Allianz Sterling Total Return 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 objective of the Fund is to maximise total return, consistent with preservation of capital and prudent investment management, primarily through investment in fixed income securities issued by corporate, government, supranational institutions and local regional agencies, as well as any other security. The Fund may invest internationally, although investment will predominantly be in the United Kingdom and Europe.

The ACD aims to achieve the investment objective by investing in treasury bills, certificates of deposit, medium term notes, private placements, structured notes, preference shares, convertible bonds, gilts, investment grade and below investment grade bonds, bonds of emerging markets issuers, agency bonds and asset or mortgage backed securities or floating rate notes. The ACD may also utilise deposits, derivatives and other money market instruments in the management of the portfolio. The Fund may also invest in collective investment schemes.

More than 35% of the value of the property of the Fund may be invested in government and public securities issued or guaranteed by any of the following states; the United Kingdom (including the Scottish Administration, the Executive Committee of the Northern Ireland Assembly, the National Assembly of Wales), Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

The Fund will invest primarily in investment grade fixed income securities (with fixed, variable or floating rates of interest and may vary inversely with respect to a reference rate), but may invest in fixed income securities that are rated below investment grade, but rated at least B by Moody's and S&P (or, if unrated, determined by the ACD to be of comparable quality).

The Fund may use derivative instruments such as futures, options, options on swaps, swap agreements (interest rate swaps, credit default swaps and index swaps) and currency forward contracts.

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) to hedge a currency exposure (ii) 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 (iii) to tailor the Fund's interest rate exposure to the ACD's outlook for interest rates and/or (iv) 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.

Exchange Rates: Exchange rate movements may cause the value of any overseas investments, and any income from them, to go up or down.

High Yield Bonds: High yield bonds with credit ratings below BBB are potentially more risky as the companies are more likely not to be able to honour repayment on the bonds they issue. They may also have an increased risk of capital erosion and there is no guarantee on yields or capital.

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	Ketish Pothalingam			
Launch date	16 May 2002			
Fund benchmark	75% Merrill Lynch Sterling Non-Gilts Index & 25% Merrill Lynch European Currency High Yield BB-B Constrained Index			
Annual charge	1.25%			
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 dates	1 September, 1 March			
Payment dates	31 October, 30 April			
Share classes & types	A (Income)		C (Income)	

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

Distribution Yield

31 August 2013	
'A' Shares	3.4%
'C' Shares	3.9%

Ongoing Charges Figure

31 August 2013	
'A' Shares	1.44%
'C' Shares	0.96%

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.

Performance Record (price in pence)

	High	Low	High	Low
Share class	**A**	**A**	**C**	**C**
2008	139.4	108.5	140.0	108.9
2009	122.6	97.8	123.1	98.1
2010	132.7	121.6	133.2	122.1
2011	132.2	123.7	132.9	124.1
2012	143.8	128.0	144.4	128.5
2013[1]	147.6	138.7	148.2	139.3

[1] 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	54,937	58,500	138.6	137.8	0.6
'C' Shares	13,235	8,895	139.0	138.2	0.6

The net asset value per share for the class 'A' and 'C' shares as at 31 August 2013 as stated above is lower than the 'Lowest Price' as quoted in the Performance Record table above. The net asset value quoted above has been calculated using the portfolio valuation and with related accounting adjustments at close of business on the last day of the accounting period, whereas the figure quoted in the Performance Record table above is the pence per share price calculated at midday on the last business day of the accounting period.

Summary of Distribution

	Payment date	Net distribution per share (p)
"A' Shares	31 October 2013 30 April 2013	1.8561 2.0501
'C' Shares	31 October 2013 30 April 2013	2.1315 2.3452

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

Risk and Reward Profile

The Allianz Sterling Total Return 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.

Investment Review

Performance Summary: Over the twelve month period under review, 1 September 2012 to 31 August 2013, the Fund's 'A' class produced a post fee total return of 4.03% and 4.54% for the 'C' class. The Fund's custom benchmark, which comprises of 75% Merrill Lynch Sterling Non-Gilts Index & 25% Merrill Lynch European Currency High Yield BB-B Constrained Index, produced a total return of 5.78% over the period.*

The key reasons for this performance were;

- The Fund's overweight to the banking sector significantly contributed to returns as the sector performed well over the period,
- An overweight to media cable also aided performance as sector spreads narrowed,
- The Fund's underweight to European quasi-sovereigns hurt performance as these issues performed well over the period, and
- An underweight to the insurance sector also detracted from performance.

Market Background: The last 12 months saw the risks for a left tail scenario in the Eurozone greatly reduced, but brought new challenges with regards to the withdrawal of numerous unconventional measures of monetary and fiscal policy.

The beginning of 2013 featured multiple, volatile geopolitical developments – the US fiscal cliff deal, the US budget sequester, inconclusive Italian elections and the Cyprus bailout. Central bank policies and pronouncements drove an increase in volatility during the second quarter of 2013, most importantly with the Federal Reserve (Fed) announcements indicating that quantitative easing programs could be tapered as early as September.

In the UK, the Bank of England's (BoE) Funding for Lending Scheme (FLS) was extended by a year to January 2015 early in Q2 2013. Mark Carney arrived as Governor of the BoE on 1 July 2013. The first signs of

* 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.

Classification of Investments

Ten Largest Holdings as at 31 August 2013	(%)
Treasury 3.25% Bonds 22/1/2044	3.43
Treasury 0% Bills 14/10/2013	2.20
Treasury 0% Bills 28/10/2013	1.90
Treasury 0% Bills 2/9/2013	1.61
Treasury 0% Bills 16/9/2013	1.61
GKN 5.375% Bonds 19/9/2022	1.49
Tesco Property Finance 2 6.0517% Guaranteed Mortgage Backed Bonds 13/10/2039	1.48
Enterprise Inns 6.5% Guaranteed Senior Bonds 6/12/2018	1.47
Barclays Bank 10% Guaranteed Subordinated European Medium Term Bonds 21/5/2021	1.42
John Lewis 6.125% Guaranteed Senior Bonds 21/1/2025	1.41
Total	**18.02**

Ten Largest Holdings as at 31 August 2012	(%)
Nationwide Building Society 5.625% Guaranteed Senior European Medium Term Notes 9/9/2019	2.58
Rabobank Nederland 11% Guaranteed Perpetual Subordinated Floating Rate Bonds	1.74
Barclays Bank 10% Guaranteed Subordinated European Medium Term Bonds 21/5/2021	1.72
RWE Finance 4.75% Guaranteed European Medium Term Bonds 31/1/2034	1.62
Tesco Property Finance 2 6.0517% Guaranteed Mortgage Backed Bonds 13/10/2039	1.60
John Lewis 6.125% Guaranteed Senior Bonds 21/1/2025	1.50
UPC 8% Guaranteed Bonds 1/11/2016	1.46
Royal Bank of Scotland 7.5% Guaranteed Senior European Medium Term Bonds 29/4/2024	1.44
London Power Networks 6.125% Guaranteed Senior European Medium Term Bonds 7/6/2027	1.30
Enterprise Inns 6.5% Guaranteed Senior Bonds 6/12/2018	1.28
Total	**16.24**

Sector Breakdown as at 31 August 2013	(%)
Sterling Denominated Fixed Rate Government Bonds	5.16
Sterling Denominated Fixed Rate Corporate Debt Securities	59.93
Sterling Denominated Fixed Rate Perpetual Corporate Debt Securities	1.49
Sterling Denominated Variable Rate Government Bonds	9.53
Sterling Denominated Variable Rate Corporate Debt Securities	2.85
Sterling Denominated Variable Rate Perpetual Corporate Debt Securities	1.79
Euro Denominated Fixed Rate Government Bonds	2.16
Euro Denominated Fixed Rate Debt Securities	12.21
Euro Denominated Variable Rate Government Bonds	0.44
Euro Denominated Variable Rate Debt Securities	2.70
US Dollar Denominated Fixed Rate Debt Securities	1.12
US Dollar Denominated Fixed Rate Perpetual Debt Securities	0.91
US Dollar Denominated Variable Rate Debt Securities	0.76
Sterling Open Forward Exchange Contracts	0.62
Sterling Open Futures Contracts	(0.03)
Euro Open Forward Exchange Contracts	(0.02)
Mexican New Peso Open Forward Exchange Contracts	(0.02)
US Dollar Open Forward Exchange Contracts	0.06
Net other liabilities	(1.66)
Net Assets	**100.00**

Sector Breakdown as at 31 August 2012	(%)
Sterling Denominated Fixed Rate Government Bonds	1.18
Sterling Denominated Fixed Rate Corporate Debt Securities	67.58
Sterling Denominated Fixed Rate Perpetual Corporate Debt Securities	1.47
Sterling Denominated Variable Rate Government Bonds	0.00
Sterling Denominated Variable Rate Corporate Debt Securities	2.77
Sterling Denominated Variable Rate Perpetual Corporate Debt Securities	0.00
Euro Denominated Fixed Rate Government Bonds	1.09
Euro Denominated Fixed Rate Debt Securities	12.48
Euro Denominated Variable Rate Government Bonds	0.00
Euro Denominated Variable Rate Debt Securities	2.26
US Dollar Denominated Fixed Rate Debt Securities	4.27
US Dollar Denominated Fixed Rate Perpetual Debt Securities	1.74
US Dollar Denominated Variable Rate Debt Securities	0.00
Sterling Open Forward Exchange Contracts	(0.15)
Sterling Open Futures Contracts	0.03
Euro Open Forward Exchange Contracts	0.00
Mexican New Peso Open Forward Exchange Contracts	0.00
US Dollar Open Forward Exchange Contracts	0.00
Net other assets	5.28
Net Assets	**100.00**

PIMCO used derivatives in the Fund for the purpose of efficient portfolio management. The main insturments used are money market futures.

forward guidance appeared from the BoE shortly afterwards in an apparent pledge to keep rates low for the foreseeable future.

In the beginning of 2013, the UK corporate bond sector continued to benefit from central banks' accommodative monetary policies and resilient investor demand for spread products in the current low yield environment.

In Q2 overall economic data in the UK started to turn marginally stronger than expectations. Inflation continued to remain sticky but not rising. The UK credit market posted a negative total return of -3.0% in Q2 2013, outperforming government bonds by 0.8%, according to the Barclays Sterling Non-Gilts Index. The negative total return on corporate bonds was mainly driven by the pronounced sell-off in government yields following Fed Chairman Ben Bernanke's remarks on tapering.

Portfolio Review: With the exception of a brief period in the beginning of 2013, the portfolio maintained a corporate spread duration underweight relative to the benchmark of 0.3 years.

The portfolio maintained an overweight exposure to bonds issued by banks with limited exposure to the Euro sovereign crisis. Over the evaluation period, however, the portfolio decreased this overweight relative to the benchmark. An underweight to insurance has hurt performance as insurance companies were amongst the best performers alongside continuing resilient quarterly results and stronger solvency capital from certain companies. The largest sector overweights in Q2 2013 and towards the period end are media/cable, retailers and restaurants. In the latter industry, UK pubs in particular added to performance as they benefitted from strong asset coverage. Media/cable also outperformed throughout most of the period.

An underweight to German, Dutch, French and UK quasi-sovereigns hurt performance as these issues outperformed over the period.

The portfolio maintained a steady but slight duration overweight of 0.14yr on average over the period. Our consistent overweight to the intermediate part of the UK yield curve detracted from performance over the review period as a whole as interest rates rose.

Outlook: PIMCO expects the global economy to grow at a real rate of 2.0-2.5 percent over the next twelve months and anticipates that the strengthening housing recovery will continue to support growth in the US, although higher mortgage rates could interrupt the recovery in progress. Meanwhile, although emerging market (EM) growth continues to outpace that of developed markets, the intensifying struggle faced by the largest EM economies, such as China and Brazil, to maintain high growth levels is becoming increasingly apparent. The Eurozone continues to suffer from the negative consequences of austerity programs and the recovery to pre-crisis levels is slow. While structural reforms remain outstanding and necessary, the risk of a crisis is now greatly reduced.

The uncertain growth outlook poses both opportunities and risks for credit and equity investors. PIMCO continues to focus on regions and sectors that we feel can deliver strong growth and where bondholders may benefit from solid free cash flow which can be used to deleverage balance sheets.

In terms of sector allocation, we continue to focus on those sectors which can grow faster than surrounding economies and favour those companies which are diversified with a global presence rather than those which rely mostly on consumer growth in the UK and Europe.

Tactically, we continue to favour select 'rising star' high yield issuers where companies continue to show balance sheet strength and credit profiles commensurate with investment grade ratings.

While PIMCO has moderated its expectations for cyclical inflation, on a secular basis, PIMCO continues to believe that the prolonged wave of ultra-dovish monetary policy will drive longer-term inflation higher.

18 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.

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