# Allianz UK Mid-Cap Fund

Final
Short Form

For the year ended 31 August 2013

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 Fund aims to achieve capital growth.

The ACD aims to achieve the investment objective by investing in securities listed on the London Stock Exchange although it may invest internationally and in all economic sectors. It is the general intention of the ACD to invest in stocks which constitute the FTSE Mid 250 Index (excluding investment trusts).

The ACD may also utilise deposits in the management of the portfolio. The Fund may also invest in collective investment schemes.

## Risk Profile

**Equity Risk:** Equities are generally more risky than fixed interest securities. Considerable fluctuations in equity prices may mean that you do not get all your money back.

**Smaller Companies:** Smaller companies may be riskier and less liquid than larger companies, which means that their share price may be more volatile.

## Risk and Reward Profile

The Allianz UK Mid-Cap Fund has a risk reward indicator of 6. Funds of category 6 have shown high 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 6 might be subject to high 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.

## Investment Review

**Performance Summary:** Over the 12 month period under review, 1 September 2012 to 31 August 2013, the Fund's 'A' class produced a total return of 30.40%. The Fund's benchmark, the FTSE Mid 250 (ex IT) Index, produced a total return of 34.39%.*

The key reason for this relative underperformance was the on-going outperformance of lower quality companies, in addition to holding cash balances in a rising equity market.

**Market Background:** Economic conditions in most developed markets improved as the year progressed, supported by accommodative central bank policies. In Europe, which is an important end market for UK companies, European Central Bank measures have stabilised the financial system and allowed the European economy to move out of recession.

In the US, which also remains a key market for UK companies, there was initial weakness following the presidential elections, and debate amongst politicians about how to handle the fiscal cliff. Following a partial resolution to the fiscal cliff, and on-going recovery in the US economy the US Federal Reserve (Fed) has indicated a timetable to reduce quantitative easing, hence becoming the first central bank to start ending the process.

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

As previously advised, AllianzGI UK and RCM UK will merge into AllianzGI Europe on or around 31 October 2013.

Allianz Global Investors

## Key Facts

| | | | | |
|---|---|---|---|---|
| Fund manager | Andrew Neville | | | |
| Launch date | 20 June 2002 | | | |
| Fund benchmark | FTSE Mid 250 (ex IT) Index | | | |
| Annual charge | 1.5% | | | |
| Initial charge | ISA | 3% | Direct | 4% |
| Minimum investment | ISA | £1,000 | Direct | £500 |
| Additional investment | ISA | £1,000 | Direct | £500 |
| Regular savings plan | ISA | £200 | Direct | £50 |
| Ex dividend date | 1 September | | | |
| Payment date | 31 October | | | |
| Share classes & types | A (Accumulation) | | C (Accumulation) | |

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

## Ongoing Charges Figure

| 31 August 2013 | |
|---|---|
| 'A' Shares | 1.66% |
| 'C' Shares | 0.91% |

Ongoing Charges Figure (OCF) represents 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. As the 'C' class was first issued on 13 February 2013, the OCF has been annualised.

## Performance Record (price in pence)

| | High | Low | High | Low |
|---|---|---|---|---|
| Share class | A | A | C[1] | C[1] |
| 2008 | 2,150.2 | 1,163.4 | N/A | N/A |
| 2009 | 1,966.3 | 1,166.6 | N/A | N/A |
| 2010 | 2,493.4 | 1,842.0 | N/A | N/A |
| 2011 | 2,592.3 | 2,078.7 | N/A | N/A |
| 2012 | 2,748.1 | 2,278.2 | N/A | N/A |
| 2013[2] | 3,441.7 | 2,799.6 | 3,453.6 | 2,974.8 |

[1] On 13 February 2013, class 'C' shares were introduced
[2] For the period to 31 August 2013

## Summary of Fund Performance

| | Net Asset Value | | Net Asset Value per share | | |
|---|---|---|---|---|---|
| | 31 Aug 2013 £000s | 31 Aug 2012 £000s | 31 Aug 2013 (p) | 31 Aug 2012 (p) | Change % |
| 'A' Shares | 49,319 | 44,527 | 3,305.5 | 2,533.9 | 30.5 |
| 'C' Shares | 3,306 | N/A | 3,319.2 | N/A | N/A |

## Summary of Distribution

| | Payment date | Net distribution per share (p) |
|---|---|---|
| 'A' Shares | 31 October 2013 | 21.0747 |
| 'C' Shares | 31 October 2013 | 33.9909 |

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

As the European economy recovered, so too has the UK. The UK economy, which was stagnant for most of 2012, and early 2013, has started to grow. Employment levels are at record highs, and consumer confidence has been increasing. Both the manufacturing and services industries have been in expansion territory for many months. The government has played a meaningful part in this economic recovery with a relaxation of austerity, and creation of schemes to encourage bank lending. In particular, the Help to Buy scheme, has been supportive of house prices, and the housing sector in general. Although the outlook for the UK economy has improved, it is less clear how strong, or how sustainable any economic recovery will be. Consumer and government debt levels remain high, real wage growth is negative, and government stimulus will eventually be reduced.

**Portfolio Review:** The strategy of the Fund is to seek stocks mainly within the benchmark whose prospects we believe are undervalued and to avoid stocks whose prospects we believe are overvalued. We seek to buy and sell stocks based on rigorous fundamental research. However, we do this whilst taking in to consideration the current and future stock market cycle, the economic cycle and the company's earnings cycle.

As the outlook for the UK economy improved, UK consumer companies outperformed. The Fund benefitted from overweight positions in house builders and high quality retailers. Concerns around Chinese demand from raw commodities and a reduction in quantitative easing in the US led to a fall in commodity prices. The Fund benefitted from underweight positions in the mining sector. Poor stock selection in the technology sector detracted from performance, with both Spirent and Anite suffering from weak telecommunications capital expenditure (capex).

We increased our consumer exposed holdings throughout the period with new positions in; Barratt Developments, a house builder; Mitchells & Butlers, a pub company; Sports Direct, a retailer; Crest Nicholson, a house builder; and Ted Baker, a retailer, as the housing and retail sector recovered. We also started new positions in Man; an alternative investment company which is being turned around by management, DS Smith; a paper and packaging company with rising prices and exposure to Europe, IG; a market leading spread-betting platform, Drax; a utility company being transformed to use less coal and more renewable waste, Capital & Counties Properties; a real estate developer which is developing Earls Court in London, and Senior; a manufacturer of automotive and aerospace parts also exposed to Europe.

We sold positions in Booker, Mondi and Perform also after a strong performance. As the outlook for commodities worsened we sold our only mining company, Ferrexpo. Similarly, as the outlook for telecommunication capex worsened we sold our positions in Spirent and Anite. Due to increased competition, we sold AZ Electronics. We also sold companies which had been promoted to the FTSE 100, namely easyJet.

The Fund continues to have a bias towards companies that have strong market positions and sustainable returns.

## Classification of Investments

| Ten Largest Holdings as at 31 August 2013 | (%) |
|---|---|
| 3i | 3.07 |
| Berkeley | 2.70 |
| Howden | 2.65 |
| Close Brothers | 2.46 |
| Spectris | 2.45 |
| Rightmove | 2.42 |
| Drax | 2.38 |
| Derwent London | 2.37 |
| Inmarsat | 2.37 |
| Ashtead | 2.36 |
| **Total** | **25.23** |

| Ten Largest Holdings as at 31 August 2012 | (%) |
|---|---|
| Persimmon | 3.01 |
| Wood (J) | 2.93 |
| Travis Perkins | 2.76 |
| Berkeley | 2.66 |
| Derwent London | 2.58 |
| Rightmove | 2.52 |
| 3i | 2.45 |
| Rotork | 2.41 |
| Informa | 2.38 |
| Hikma Pharmaceuticals | 2.37 |
| **Total** | **26.07** |

| Sector Breakdown as at 31 August 2013 | (%) |
|---|---|
| Aerospace & Defence | 4.86 |
| Chemicals | 3.12 |
| Construction & Materials | 1.73 |
| Electricity | 2.38 |
| Electronic & Electrical Equipment | 5.69 |
| Fixed Line Telecommunications | 0.00 |
| Food Producers | 1.46 |
| Forestry & Paper | 0.00 |
| General Financial | 10.03 |
| General Industrials | 2.06 |
| General Retailers | 6.63 |
| Household Goods & Home Construction | 8.75 |
| Industrial Engineering | 5.30 |
| Industrial Transportation | 1.65 |
| Media | 6.58 |
| Mining | 0.00 |
| Mobile Telecommunications | 2.37 |
| Oil & Gas Producers | 2.04 |
| Oil Equipment, Services & Distribution | 1.40 |
| Personal Goods | 1.58 |
| Pharmaceuticals & Biotechnology | 3.70 |
| Real Estate | 6.27 |
| Software & Computer Services | 1.96 |
| Support Services | 9.17 |
| Technology Hardware & Equipment | 0.00 |
| Travel & Leisure | 8.54 |
| Ireland Equities | 1.07 |
| Net other assets | 1.66 |
| **Net Assets** | **100.00** |

| Sector Breakdown as at 31 August 2012 | (%) |
|---|---|
| Aerospace & Defence | 3.73 |
| Chemicals | 3.50 |
| Construction & Materials | 2.17 |
| Electricity | 0.00 |
| Electronic & Electrical Equipment | 2.25 |
| Fixed Line Telecommunications | 1.57 |
| Food Producers | 3.43 |
| Forestry & Paper | 2.12 |
| General Financial | 6.81 |
| General Industrials | 0.00 |
| General Retailers | 4.06 |
| Household Goods & Home Construction | 7.42 |
| Industrial Engineering | 6.14 |
| Industrial Transportation | 1.53 |
| Media | 10.01 |
| Mining | 2.23 |
| Mobile Telecommunications | 1.35 |
| Oil & Gas Producers | 3.99 |
| Oil Equipment, Services & Distribution | 4.53 |
| Personal Goods | 0.00 |
| Pharmaceuticals & Biotechnology | 2.37 |
| Real Estate | 4.55 |
| Software & Computer Services | 1.97 |
| Support Services | 11.14 |
| Technology Hardware & Equipment | 2.28 |
| Travel & Leisure | 7.55 |
| Ireland Equities | 0.00 |
| Net other assets | 3.30 |
| **Net Assets** | **100.00** |

**Outlook:** Developed market economies, including the UK, continue to improve, and the political environment is becoming more stable. Although uncertainty remains, the commitment of governments and central banks to support their respective economies and the financial system, provides investors with increasing confidence that problems will be effectively addressed. Overtime, as the economic recovery broadens out, we would expect stimulus and support by central banks and governments to gradually be reduced. The start of this process is already evident in the US. However, policy makers will tread very carefully to ensure these actions do not derail the economic recovery.

UK equities have performed well as the economic performance and outlook for developed markets have improved. Domestic orientated and early cycle companies have lead the market higher. Given their high valuations we are finding it increasingly difficult to find ideas in these sectors. We are focusing our attention on later cycle companies, which stand to benefit as the economic recovery broadens, but are still on reasonable valuations. In addition, we believe the weakness in the mining sector has created opportunities to buy into the higher quality miners at respectable valuations.

23 September 2013

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.

## 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.

**Authorised Corporate Director (ACD):** Allianz Global Investors (UK) Limited, 155 Bishopsgate, London EC2M 3AD

**Depositary:** J.P. Morgan Trustee and Depositary Company 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 (UK) Limited**
**155 Bishopsgate**
**London EC2M 3AD**

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

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