Allianz Gilt Yield Fund

Final
Short Form

For the year ended 31 August 2016

The report below, as prescribed by the Financial Conduct Authority (FCA), aims to provide clear and concise information enabling you to make an informed judgement on your investment, during the year covered. We continually strive to enhance the information we send to you and we would welcome any comments you may have. A long form version of the report and accounts can still be viewed at www.allianzglobalinvestors.co.uk. Alternatively, call our Investor Services team on 0800 317 573 to request a copy. Thank you for your continued investment with Allianz Global Investors.

Investment Objective & Policy

The objective of the Fund is to maximise total return, consistent with preservation of capital and prudent investment management, primarily through investment in United Kingdom Government Securities.

Investors should be aware that the Fund's capital is at risk and there is no guarantee that the Fund will achieve its investment objective over any particular period or at all.

The ACD will adopt a policy of active management and may invest in gilts, deposits, money market instruments and derivatives. The Fund may also invest in collective investment schemes.

At least 80% of the value of the Fund will be invested in gilts issued by the United Kingdom Government.

Up to 20 % of the value of the Fund may be invested in Sterling denominated (or hedged back to Sterling) debt securities, which are not issued by the United Kingdom Government, with a rating the same or higher than that of the United Kingdom Government.

The Fund may use derivative instruments such as futures, options, options on swaps and swap agreements (e.g. interest rate swaps).

The Fund may use the derivative instruments listed above for hedging purposes and/or for investment purposes. For example, the Fund may use derivatives (which will be based only on underlying assets or sectors which are permitted under the investment policy of the Fund) (i) as a substitute for taking a position in the underlying asset where the ACD believes that a derivative exposure to the underlying asset represents better value than direct (physical) exposure (ii) to tailor the Fund's interest rate exposure to the ACD's outlook for interest rates and/or (iii) to gain an exposure to the composition and performance of a particular index (provided always that the Fund may not have an indirect exposure through an index to an instrument, issuer or currency to which it cannot have direct exposure).

Risk Profile

Credit and Fixed Interest Securities Risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. Over 35% of the assets may be invested in securities issued by any one issuer. Should those investments be adversely affected, it may have a more pronounced effect on the Fund's value than if a larger number of investments were held.

Charges Deducted from Capital: Income from the Fund is increased by taking the annual management charge from capital. Because of this, the level of income will be higher but the growth potential of the capital value of the investment will be reduced.

Risk and Reward Profile

The Allianz Gilt Yield Fund has a risk reward indicator of 4. Funds of category 4 have shown medium volatility in the past. The volatility describes how much the value of the Fund went up and down in the past. The shares of a Fund of category 4 might be subject to medium price fluctuations based on the historical volatilities observed.

The indicator is mapped through an integer number between 1 & 7 and is based on past performance data and is calculated in accordance with European legislation. The categorisation of the Fund is not guaranteed and may change in the future.

Please note, the category stated above is the same for each class of share within the Fund.

Allianz
Global Investors

Key Facts

Fund manager	Mike Riddell			
Launch date	16 May 2002			
Fund benchmark	FTSE Actuaries UK Conventional Gilts All Stocks Index			
Annual charge	0.50%			
Initial charge	ISA	3%	Direct	Nil
Minimum investment	ISA	£1,000	Direct	£500
Additional investment	ISA	£1,000	Direct	£500
Regular savings plan	ISA	£200	Direct	£50
Ex dividend dates	1 September, 1 March			
Payment dates	31 October, 30 April			
Share classes & types	C (Income)[1]		I (Income)[1]	

[1] On 6 April 2014 the Class 'A' Shares were renamed Class 'C' Shares and Class 'C' Shares were renamed Class 'I' Shares.

Please note: The information shown above is for the 'C' share class of the Fund.

Distribution Yield

31 August 2016	
'C' Shares	1.2%
'I' Shares	1.2%

Operating Charges

31 August 2016	
'C' Shares	0.53%
'I' Shares	0.32%

Operating charges represent all operating charges and expenses and is expressed as a percentage of the average net asset value. It includes the annual ACD fee as well as all the administrative expenses including custodial transaction charges incurred by the Fund.

Performance Record (price in pence)

	High	Low	High	Low
Share class	C	C	I	I
Accounting year				
31 August 2014	161.68	152.53	166.94	157.30
31 August 2015	175.29	157.33	181.16	162.47
31 August 2016	191.27	161.73	198.30	167.40

Summary of Fund Performance

	Net Asset Value		Net Asset Value per share		
	31 Aug 2016 £000s	31 Aug 2015 £000s	31 Aug 2016 (p)	31 Aug 2015 (p)	Change %
'C' Shares	119,862	185,967	189.74	164.42	15.40
'I' Shares	999,584	769,982	196.70	170.12	15.62

Summary of Distribution

	Payment date	Net distribution per share (p)
'C' Shares	30 April 2016	1.2267
	31 October 2016	1.1006
'I' Shares	30 April 2016	1.2786
	31 October 2016	1.1531

Please note: Investors are reminded that the Fund distributes bi-annually.

Investment Review

Performance Summary: On 30 November 2015, the management of the Allianz Gilt Yield Fund changed from PIMCO to Allianz Global Investors.

Over the twelve month period under review, 1 September 2015 to 31 August 2016, the Fund's 'C' Income class produced a total return of 17.40% and the 'I' class produced a total return of 17.65%. The Fund's benchmark, the FTSE Actuaries UK Conventional Gilts All Stocks Index, produced a total return of 16.70% over the period*.

The key reasons for this outperformance were duration and curve positioning around macroeconomic and political events, as well as Bank of England's actions.

Market Background: Government bonds started with a rally in September, amid concerns over an economic slowdown in China and crises in emerging markets. The US Federal Reserve's subsequent decision to delay hiking interest rates then encouraged a reversal in risk appetite. The end of 2015 was marked by government bonds weakness; however, the beginning of 2016 then saw a substantial rally in global government bonds on the back of renewed fears of a Chinese hard landing coupled with a sharp drop in commodity prices. UK government bonds (gilts) were further helped by a paring back of a series of interest rate hikes in the US and to an extent in the UK.

The run-up to the Brexit referendum saw great volatility in the gilt market. While gilts performed particularly poorly compared to other government bonds in April, weaker economic data and the raised Brexit concerns in May saw a flight to quality effect, which boosted performance. The two weeks leading up to the Brexit referendum in June saw a sharp rise in gilt yields, when polls still put a 'remain' outcome as likely. Gilt yields then saw a dramatic rally following the referendum result on 24 June. To put the move in context, 50-year gilt prices rose by over 17% in June alone.

Late July saw a further move in gilts as markets moved to fully price in a rate cut before the announcement on 4 August, with a slight chance of Quantitative Easing (QE). The market was, however, surprised by the announcement of the QE program and there was over a 15 basis point fall in yields in medium-dated gilts. Throughout August, yields performed exceptionally well. Long-dated gilts in particular were helped by an uncovered buyback in mid-August, in which the Bank of England (BoE) failed to purchase its target of gilts, indicating that market participants were unwilling to sell their gilts to the BoE at the prevailing price.

Portfolio Review: The portfolio was transitioned across from PIMCO at the end of November. We maintained PIMCO's large underweight exposure to ultra long-dated gilts and a corresponding overweight in the 30-year part of the gilt curve. This hurt performance as ultra-long dated gilts significantly outperformed. The main activity in December was the reduction of the portfolio duration by 0.3 years ahead of the European Central Bank meeting. Following the higher jump in bond yields, the Fund returned to neutral duration.

* Source: Allianz Global Investors/Datastream. Fund performance based on end of day prices using the mid market price portfolio valuation, net of fees and expenses, with net revenue re-invested in Sterling. Benchmark performance based on end of day prices.

Classification of Investments

Ten Largest Holdings as at 31 August 2016	(%)
Treasury 4.25% Stock 7/9/2039	20.49
Treasury 4.75% Stock 7/12/2030	10.79
Treasury 3.5% Bonds 22/7/2068	8.83
Treasury 4.25% Stock 7/12/2027	8.71
Treasury 1.5% Bonds 22/7/2026	8.21
Treasury 5% Stock 7/3/2025	7.67
Treasury 0.5% Bonds 22/7/2022	4.96
Treasury 2.75% Gilts 7/9/2024	4.95
Treasury 6% Stock 7/12/2028	4.31
Treasury 4.75% Stock 7/12/2038	4.03
Total	**82.95**

Ten Largest Holdings as at 31 August 2015	(%)
Treasury 3.25% Stock 22/1/2044	20.91
Treasury 1.75% Gilts 22/7/2019	12.88
Treasury 3.75% Bonds 7/9/2020	6.35
Treasury 3.75% Gilts 7/9/2019	5.78
Treasury 3.5% Notes 22/1/2045	5.01
Treasury 2% Notes 22/7/2020	5.01
Treasury 4.25% Stock 7/6/2032	4.86
Treasury 4.25% Bonds 7/12/2040	4.80
Treasury 0.4% Gilt Repo 1/9/2015	4.60
Treasury 0% Bonds 11/1/2016	3.77
Total	**73.97**

Sector Breakdown as at 31 August 2016	(%)
Sterling Denominated Fixed Rate Government Bonds	95.04
Sterling Denominated Fixed Rate Corporate Bonds	1.64
Sterling Denominated Short-Term Government Debt Instruments	0.00
US Dollar Denominated Fixed Rate Government Bonds	1.71
Sterling Open Future Contracts	(0.02)
Sterling Open Forward Exchange Contracts	0.01
Net other assets	1.62
Net Assets	**100.00**

Sector Breakdown as at 31 August 2015	(%)
Sterling Denominated Fixed Rate Government Bonds	94.80
Sterling Denominated Fixed Rate Corporate Bonds	1.92
Sterling Denominated Short-Term Government Debt Instruments	4.60
US Dollar Denominated Fixed Rate Government Bonds	0.00
Sterling Open Future Contracts	0.01
Sterling Open Forward Exchange Contracts	0.00
Net other liabilities	(1.33)
Net Assets	**100.00**

Derivatives are used in the Fund for the purposes of hedging and/or investment purposes. As at 31 August 2016, money market futures and forward currency contracts were held.

At the beginning of 2016, the Fund had a small short duration position which hurt performance as yields fell. However, this was countered by curve positioning at the short and long end also helping returns. In February, a significant change in the portfolio was the initiation of positions in 10-year UK index-linked gilts, on the view that the inflation-linked gilt market had surprisingly not moved its short-medium term inflation expectations higher, despite the large rally in the oil prices from mid-February and a 10% fall in Sterling since mid-November 2015.

In June, the Fund was broadly ‘high beta’ on the view that markets were not sufficiently pricing in Brexit risks, resulting in the Fund outperforming as yields dropped over the first half of the month. The short position in 10-year gilt futures was then increased, which brought duration down and helped performance as yields then backed up again into the referendum vote. After the large initial market reaction, fund duration was increased on the expectation that markets would price in additional rate cuts and potentially more QE.

Curve positioning in July contributed to returns as the Fund maintained a large overweight in the belly of the curve, which outperformed. The market inefficiencies that often surround index-linked gilt syndications remained on 26 July, as a strategy of buying index-linked gilts on the day of syndication produced the 3rd highest returns after 2 weeks of the 28 syndications that have occurred over the last 11 years.

In August, the Fund was positioned 0.6 years long duration in expectation of at least one rate cut this year, and the belief that the BoE would announce a QE programme. This led the Fund to outperform all non-ultra-long-dated peers throughout August. Curve positioning was maintained and further contributed to returns. Relative value opportunities between individual gilts began to emerge due to QE, as high coupon, old gilts that were no longer eligible for BoE purchase became cheap. Towards the end of August we started seeing better relative value in government bond markets outside of gilts for the first time, and moved into 30-year US Treasuries which were yielding as much over 30-year gilts as at any point since 2002.

Outlook: The material divergence in monetary policy between leading economies has started to widen and is expected to continue. Looking forward the Federal Reserve has pushed back a rate hike but one is still likely to come within the next year. Meanwhile, the BoE has started easing monetary policy. As developed markets government bonds decouple, country specific factors are more likely to play a role in driving yields.

Global deflationary pressures have continued to weigh down on UK inflation rates. Despite Sterling depreciation there is not much sign, as of yet, of inflation overshooting the BoE’s target. Wage pressures remain muted and the slower growth anticipated post-Brexit vote is likely to provide a drag. Future economic data releases are likely to provide a better indication on the short- to medium-term implications of the Brexit vote. Meanwhile, the longer-term implications remain very much masked by slow progress on the political front.

14 September 2016

The contents of this Investment Review are based on the views of the manager at the time of writing, which may be subject to change.

Investors are reminded that the value of shares within an OEIC fund, and the income from them, may go down as well as up and is not guaranteed. An investor may not get back the amount invested. The past is no guide to future performance.

The opinions expressed here are believed to be accurate and reliable, however these opinions may change without notice. Although the information is believed to be reliable, Allianz Global Investors does not guarantee the timeliness, accuracy or suitability of such information in any way and anyone who acts on the information does so at their own risk. Allianz Global Investors only provides information on our own products and does not give advice based on personal circumstances.

With effect from 1 September 2016, the Allianz Gilt Yield Fund moved to a gross pricing basis. All interest distributions after 6 April 2017 will be paid gross, i.e. without the deduction of income tax. Investors are advised to consult with their independent tax advisor to determine the effects to them, if any as a result of this change in UK legislation.

Further Information

The information in this report is designed to enable shareholders to make an informed judgement on the activities of the Fund during the year covered by the report and the results of those activities at the end of the year.

More information on the performance and make-up of this Fund is available on our Fund factsheets, which you can view via our Literature Library on www.allianzglobalinvestors.co.uk. You can also request a valuation at any time by calling 0800 073 2001.

Alternatively, our Investor Services team will be happy to respond to any issues you may wish to raise with them regarding product information and Fund performance. If you have invested via a financial adviser, you should contact them first if you wish to discuss your investment in greater detail.

Price Publication: Prices are published on the AllianzGI website www.allianzgi.co.uk

Authorised Corporate Director (ACD): Allianz Global Investors GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY

Depositary: J.P. Morgan Europe Limited, Chaseside, Bournemouth BH7 7DA

Independent Auditors: PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT

Registrar of Shareholders: International Financial Data Services (UK) Limited, IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS

Investor Services: 0800 317 573
investor.services@allianzgi.co.uk

Allianz Global Investors GmbH, UK Branch,
199 Bishopsgate, London EC2M 3TY

Phone: 0800 317 573
Fax: 020 7638 3508
www.allianzglobalinvestors.co.uk

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