 4% to more than 7%.) Although the share fell again immediately after the financial crisis, it has now returned to pre-crisis levels (see **Chart** F/). In line with the share of GDP, the relative pay of people employed in the financial sector, (especially those employed in the securities sector in the US) also increased relative to other branches of the economy.

In Europe, however, it is a different story: there, the financial sector's share of GDP has declined slightly since the financial crisis, and the same has happened in Japan since the 1990s. However, in many countries that have been completely or largely spared by the 2007-2008 financial crisis (such as Canada, Sweden, Australia, China or Hong Kong), the financial sector is still on the rise and reflects the increase in debt and the rising real estate market.

F/ US FINANCIAL SECTOR: SHARE OF GDP VERSUS DEBT



Source: Thomson Reuters Datastream. Data as at 2017.

9/ More than a "veil", monetary policy can have negative real-world effects

Our view of monetary policy in the debate over wealth and income distribution and productivity is very different from the mainstream view. We accept that monetary-policy distortions are not the only explanation for low productivity growth and rising inequality; other factors such as competition policy, banking regulation and tax policy are also relevant. However, the monetary framework is more than just a "veil" over real economic trends, and can itself trigger negative effects on productivity, growth, and the distribution of wealth and income.

Our view of monetary policy in the debate over wealth and income distribution and productivity is very different from the mainstream view.

Stefan Hofrichter, Global Head of Economics and Strategy, Allianz Global Investors

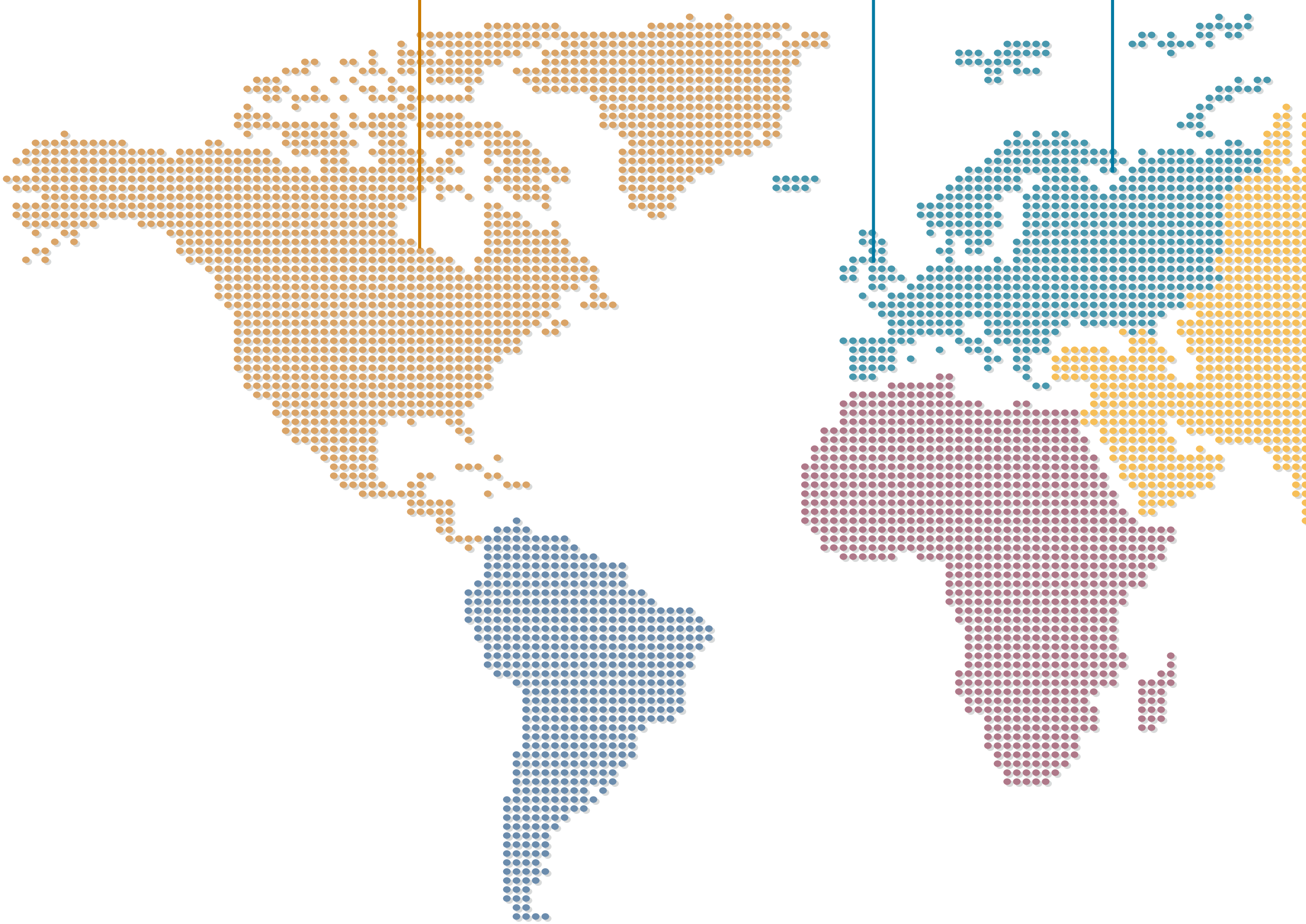
Capital market implications 2018

Our capital market outlook provides you with a concise overview of the current fundamental macroeconomic factors. In addition, it will tell you in what direction we expect the capital markets to move by the end of 2018.

US	2018
S&P 500	2,650
10y UST	3.15%
FFR	2.25 – 2.50%

UK	2018
FTSE	8,000
10y Gilt	1.5%
$/£	1.25

EUROZONE	2018
EURO STOXX 50	3,900
DAX	14,250
10y Bund	0.75%
€/$	1.13



CHINA	2018
HSCEI	11,000
PBOC	4.35%
¥/$	6.80

JAPAN	2018
Nikkei 225	23,500
10y JGB	0.15%
¥/$	113

MACROECONOMIC BASE SCENARIO

1/ ECONOMIC TREND
Loss of economic momentum – late cycle reflation phase. Ongoing labour market tightening will entail a further narrowing of the global output gap. Biggest risk: global trade war.

2/ PRICE DEVELOPMENT
We expect core and headline inflation to rise in coming months. We are already receiving signals for price pressure at the producer level.

3/ MONETARY POLICY
Expansive overall, but growing signs of an end to global monetary policy dominance, and forthcoming peak in central bank liquidity. Risk of tighter than anticipated Fed policy.

4/ FISCAL POLICY
Increasing pressure to take the baton from monetary policy, but only limited leeway and willingness for fiscal stimulus globally, except for some counties like the US and Japan.

Source: AllianzGI Economics and Strategy. Data as of November 2018.

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions, and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement.

In the long run: Infrastructure assets – benefits for societies and stable returns for investors

AUTHOR: **DR CHRISTIAN FINGERLE**

Infrastructure is the prerequisite for social well-being and economic growth. However, in many countries not enough investments are made in infrastructure. This investment gap has widened as governments are financially strained from the sovereign debt crisis and from ever growing retirement and healthcare obligations. As a result, there will be a growing number of infrastructure projects that match our profile as an investor who is investing in assets that provide essential services to the public, and are supported by regulated or contracted revenues or a strong market position.

1/ Importance of infrastructure

Infrastructure is the prerequisite for social well-being and economic growth. However, there are many infrastructure gaps around the world. The McKinsey Global Institute (MGI) showed in a discussion paper last year that the world would need to invest USD 3.7 trillion per year in infrastructure, such as rails, airports, roads and energy, in order to keep pace with projected growth. This problem is not confined to emerging markets only.

Also in Europe infrastructure investments are essential to preserve the region's competitiveness. MGI estimates an annual investment need of USD 500 billion, and a gap to the current actual spending of USD 48 billion per annum. This gap has widened as governments are financially strained from the sovereign debt crisis and from ever-growing retirement and healthcare obligations. Moreover, we are seeing the retreat of traditional bank lenders in response to Basel III and other regulations. As a result, there will be a growing number of infrastructure projects that match our profile as an investor who is investing in assets that provide essential services to the public, and are supported by regulated or contracted revenues, or a strong market position.

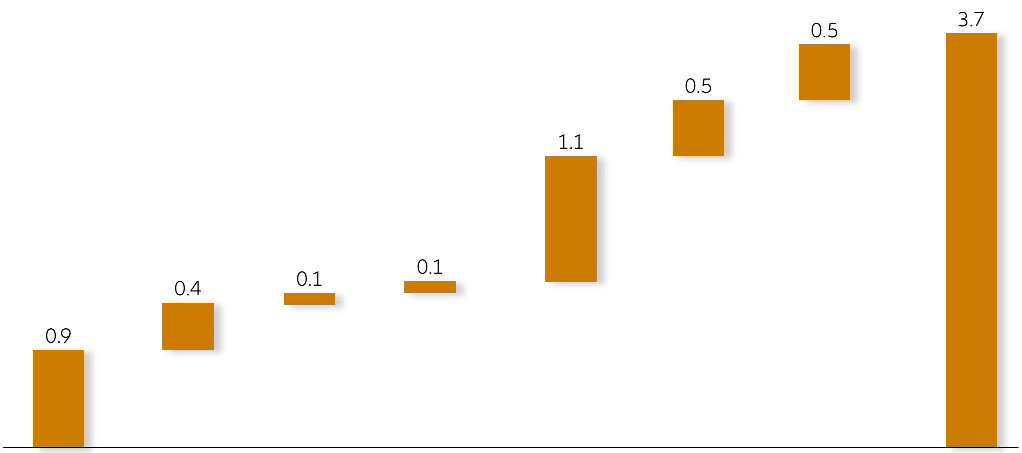
2/ Infrastructural gaps in Europe

While Europe has decent infrastructure compared to other regions, the asset base is aging and needs to be renewed. In addition, most infrastructure sectors are undergoing fundamental structural changes that require vast amounts of capital over the foreseeable future. The energy sector, in particular, is in a stage of transition caused by the push for de-carbonisation, which is a top priority for many European economies. The replacement of conventional generation, decentralised energy sourcing and the electrification of certain sectors require investments in new generation capacity. Moreover, the power grids need to be strengthened, and more storage capacity will have to be added to the system. In the transportation sector a number of technological disruptions will further shape the industry, such as the rise of autonomous vehicles, ride-sharing or the emergence of e-mobility. Telecommunications is another sector where we see high investment needs, with the explosive increase of data traffic and the overriding political objective to overcome structural differences, not only across Europe but also between cities and rural areas. An influx of capital is also expected in the environmental sector, if you take the water infrastructure as an example. Climate change, population growth and ongoing urbanisation are posing major challenges to the water supply globally.

As a result, there will be a growing number of infrastructure projects that match our profile as an investor who is investing in assets that provide essential services to the public, and are supported by regulated or contracted revenues, or a strong market position.

A/ WORLD AVERAGE ANNUAL INFRASTRUCTURE INVESTMENT NEED (2017–2035)

$ tn constant 2017 USD



	Roads	Rail	Ports	Airports	Power	Water	Telecom	Total
annual spending (% of GDP)	1.00	0.40	0.10	0.10	1.30	0.50	0.60	4.10
aggregate spending ($tn)	18	7.9	1.6	2.1	20.2	9.1	10.4	69.4

Average annual infrastructure investment needed – McKinsey Global Institute. Data as of october 2017

People are always key to success.

3/ Allianz Capital Partners investment approach[1]

So far as we have exclusively invested the money of pension schemes and insurances of regional Allianz companies in infrastructure, we are clearly a long-term investor. On that basis we follow a "buy-and-hold" approach, with regular cash flows in order to match pension and insurance liabilities when they fall due. Allianz Capital Partners is focused on alternative equity investments in private equity, renewable energies and infrastructure. As of November, total assets under management amounted to EUR 12.3 billion for private equity, EUR 9.7 billion for infrastructure and EUR 3.9 billion for the renewables sector. In infrastructure, we predominantly invest directly in the capital of companies or joint-ventures that develop infrastructure projects. As an equity sponsor we normally invest alongside like-minded and experienced international investors. We seek a governance regime of strong veto rights that puts us in position to influence the company on important matters.

Given the focus on cash yield and our buy-and-hold approach we need to take a long-term view on our assets and the environment they operate in. We typically get comfortable in situations where the investment satisfies the following criteria: a) businesses underpinned by ownership or operating rights of real assets b) cash flows backed by established regulatory regimes or strong contractual protection that provides downside mitigation c) compliance with strict Allianz ESG principles d) markets with a proven track record in dealing with private investors e) high barriers to entry and low substitution risks owing to asset-specific attributes, and last but not least, premium assets providing essential services to economies and society. As to using leverage, we always target investment-grade financing structures, and seek long-term tenors to mitigate interest rate exposure.

4/ Long-term buy-and-hold approach

Infrastructure assets are by definition long-life assets, often with a high public profile, and sometimes directly customer-facing. Owners of infrastructure assets need to act as responsible custodians of critical assets that provide an essential service to society. One of the benefits of being a long-term buy-and-hold investor is that we at Allianz Capital Partners can invest with a view to delivering both a public service and value generation to its investors over the whole life of the asset, rather than maximising short-term gains.

As a minority investor, we work actively alongside and in alignment with other co-investors to ensure that the business plan is delivered. A consequence of successful and responsible asset management is that it enables us to be seen as an attractive partner for new deals.

People are always key to success. Having the right executives in the right positions with a full understanding of the key value drivers of the business plan and strong alignment with shareholders is fundamental to successful asset management.

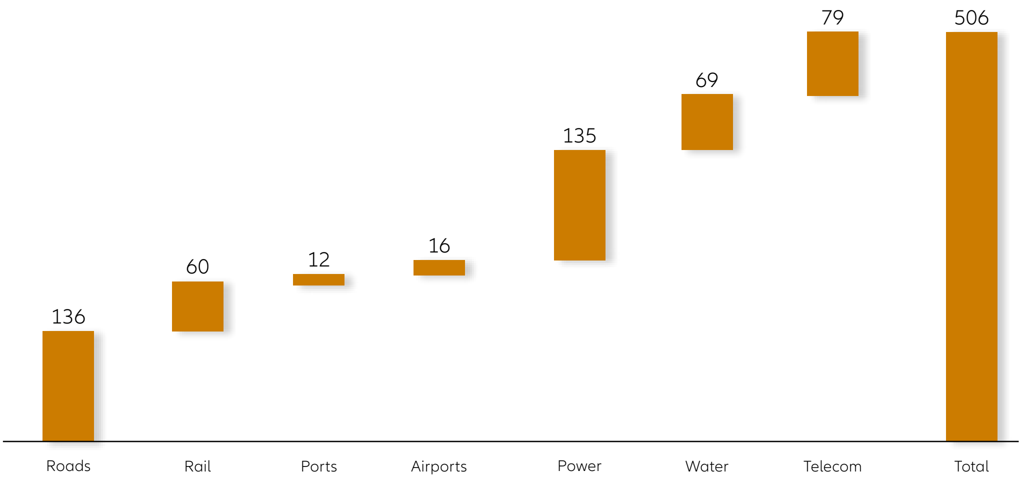
Finally, asset management involves managing risks in a business, and identifying opportunities to make the business more efficient – and grow it. We seek to de-risk the businesses in which we invest in a number of ways, including by adopting conservative long-term investment-grade capital structures. Asset management also sees each business as a platform with potential for growth – whether organic or through acquisition – and seeks to pursue new investment opportunities through its existing asset base.

5/ Impact of environmental, social and governance factors

Allianz is at the forefront of ESG-compliant investing, and has adopted a socially responsible approach since 1991. Just recently we have been recognised by the Dow Jones Sustainability Index as the most sustainable insurer worldwide. As an affiliate of Allianz we have incorporated the Group's strict ESG guidelines in our investment decision and asset management approach, and are fully integrated into the Group ESG framework.

B/ EUROPEAN AVERAGE ANNUAL INFRASTRUCTURE INVESTMENT NEED (2017–2035)

$ bn constant 2017 USD



	Roads	Rail	Ports	Airports	Power	Water	Telecom	Total
annual spending (% of GDP)	0.74	0.32	0.07	0.09	0.73	0.37	0.43	2.75
aggregate spending ($tn)	2.6	1.1	0.2	0.3	2.6	1.3	1.5	9.6

Average annual infrastructure investment needed – McKinsey Global Institute. Data as of October 2017

Private Equity
EUR 12.3bn
Assets under Management

Renewables
EUR 3.9bn
Assets under Management

Infrastructure
EUR 9.7bn
Assets under Management
(Data as of Q3 2018)

6/ New investments in the pipeline

European deal activity remains high in our core sectors of energy, transportation, environmental and telecommunication. We have identified potential investment opportunities of more than 10 billion Euros that may become executable in the short to medium term. For example, we are currently actively pursuing a number of transactions in the subsectors of integrated utilities and, fibre networks, as well as certain transportation segments. We also keep pursuing greenfield investments and are, for instance, involved in "NeuConnect", a 1.4 GW power interconnector that seeks to transmit electricity generated in Germany to Great Britain and vice versa, through a 650km subsea cable. We will soon be able not only to allow Allianz Group entities to benefit from this attractive asset class, but will also extend this offering to other institutional clients.[2]

Dr Christian Fingerle, CIO Allianz Capital Partners

Expanded competence: the new US Fixed Income Team

AUTHORS: **MARC PRODGERS** AND **THOMAS KNIGGE**

1/ Allianz Global Investors has expanded its Fixed Income expertise by establishing a local US Fixed Income Team

In November 2017 we significantly strengthened our US bond expertise in the United States by establishing a US Fixed Income team headed by Carl Pappo, CIO US Fixed Income. The US Fixed Income team consists of 12 experts with an average of 19 years' experience of managing assets in institutional portfolios and investment funds in the Core, Core Plus and Liability-Driven Investments (LDI) strategies. Most of the team members have been working together successfully for more than a decade, and came over from Columbia Threadneedle Investments. The team works in New York and Boston.

In recent years we have steadily improved our client offering in the challenging environment for Fixed Income investments, by expanding our local (through the addition of Asian and American Fixed Income experts) and global capacities (integration of Rogge Global Partners). Investment decisions within the individual strategies are placed on a broader footing, based on local and regional perspectives. These expert opinions help to focus on the specific challenges faced by our clients, and to identify alternative solutions.

2/ An active manager whose main strengths are individual bond selection and sector allocation

Sector allocation is one of the main strengths of the US team, and has consistently contributed to the outperformance achieved by its strategy (see **Chart** A/). Carl Pappo sums up the monthly Asset Allocation Meeting at which sector weightings are discussed: "Despite the ambitious valuation of some corporate bonds and securitised bonds, we remain overweight in these segments, but focus on variable-rate issues from issuers with good and very good credit ratings. We also prefer a neutral duration position. Overall, we are using our risk budget in the credit markets." The three other members of the group, Stephen Sheehan (Credit), Michael Zazzarino (Structured Assets) and Frank Salem (Government/Rates/LDI), nod in agreement, thus defining a major factor in the portfolio composition.

"The team's second outstanding capability lies in the selection of individual bonds," says Carl Pappo, describing another strength. "It's the main reason for the US team's outperformance," Carl adds. Based on careful issuer research, the US credit analysts use proprietary business models to provide internal assessments of the fundamental strength of individual issuers over the next 12 months, and the stability of these credit metrics, as well as the relative strength of the issuer within its peer group. Carl Pappo believes that this extensive and detailed analysis should continue to pay off in the future. The new US team is convinced that US Fixed Income markets have significant and recurring valuation inefficiencies that can be successfully exploited with the right individual bond selection and sector allocation. The sources of inefficiencies are manifold. For example, many buyers in the US Fixed Income segment – including central banks and passive managers – are not focused on total returns, while others, such as banks, insurance companies and pension funds, prefer or avoid certain segments or issues due to regulatory requirements. Moreover, the sometimes limited liquidity of OTC (over-the-counter) trading can distort prices. In fact, the number of such opportunities has increased in recent years due to the regulatory environment, with the importance of many financial institutions and brokers as market makers having been significantly reduced since the 2008 financial crisis.

A/ TRACK RECORDS

US Core and Core Plus					
Legacy Firm Gross Returns (%)	**1 year**	**3 years**	**5 years**	**7 years**	**10 years**
Core Fixed Income Fund (UMMGX)	1.12%	3.57%	2.62%	3.68%	4.91%
Core Plus Fixed Income Fund (SRBFX)	1.97%	3.86%	3.18%	4.21%	5.36%
Bloomberg Barclays US Aggregate Index	0.07%	2.71%	2.06%	2.95%	2.95%

US Long Term Gov./Credit					
Legacy Firm Gross Returns (%)	**1 year**	**3 years**	**5 years**	**7 years**	**10 years**
Long Duration Gov./Credit Composite	0.30%	5.96%	4.42%	6.54%	7.98%
Bloomberg Barclays US Long G/C Index	-0.79%	5.45%	3.94%	6.16%	7.37%

Source: Morningstar and eVestment as of 11/30/17

3/ "Our investment process aims to exploit valuation inefficiencies", explains Carl Pappo

"Investor behaviour and market conditions create opportunities which are selectively exploited by the US Fixed Income team's investment process," explains Carl Pappo.

The team follows a rigorous investment process driven by business analysis, individual bond selection and strategic sector rotation. It involves four different steps:

1/ Benchmark deconstruction – analysis and evaluation of the investment universe and associated risk factors

2/ Strategy & action plan – defining the risk and sector allocation, duration and curve positioning

3/ Portfolio construction – individual bond selection while keeping a close eye on the risk contribution

4/ Active management – ensuring alpha generation potential within the portfolio

This US team is confident that this approach delivers a positive relative performance, as it has done in the past. Hence they expect US core mandates to outperform the benchmark Bloomberg Barclays US Aggregate Index by 65-75 basis points p.a. over the market cycle. For pure US corporate mandates the objective is a similar relative performance over a 3 to 5-year investment horizon. The aim is to achieve these results with moderate risk (tracking error of 1-1.5%), so that an information ratio of 0.5 and better appears realistic.

4/ US bonds can be an attractive investment for generating income

The Fed has already raised key interest rates several times since December 2015 – most recently on September 26 – and they are currently in a range of 2-2.25%. Meanwhile, the ECB has left its rate at –0.40% and, in the market's opinion, will start gently raising interest rates no sooner than mid-2019 (see **Chart** B/). So in the coming months, if not for the next 2-3 years, it will remain difficult for the euro zone to generate attractive returns with short-term bonds. Against this backdrop, it may be worthwhile for investors who feel comfortable investing in dollars to consider US bond markets as a possible investment alternative (see **Chart** C/). As well as the government bond segment, there are other highly liquid asset classes with good and very good credit ratings that can represent an attractive source of income.

5/ Allianz Short Term Plus fund: US bonds with short duration, high income potential and limited volatility

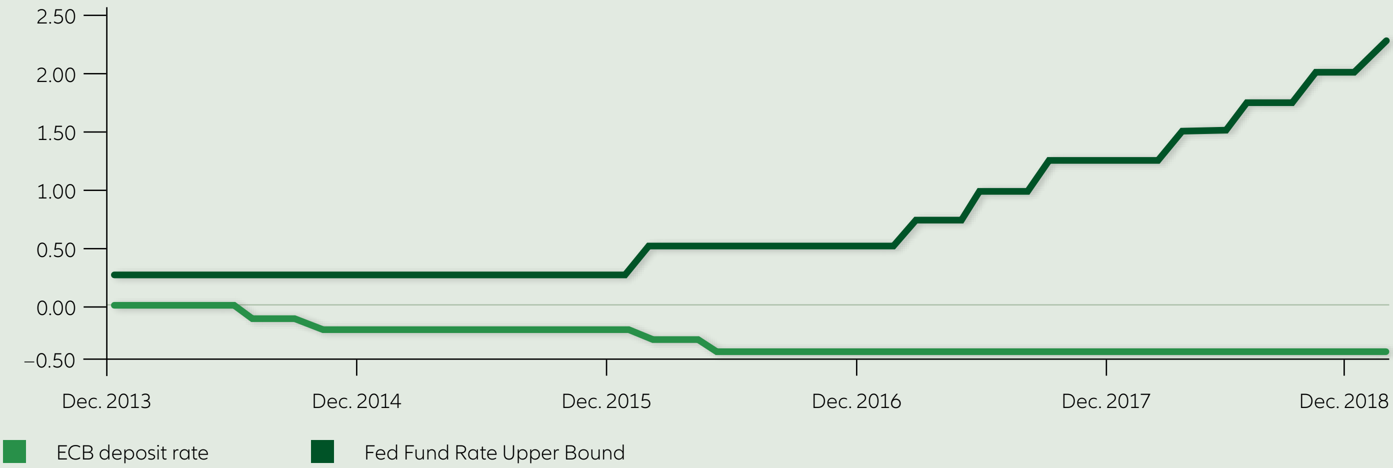
During the fourth quarter, Allianz Global Investors will bring the expertise of our US Fixed Income team to Europe and launch a strategy that focuses on the income sources described above. For Allianz Short Term Plus, the team invests in a flexible and diversified portfolio with an average term of less than one year, and an average rating of investment grade. The focus is on securities issued mainly by US companies, and denominated in US dollars. The expected portfolio return of this ultra-short duration fund is around 3%.

With this combination of very short maturities and limited price volatility, Allianz Short Term Plus offers a return profile that may represent an alternative for the upcoming transition to higher interest rates in Europe.

This strategy of our US Fixed Income team is an idea with which higher interest rates in the US could potentially help our European clients to achieve their investment objectives.

B/ CENTRAL BANK RATES OVER TIME

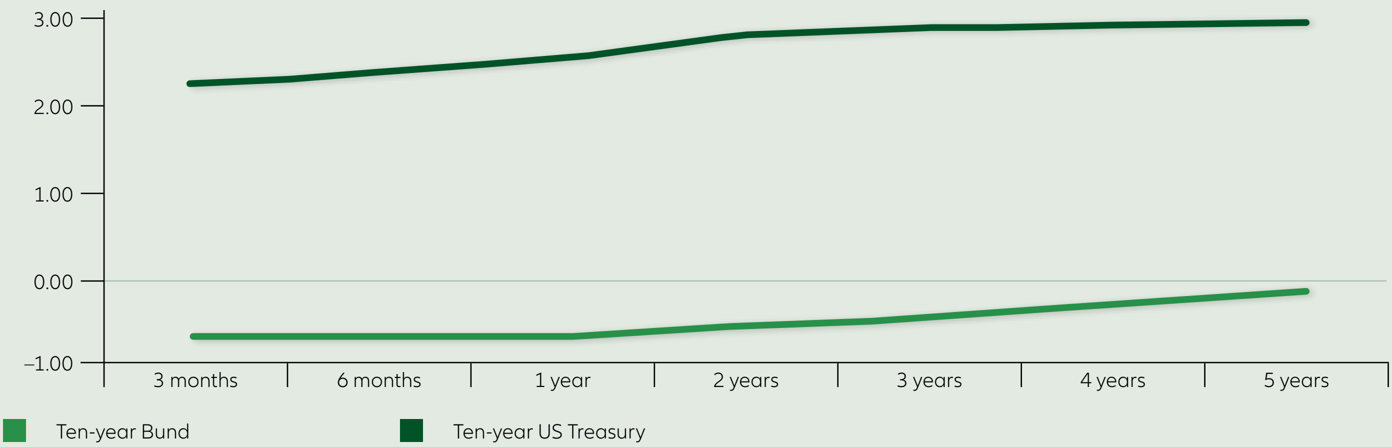
Figures in percent



Source: Bloomberg, Allianz Global Investors, as of September 25, 2018

C/ COMPARISON US TREASURY TO BUND

Figures in percent



Source: Bloomberg, Allianz Global Investors, as of September 25, 2018

Marc Prodgers, Fixed Income Product Specialist, Allianz Global Investors

Thomas Knigge, Fixed Income Product Specialist, Allianz Global Investors

Allianz Global Investors gives investors access to the Trade Finance asset class.

Trade Finance promises attractive returns and a substantial diversification effect, combined with low volatility and very short maturities. With its Allianz Working Capital Fund, Allianz Global Investors will soon be offering interested investors a straightforward solution for investing in this complex asset class.

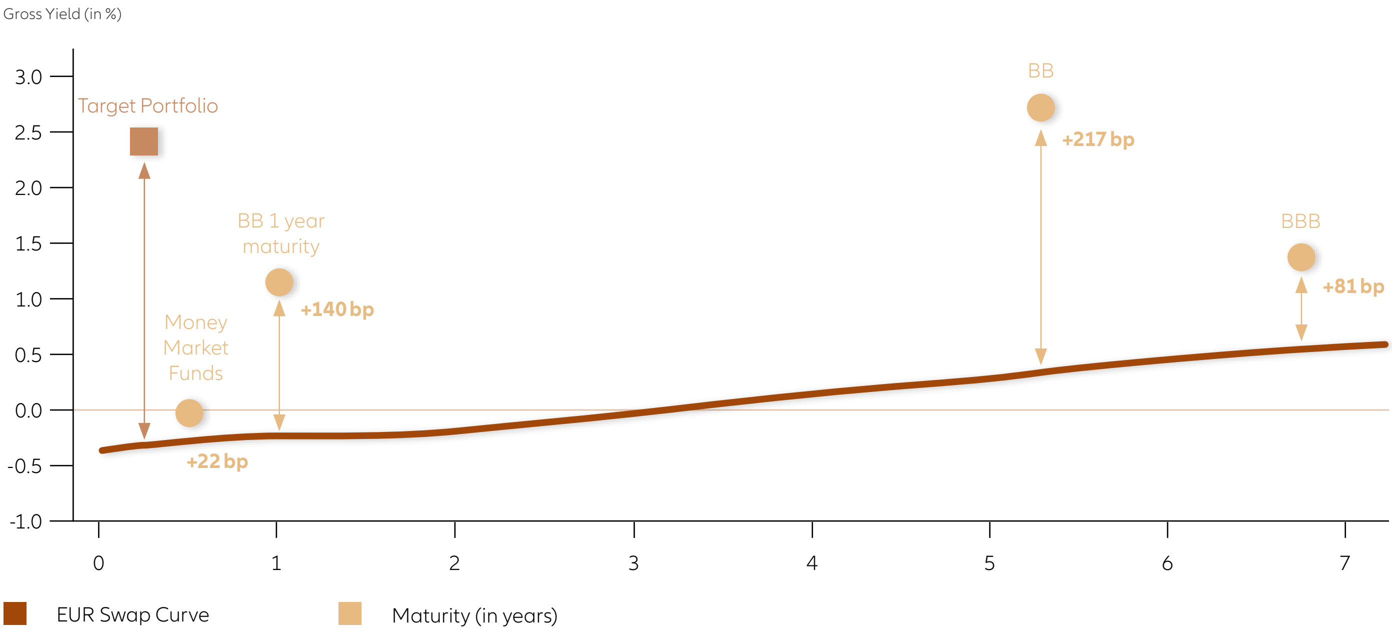
3 key statements

1/ The Allianz Working Capital Fund is aiming to achieve a return of Euribor + 275 basis points and a maturity of around 120 days.

2/ Trade Finance offers short-term investments with attractive returns. Trade Finance boosts portfolio diversification thanks to low correlation.

3/ Global demand for trade finance exceeds the supply by 1.5 trillion US dollars. Recent trends are enabling institutional investors to enter this attractive asset class for the first time.

A / ALLIANZ WORKING CAPITAL FUND IS A SOLUTION TO INVESTORS' CONCERNS



Source: Bloomberg Barclays EUR Industrial Bond Benchmark & Bloomberg 1y Industrial BB benchmark as of July 30th, 2018; AllianzGI 2018.[3]

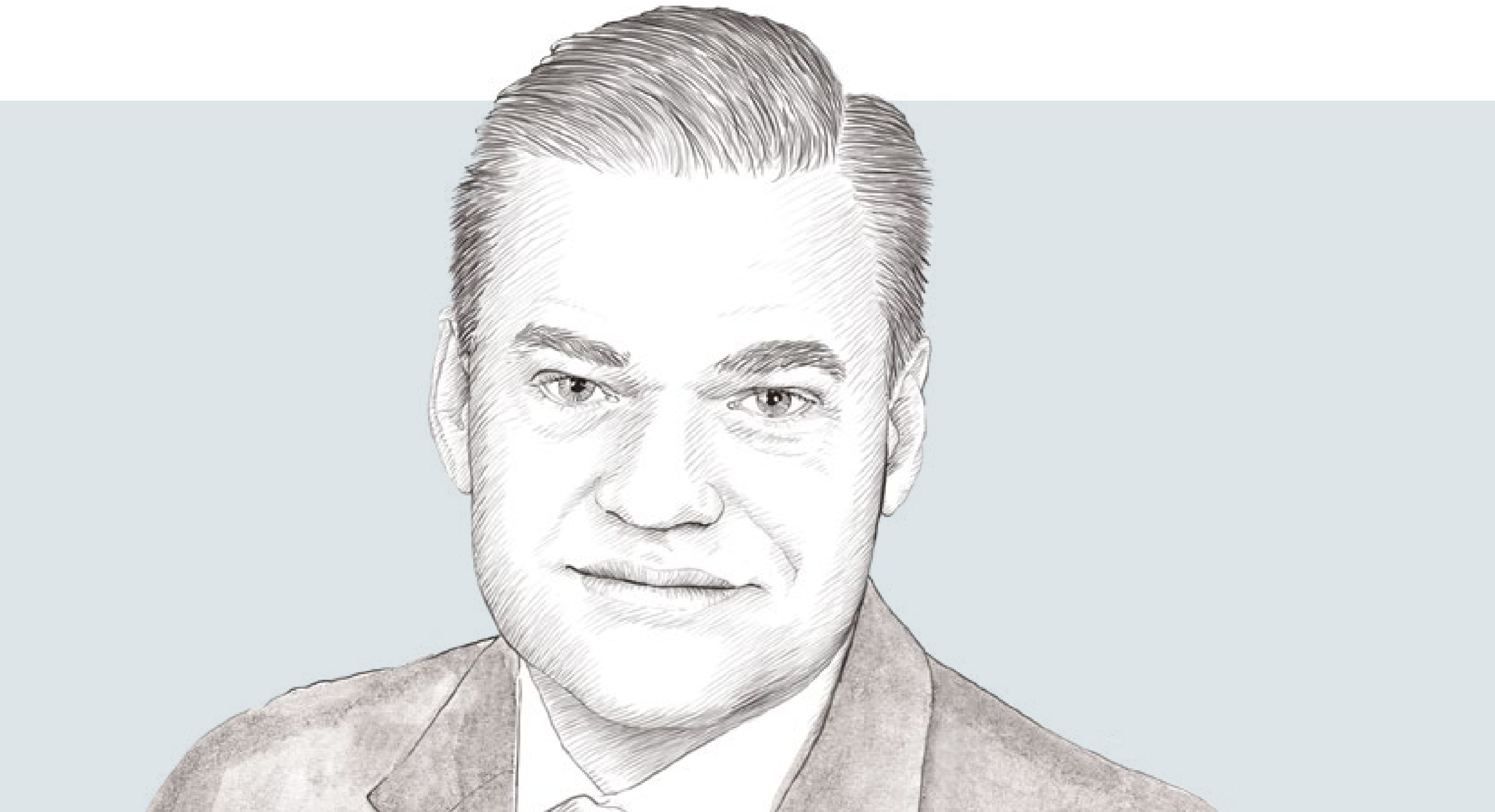
Will the European Central Bank hike interest rates? What impact will mounting geopolitical risks have on the portfolio? What is the best way to make use of limited risk capital? How is it possible to generate a positive return on Fixed Income securities? What will happen in the event of a downturn on the capital markets? Investors are faced with major challenges when it comes to their investments – and Trade Finance offers them a solution.

This asset class allows investors to finance short-term commercial activities in the real economy. By way of example, invoices of industrial companies that are due in the future can be assumed by investors from suppliers today at a discount. Alternatively, Allianz Global Investors can grant a loan to a supplier that is secured by receivables from its customers.

The market for the Trade Finance asset class is huge. Global exports have shown strong growth over the last 40 years: whereas back in 1978 the market volume was still below 2 trillion US dollars, it has now reached a volume of 20 trillion US dollars. A large proportion of exports have to be financed, opening up attractive investment opportunities. This is because the global demand for financing trading activities clearly exceeds the supply – namely by 1.5 trillion US dollars, according to estimates by the Asian Development Bank.

The fact that the Trade Finance asset class is being opened up to institutional investors can be attributed to three trends. Banks, which have traditionally been responsible for financing commercial activities, are no longer able to fill the financing gap, also due to the stringent regulatory capital requirements. This has created demand for additional sources of capital outside the banking sector. At the same time, FinTechs are pushing the cost of new or smaller financing transactions down thanks to technological innovations. The third trend relates to regulation. The European e-Invoicing Directive imposed electronic invoicing as a mandatory requirement to companies billing government institutions in Europe for services or goods starting in 2018. As a result, many small and medium-sized enterprises are in the process of overhauling their invoicing systems, creating new options for invoice financing.

The barriers to investing in trade finance are, however, high due to the considerable complexity of the market in terms of both operational processing and initiation. Under the auspices of portfolio manager Martin Opfermann, who established the Trade Finance asset class, Allianz Global Investors has overcome these hurdles, and offers investors a straightforward investment solution in the form of the Allianz Working Capital Fund. At Euribor + 275 basis points after currency hedging, the fund offers a return comparable to a high-yield investment, with a significantly lower duration. The term of the investments will be around 120 days, allowing investors to benefit from a very short notice period. In order to find suitable investments, Allianz Global Investors is working with several sourcing partners as part of a flexible approach. The portfolio will be broadly diversified across countries, industries and companies, and will have a credit standing equivalent to a BB rating.



Tobias Pross, Global Head of Distribution and Head of EMEA, Allianz Global Investors, talks to
Hans-Joerg Naumer, Global Head of Capital Markets & Thematic Research, Allianz Global Investors

Enabling prosperity for all

Mr. Pross, you occupy a leading position in a global fund management company, you represent the entire German fund sector as president of the BVI, and in a book contribution[4] you recently argued in favour of promoting employee share ownership. Do these things go together?

Tobias Pross: Absolutely. The opportunities for employee capital participation are many and varied, and were summed up very aptly by the Federal Ministry of Labour and Social Affairs under its then Minister, Olaf Scholz: "Employees are better able to identify with 'their' company; this enhances solidarity, transparency and motivation, thereby strengthening the company's financial basis."[5]

But for me, while there are advantages for "governance", I am far more interested in the benefits to society: the dividing line between capital and labour is done away with. Employees become owners who share in the company's success not only through their salaries, but also indirectly through capital. They become partners in the company's success, expecting to share in the risk premium on the capital invested in the business. Especially at a time when the share of wages in aggregate national income is falling in favour of capital income – a trend that's apparent in all industrialised countries – participation in capital income should be promoted through share ownership. Ultimately, it is also a way of combating the much debated problem of "inequality" of both wealth and income.

But what is an active manager's role in this? And, what's more, one who has to think about risk diversification?

Tobias Pross: In two ways, I believe: through integration into the ESG screening process, and through the promotion of "shareholder funds" (Teilhaberfonds). Employee share ownership – defined as direct participation by employees in the capital of the companies which employ them – can only ever be a first step towards capital investment. But here too we have a part to play as an asset management company, especially one which pursues ESG as an integrative approach in its strategies. "ESG" stands for environmental, social and governance. Half of the globally managed funds of institutional investors are managed in accordance with the United Nations Principles for Responsible Investment (PRI), from which ESG is derived. These are worth around 60 trillion US dollars.

So my suggestion is that the benefits of employee share ownership should be integrated into the enterprise value analysis as standard procedure via ESG criteria. These would cover not only "governance" (the incentive structure), but above all the "social" criterion, with its sub-categories "relationship with the community", "fair working conditions" and "remuneration and benefits". Consequently, companies that intensively promote employee participation in the business would have an advantage in the competition for capital.

But the cluster risk remains, of course...

Tobias Pross: Indeed. Employee share ownership as part of good corporate governance must be viewed critically in the context of the cluster risk of the shareholder-employee. In the worst case scenario, if the company goes bankrupt for example, an employee with a stake in the company he works for could lose both his job and his accumulated wealth.

What solution do you propose?

Tobias Pross: Arguing for the promotion of employee share ownership is one thing. Providing suitable instruments to balance risk and return is the other way in which the fund industry can contribute to this socio-politically important task. In my opinion, the solution lies in "shareholder funds" (Teilhaberfonds).

Shareholder funds are not an entirely new idea in terms of the basic principle. In 2009, the "employee participation fund" (Mitarbeiterbeteiligungsfonds) was included in the German Investment Act, creating a new fund category.

Fungible and non-fungible equity investments by employees of different companies can be introduced into funds of this type in order to spread the risk. This allows indirect participation using the fund as a vehicle. The fund's assets have the status of separate assets (Sondervermögen), that is to say, it is administered by a fund company, but the units contained in the fund remain the property of the unitholders.

At a time of great technological disruption, which will not be without its effects on income and wealth distribution, we fund managers have to rise to the challenge of enabling "prosperity for all".

But these employee participation funds have never really taken off.

Tobias Pross: That is undeniable. Employee participation funds answer the need for risk diversification, but may be considered too inflexible, since the investment universe is limited to the participating companies. It is also questionable how employees can exercise their ownership rights when they contribute equity capital, and thus have a say in company decisions. Genuine participation also includes being able to exercise one's ownership rights to capital.

But this isn't possible with regular funds.

Tobias Pross: No, but in the age of digitalisation we must find a way of moving from "proxy voting" to "shareholder voting". The fund's unitholders would be given the right to vote at companies' general meetings in proportion to the number of units they hold. They could exchange these with each other in order to exercise voting rights in the company for which they work and whose shares they have contributed, and do so wherever they want. All this could be achieved with an app. Diversification and the exercise of voting rights, i.e. ownership rights, need not be mutually exclusive. Let me cut to the chase: at a time of great technological disruption, which will not be without its effects on income and wealth distribution[6], we fund managers have to rise to the challenge of enabling "prosperity for all". Active management means allowing people across the board to share in the wealth generated by the economy as a whole.

Hans-Joerg Naumer, Global Head of Capital Markets & Thematic Research, Allianz Global Investors

All sources and background information

Inequality and monetary policy

References
P. Amaral: "Monetary Policy and Inequality", January 2017, Economic Commentary, No. 2017-01, Federal Reserve Bank of Cleveland.
D. Andrews, C. Criscuolo, P. Gal (2016): "The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy", OECD Productivity Working Papers, No. 5, Orbis data of Bureau van Dijk (BVD).
C. Borio: "A blind spot in today's macroeconomics?", January 2018, BIS-IMF-OECD Joint Conference on "Weak productivity: the role of financial factors and policies", panel remarks.
Deutsche Bundesbank (German Central Bank): Distributional effects of monetary policy, September 2016, Monthly Report.
P. Duarte, G. Schnabel: "Monetary Policy, Inequality and Political Instability", November 2017, CESifo Working Paper, 6734.
A. Hoffmann, G. Schnabel: "Adverse Effects of Ultra-Loose Monetary Policies on Investment, Growth and Income Distribution", February 2016, CESifo Working Paper No. 5754.
IMF Fiscal Monitor: "Tackling Inequality", October 2017.
IMF Staff Discussion Note: "Causes and Consequences of Income Inequality: A Global Perspective"
IMF Working Paper: "The Effects of Monetary Policy Shocks on Inequality", December 2016, WP/16/245.
M. Storz, M. Koetter, R. Setzer: "Do we want these two to tango? On zombie firms and stressed banks in Europe", October 2017, ECB Working Paper, 2104.

Infrastructure assets

1 **Page 29:** Allianz Capital Partners – http://www.allianzcapitalpartners.com/imprint – is the Allianz Group's in-house investment manager for alternative investments, and has been an independent unit of Allianz Global Investors since January 1, 2018.
2 **Page 31:** Allianz Capital Partners obtained the AIFMD licence on 22 October 2018 from German Supervisory Authority BaFin.

Allianz Global Investors Today

3 **Page 37:** Forecasts are not a reliable indicator of future results. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement.

Interview

4 **Page 39:** The book "CSR und Mitarbeiterbeteiligung: Die Kapitalbeteiligung für das 21. Jahrhundert." (CSR and employee participation: equity investment in the 21st century" will be published this October by Springer. The editors are Dr. Heinrich Beyer and Hans-Jörg Naumer, who conducted the interview.
5 **Page 39:** Federal Ministry of Labour and Social Affairs; "Employee Capital Participation – Models and Support Paths"; 2009
6 **Page 41:** See also the interview with Carl-Benedikt Frey in "Update II/2017"

Masthead

Update III/2018
Client Magazine for Institutional Investors

Publisher:
Allianz Global Investors GmbH
Bockenheimer Landstr. 42–44
60323 Frankfurt/M.
ch.allianzgi.com
ch.allianzgi.com/en-gb/updatemagazine

Editor in Chief:
Kerstin Keller

Project Manager:
Maria Rita Raffaele

Editorial Team:
Peter Berg, Kerstin Keller, Hans-Joachim Kollmannsperger, Hans-Jörg Naumer, Klaus Papenbrock, Maria Rita Raffaele, Oliver Schütz, Caroline Tschesche

Contact the Editorial Team:
update-redaktion@allianzgi.com

Design:
Rotwild GmbH, Cologne

Layout:
Werbemanufaktur Albert, Frankfurt/M

Printing:
Schleunungdruck GmbH, Marktheidenfeld

Photographs:
Allianz Global Investors, Getty Images, iStock

As of November 2018

ACTIVE IS:
WORKING TOGETHER FOR OUR CLIENTS

Through hard work and precise team coordination, Allianz Global Investors' experts ensure that our clients achieve even their most ambitious financial goals. We offer first-rate investment solutions, designed by professionals for professionals, as well as top-quality client service. As a result, we have now earned the title of Greenwich Quality Leader in institutional investment management for the eighth consecutive year in Germany, and for the second time in Europe. However, we still have some way to go. Our journey to even better solutions continues.

For more detailed information, speak to your client advisor!

GREENWICH ASSOCIATES Greenwich Quality Leader 2018

Source: Allianz Global Investors has been named "Greenwich Quality Leader in Overall German Institutional Investment Management" for the eighth consecutive time in Germany. Moreover, AllianzGI has been named "Greenwich Quality Leader in Overall Continental European Institutional Investment Management" for the second time. As at 18/07/2018. A ranking, a rating or an award provides no indicator of future performance and is not constant over time.
Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This is a marketing communication issued by Allianz Global Investors (Schweiz) AG, a 100% subsidiary of Allianz Global Investors GmbH, licensed by FINMA (www.finma.ch) for distribution and by OAKBV (Oberaufsichts-kommission berufliche Vorsorge) for asset management related to occupational pensions. Allianz Global Investors GmbH has established branches in the United Kingdom, France, Italy, Spain, Luxembourg and the Netherlands. Contact details and information on the local regulation are available here (www.allianzgi.com/Info). Dated as at: September 2018.

Allianz Global Investors