Allianz Global Investors

OCTOBER 2024

Five-year anniversary: How Best Styles SRI successfully navigated challenging markets

The past five years have been nothing short of extraordinary. We've faced a series of unprecedented events, beginning with the COVID-19 pandemic, followed by one of the fastest economic recoveries on record, and one of the sharpest interest rate hikes in U.S. history. While the Federal Reserve has recently shifted into a rate-cutting cycle, market concentration remains elevated, driven by the dominance of the "Magnificent 7" tech giants. In Europe, the geopolitical crisis triggered by Russia's invasion of Ukraine over two years ago continues to unfold.

In the face of such unpredictable and challenging circumstances, each of the Best Styles SRI mutual funds — Global, Europe, and Emerging Markets — has not only outperformed their respective benchmark, but also comfortably surpassed their Morningstar peer group, see Exhibit 1 for Best Styles Global Equity SRI as an example.

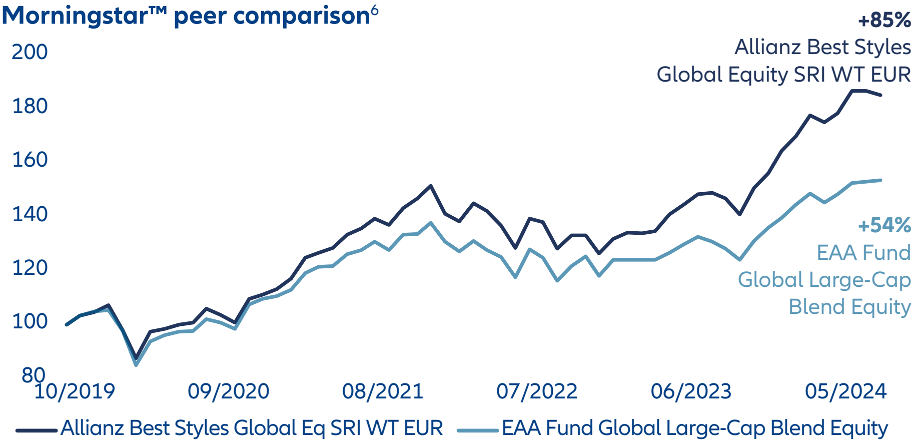
As we mark the fifth anniversary of the Best Styles SRI mutual fund family, now is a good moment to reflect on this journey. Let's take a closer look at the key factors behind our success.

Exhibit 1: Best Styles Global Equity SRI vs. Morningstar peer group

Best styles Global Equity SRI Fund launch: October 2019

- Outperformance vs. benchmark[1] in each full calendar year since inception
- Morningstar™[,2] ★★★★ Category: Global Large-Cap Blend Equity
- Fund size: > 1.5bn EUR[3]
- Strategy size: ~ 13bn EUR[4]
- Art. 8 SFDR classification & meeting MiFID II sustainability requirements[5]

Morningstar™ peer comparison[6]



Source: Allianz Global Investors, IDS.

How our multi-factor strategy thrived in changing markets

At its core, the Best Styles SRI strategies follow a systematic multi-factor approach, blending five investment styles with rigorous risk management and diversification, partnered with a stringent sustainability strategy. Developed from extensive research, the Systematic Equity team introduced its multi-factor strategy in 1999, with the name “Best Styles” referring to the factors, also known as “styles”. The strategy actively allocates to the five factors we have identified as most likely to deliver excess returns: Value, Momentum, Revisions, Growth, and Quality - captured through proprietary factor definitions. Our goal is to capture the outperformance potential of these factors while delivering consistent performance across market cycles.

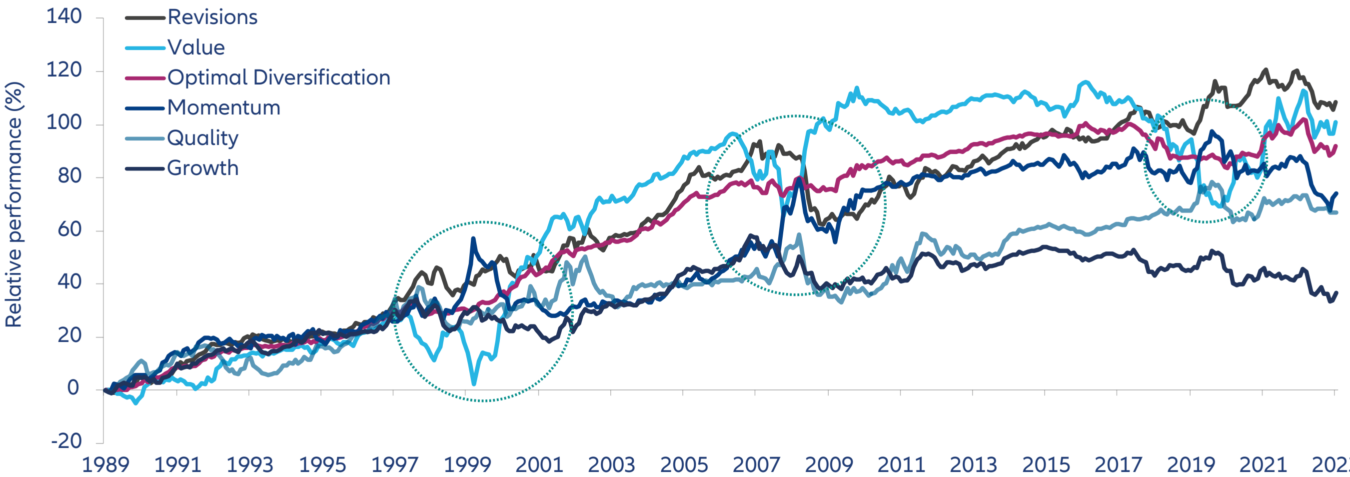
Exhibit 2: Our five long-term successful investment styles

Contrarian	Trend-Following Styles			Defensive
VALUE	**MOMENTUM**	**REVISIONS**	**GROWTH**	**QUALITY**
“Cheap" stocks with attractive valuations – often “out of favour” or “contrarian”.	Stocks with strong recent performance, with a positive trend or “in favour”.	Stocks of companies whose earnings have been positively revised by consensus analysts.	Stocks with positive growth, especially a history of delivered, i.e. stable growth.	Financially strong stocks with high profitability, high balance sheet quality etc.
Price/Earnings Price/Book Dividend Yield	Deep Learning Momentum Price Momentum Relative Strength	Earnings Call Transcripts Earnings Revisions Earnings Surprise	Earnings Growth Dividend Growth	10k filings Distress News Margins
Attractive **Valuation**	Positive **Momentum**	Positive **Revisions**	Stable **Growth**	High **Quality**

Source: Allianz Global Investors, 2024. This is for illustrative purposes only.

As Exhibit 2 shows, all five factors have historically provided positive excess returns, although each faced periods of volatility and drawdowns. Notably, the Value factor, a contrarian style, often exhibits a negative correlation with Momentum during times of significant market stress — such as the dot-com bubble, the global financial crisis, and the COVID-19 crash. Combining factors in an optimally diversified portfolio can therefore help mitigate the drawdowns of individual factors and provide more stable active returns.

Exhibit 3: Simulated relative performance of investment styles for MSCI World universe



Source: Allianz Global Investors, 2024. This is for illustrative purposes only.

Risk management is another pivotal component of the Best Styles strategy. Tilting towards our factors and implementing a credible sustainability approach can introduce undesirable risks, such as active exposures to macroeconomic factors, sectors, or market beta, that we believe do not provide long-term rewards. Using a systematic approach to portfolio construction, we manage and mitigate these unrewarded risks.

Holistic integration of sustainability requirements in three steps

Sustainable investing gained significant traction about a decade ago, evolving from niche ethical considerations to a core element in investment decisions. With the inherent flexibility of the Best Styles approach and in collaboration with a client, the Systematic Equity team began integrating ESG considerations into the Best Styles strategy as early as 2014. As ESG became increasingly important, we recognized the need for a fund family that integrates sophisticated and comprehensive ESG considerations — without sacrificing financial return potential.

Drawing on over 20 years of multi-factor expertise and the experience gained in managing sustainable mandates, we launched three Best Styles SRI mutual funds in October 2019. Our approach combines Best-in-Class selection and exclusionary screening at the security level with the integration of additional sustainability metrics into portfolio construction, providing a compelling solution with attractive sustainability characteristics.

Best-in-Class selection

The goal of our Best-in-Class approach is to exclude companies from the investment universe that exhibit the weakest ESG practices, leveraging the proprietary SRI Rating devised by AllianzGI's Sustainability Team. Companies are compared within their sector and region peer group, and the 20% of the companies with the weakest rating as well as companies without a rating are excluded. To mitigate potential reputational and financial risks in weaker peer groups, we also enforce a minimum absolute rating.

Exclusions

Even companies with satisfactory ratings might be engaged in controversial business activities, therefore, we further employ a comprehensive range of norms- and activity-based exclusions. Norms-based exclusions focus on the violation of international norms and standards, such as the United Nations Global Compact, while activity-based exclusions focus on social (e.g., tobacco, alcohol, gambling, pornography) and environmental (e.g., coal, unconventional oil and gas, genetically modified organisms in agriculture, nuclear power) areas.

Sustainability Targets

At portfolio-level, the Best Styles SRI strategies include additional absolute and relative sustainability objectives. The aim is to tilt the portfolio towards sustainability leaders and attain a noteworthy decrease in the carbon footprint in comparison to the broad market index. For Best Styles Global Equity SRI, we achieved a 50% reduction in GHG emissions compared to the MSCI World index historically. Moreover, the strategies incorporate MiFID II commitments such as Sustainable Investment Share, Taxonomy Alignment Share, and the consideration of Principal Adverse Indicators.

Additionally, through stewardship and engagement efforts collaboratively done with the AllianzGI Stewardship experts, we encourage companies to adopt better ESG practices, which not only enhances our portfolios' sustainability profile but also propels positive change.

Successfully partnering multi-factor Investing with sustainability

Integrating sustainability considerations into portfolios presents challenges, such as reducing the investable universe and potentially distorting sector and factor exposures relative to the benchmark. In the Best Styles Global Equity SRI strategy, for example, the investable universe shrinks from approximately 5,000 to 3,300 stocks due to the Best-in-Class approach and exclusions. While this may limit access to companies that are attractive from a factor perspective, we can efficiently identify substitutes with similar factor and risk profiles and implement the desired factor exposures with our sophisticated portfolio construction and optimization.

Additionally, sustainability requirements can introduce inherent factor tilts. Exhibit 4 illustrates active factor weights of Best Styles Global Equity SRI and its sustainable benchmark, the MSCI World Extended SRI 5% Issuer Capped Index, compared to the MSCI World Index. Notably, the sustainable benchmark underweights the successful Value, Momentum, and Revisions factors, which we consider suboptimal given their positive return expectations. Moreover, imbalanced factor exposure may introduce dependencies on specific market environments, introducing volatility to active returns, and reduce diversification benefits. To counter this, we actively manage factor exposures to maintain a well-diversified portfolio with positive exposure across all targeted factors.

Exhibit 4: Our Best Styles Global SRI strategy shows significant active exposure towards our five investment styles compared to its benchmark and the broad market

Illustrative active exposure to investment styles versus MSCI World Index

Source: MSCI, Allianz Global Investors, 2024. Not independently verified. This is for illustrative purposes only. SRI: Sustainable and Responsible Investing.

A winning team: Best Styles & SRI

Over the past five years, our Best Styles SRI funds have proven their resilience, navigating a market environment with a series of exceptional events. By combining strong sustainability characteristics with our time-tested multi-factor investment process, we have outperformed both – benchmarks and peer groups. Despite challenges like the COVID-19 pandemic, macroeconomic shifts, and geopolitical tensions, our disciplined approach has delivered stability and strong performance across varied market conditions.

Looking ahead, we are confident in our strategies' ability to adapt to future market dynamics while maintaining a strong focus on sustainability. The combination of our Best-in-Class approach, comprehensive exclusions, and sustainability targets continues to provide a solid foundation for SRI investing. Additionally, the Systematic Equity Sustainable Investment team, led by Patrick Voßkamp with support from Jennifer Nerlich and Jonathan Baumert, manages other successful strategies, including the SDG Global Equity fund - an Article 9 fund that advocates the 17 Sustainable Development Goals (SDGs). We believe that as we move forward, we are well-positioned to deliver sustainable, long-term returns for our investors.

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FOOTNOTES TO EXHIBIT 1:

Past performance does not predict future returns.

1 Based on the WT-EUR mutual fund share class of the Allianz Best Styles Global Equity SR, net return; benchmark: MSCI World Extended SRI 5% Issuer Capped Total Return Net (in EUR). Data as of 31/08/2024, in EUR.

2 Benchmark is the MSCI World Extended SRI 5% Issuer Capped Total Return Net (in EUR) index.

3 For the WT-EUR share class over 3-year period. A ranking, a rating or an award provides no indicator of future performance and is not constant over time. © 2024 Morningstar, Inc., all rights reserved. The information given here: (a) is protected by copyright for Morningstar and/ or its content providers; (b) may not be reproduced or distributed; and (c) is not guaranteed to be accurate, complete or up-to-date. Morningstar and its content providers assume no responsibility for any losses or damage that result from any use of the information provided. Past performance is not a guarantee of future results. To determine the Morningstar Rating, funds of a comparable group in issue for at least three years are considered. The long-term performance serves as a basis, taking into account fees and risk. As a result, the funds are awarded stars, which are calculated monthly: Top 10%: 5 stars; next 22.5%: 4 stars; middle 35%: 3 stars; next 22.5%: 2 stars; flop 10%: 1 star. A ranking, rating or award is not an indicator of future performance and is subject to change over time. Rating as of: 31/07/2024.

4 As per 31/08/2024. Source: Allianz Global Investors, IDS.

5 Includes the AllianzGI Best Styles Global Equity SRI strategy. As per 31/07/2024, Source: Allianz Global Investors, IDS.

6 Allianz Best Styles Global Equity SRI has been classified as an Article 8 under SFDR: EU Sustainable Finance Disclosure Regulation. Information accurate at time of publishing. Investors should take into account all the characteristics and/ or objectives of the fund as described in its prospectus and KIID (regulatory.allianzgi.com) As per: 31/08/2024, Source: Allianz Global Investors, IDS.

Opportunities

- High return potential of stocks in the long run.
- Particular opportunities through Systematic Equity approach.
- Broad diversification across numerous securities.
- Possible extra returns through single security analysis and active management.
- Currency gains possible in unit classes not hedged against investor currency.

Risks

- High volatility of stocks, losses possible. The volatility of fund unit prices may be strongly increased.
- Underperformance of the investment approach possible.
- Underperformance of Systematic Equity approach possible at times.
- Limited participation in the yield potential of single securities.
- Success of single security analysis and active. management not guaranteed
- Currency losses possible in unit classes not hedged against investor currency.

Back-testings and hypothetical or simulated performance data have many inherent limitations, only some of which are described as follows:(i) They are designed with the benefit of hindsight, based on historical data, and do not reflect the impact that certain economic and market factors might have had on the decision-making process, if a client's portfolio had actually been managed. No back-testings, hypothetical or simulated performance can completely account for the impact of financial risk in actual performance.(ii) They do not reflect actual transactions and cannot accurately account for the ability to withstand losses.(iii) The information is based, in part, on hypothetical assumptions made for modelling purposes that may not be realised in the actual management of portfolios. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the returns have been stated or fully considered. Assumption changes may have a material impact on the model returns presented. The back-testing of performance differs from actual portfolio performance because the investment strategy may be adjusted at any time, for any reason. Investors should not assume that they will experience a performance similar to the back-testings, hypothetical or simulated performance shown. Material differences between back-testings, hypothetical or simulated performance results and actual results subsequently achieved by any investment strategy are possible.

Source: AllianzGI, as of 30/06/2024. 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.

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