

# Allianz UK & European Investment Funds

Final Report & Financial  
Statements  
31 August 2017



**Allianz**   
Global Investors

Understand. Act.

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## Company Information

### Status of the Allianz UK & European Investment Funds

Allianz UK & European Investment Funds (the "Company") is an Open-Ended Investment Company with Variable Capital under Regulation 12 of the Open-Ended Investment Companies Regulations 2001. It is incorporated in England and Wales under registered number IC 120 and authorised and regulated by the Financial Conduct Authority on 20 August 2001. The Company has been certified by the Financial Conduct Authority as complying with the conditions necessary for it to enjoy the rights conferred by the EC Directive on Undertakings for Collective Investment in Transferable Securities. The Company has an unlimited duration.

The Company is an umbrella company comprising various sub-funds, each of which is operated as a distinct fund, with its own portfolio of investments. Each sub-fund is a UCITS scheme which complies with COLL 5 of the Financial Conduct Authority's Collective Investment Scheme sourcebook ("COLL").

On 21 December 2011, the Open Ended Investment Companies Regulations 2011 (as amended) ("the Regulations") were amended to introduce a Protected Cell Regime for OEICs. Under the Protected Cell Regime, each sub-fund represents a segregated portfolio of assets and accordingly, the assets of a sub-fund belong exclusively to

that sub-fund and shall not be used or made available to discharge (directly or indirectly) the liabilities of, or claims against, any other person or body, including any other sub-funds and shall not be available for such purpose.

The sub-funds of the Allianz UK & European Investment Funds are:

Sub-fund	Launch date
Allianz Gilt Yield Fund	16 May 2002
Allianz Strategic Bond Fund	16 May 2002
Allianz Continental European Fund	16 May 2002
Allianz European Equity Income Fund	16 May 2002
Allianz UK Equity Income Fund	20 June 2002
Allianz UK Opportunities Fund*	20 June 2002
Allianz UK Index Fund**	20 June 2002
Allianz UK Mid-Cap Fund	20 June 2002
Allianz UK Unconstrained Fund***	9 February 2004

\*The Allianz UK Growth Fund changed its name to the Allianz UK Opportunities Fund on 13 January 2017.

\*\* The Allianz UK Index fund closed on 30 June 2017 and terminated on 29 August 2017 and as such is no longer included in the Company's Report & Financial Statements.

\*\*\* The Allianz UK Unconstrained Fund merged into the Allianz UK Opportunities Fund on 13 April 2017. The Allianz UK Unconstrained Fund terminated on 29 August 2017 and as such is no longer included in the Company's Report & Financial Statements.

The Independent Auditors' report on these financial statements is unqualified.

### Remuneration Policy

In accordance with the UCITS Remuneration Code and corresponding changes to the FCA Handbook for Collective Investment Schemes (COLL), the Allianz UK & European Investment Funds are required to disclose details of the remuneration paid by the Authorised Corporate Director (ACD) to its staff for the financial year.

The compensation structure at AllianzGI GmbH is set up to avoid any kind of excessive risk-taking. Variable compensation awards are delivered via deferral programs to ensure they are linked to sustainable performance. In addition any compensation decisions have to be reviewed and approved by our Functional, Regional and Global Compensation Committees on both, aggregate and individual basis, to further ensure effective risk mitigation.

### AllianzGI GmbH, Compensation 2016 - all numbers in EUR

	Fixed compensation	Variable compensation	Total compensation
All employees (total number 1,618)	145,421,511	117,553,590	262,975,101
thereof Risk Takers	8,368,445	29,025,053	37,393,498
Board Members	2,865,587	12,000,472	14,866,059
Other Risk Takers	896,592	2,475,944	3,372,536
Employees with Control Function	1,073,330	1,907,394	2,980,724
Employees with Comparable Compensation	3,532,936	12,641,243	16,174,179

## Company Information continued

### Classes of share within the sub-funds

Each sub-fund can issue several classes of shares. Each class is distinguished by its criteria for subscription and fee structure. Further details on the share classes can be found in the financial statements for each sub-fund.

### Securities Financing Transactions Regulation

The Securities Financing Transactions Regulation, as published by the European Securities and Markets Authority, aims to improve the transparency of the securities financing markets. Disclosures regarding exposure to Securities Financing Transactions (SFTs) or total return swaps will be required in all reports & financial statements published after 13 January 2017.

The Allianz UK & European Investment Funds were not invested in any securities financing transactions pursuant to Regulation (EU) 2015/2365 during the reporting period, therefore the following report & financial statements contains no information on this type of transaction.

### Short reports

With effect from 22 November 2016, the FCA requirement to prepare and send out short reports to investors was removed. Investors were subsequently advised in their 5 April 2017 statement letter that short form reports are no longer produced for these Funds.

### Authorised Corporate Director ("ACD")

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

Authorised by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and subject to limited regulation by the Financial Conduct Authority

A member of The Investment Association

### Independent Auditors

PricewaterhouseCoopers LLP  
7 More London Riverside  
London SE1 2RT

### Registrar of Shareholders

DST (Previously International Financial Data Services (UK) Limited until 14 August 2017).

DST House  
St. Nicholas Lane, Basildon  
Essex SS15 5FS

With effect from 1 October 2017, State Street Bank & Trust Company, London branch were appointed to act as registrar of the Company. Under a delegation agreement, State Street Bank & Trust Company, London branch has in turn appointed DST Financial Services Europe Ltd to carry out the role of registrar.

Authorised and regulated by the Financial Conduct Authority

### Depositary

J.P. Morgan Europe Limited  
Chaseside  
Bournemouth BH7 7DA

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Effective 1 December 2017, JP Morgan Europe Ltd will resign as depositary. State Street Trustees Ltd will be appointed in their place.

### Investment Advisers

Allianz UK Equity Income Fund, Allianz UK Opportunities Fund, Allianz UK Mid-Cap Fund, Allianz Gilt Yield Fund & Allianz Strategic Bond Fund

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

Authorised by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and subject to limited regulation by the Financial Conduct Authority

A member of The Investment Association

Allianz Continental European Fund & Allianz European Equity Income Fund

Allianz Global Investors GmbH  
Mainzer Landstraße 11-13, 60329 Frankfurt am Main, Germany

Regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht in Germany

# General Information

## Investing in Open-Ended Investment Companies ("OEICs")

An OEIC is a collective investment vehicle that allows investors to pool their money to obtain a spread of investments and thus reduce their risk in the financial markets of the world without incurring the costs associated with investing individually. It allows investors access to the expertise of professional investment managers (the ACD, the Investment Advisers and other companies within the Allianz group may from time to time, act as investment managers), who manage the underlying investments of the sub-funds on a day to day basis.

Investors are allocated shares in proportion to the size of their investment. The price of these shares is calculated by reference to the value of the underlying investments held by the sub-fund, and can fluctuate according to the movements within the portfolio of investments.

Sub-funds have one price per share class which applies regardless of whether investors are buying or selling the shares. The charges for investing are shown separately on the contract note, which makes it easier to see the exact cost of your investment.

Shareholders of the company are not liable for the debts of the company.

As at 31 August 2017, none of the sub-funds invested in shares of another sub-fund within the Allianz UK & European Investment Funds range.

## Dilution levy

The ACD is allowed (under Financial Conduct Authority regulations) to make a dilution levy provision as part of an entry or exit fee but does not expect to charge this levy frequently.

The policy is to charge a dilution levy on large deals and in accordance with the Prospectus and the Financial Conduct Authority regulations, to pay this levy into the individual sub-funds. The ACD can charge a dilution levy where a sub-fund is experiencing large levels of net purchases relevant to its size, large levels of net cancellations relevant to its size or on any large deals.

Historically, the ACD has not charged a dilution levy frequently.

# Financial Risk Management

The sub-funds are exposed to financial risk through their financial assets and financial liabilities.

The main risks arising from these are market price risk, liquidity risk, foreign currency risk, credit risk, interest rate risk, derivative risk and counterparty risk. The risk profile and the policies adopted to manage risk did not change materially during the current and preceding year.

The narrative below explains the different types of risks the sub-funds may face.

This information is given so that investors can decide for themselves whether their investment is high or low risk. It also allows them to assess what kind of impact the use of financial instruments (investments, cash/overdraft and borrowings) will have on the performance of the sub-fund.

The sub-funds' financial instruments, excluding short-term debtors and creditors, comprise investments and bank balances. The purpose for holding the financial instruments is to meet the individual investment objective. Short-term debtors and creditors are not considered to be financial instruments.

## Market price risk

Market price risk arises mainly from the uncertainty about future prices of financial instruments held. It represents the potential loss the sub-funds might suffer through holding market positions in the face of price movements.

A dedicated fund manager has the responsibility for monitoring the existing portfolio selection in accordance with the sub-fund's investment objective and seeks to ensure that individual stocks meet an acceptable risk reward profile.

## Liquidity risk

Liquidity risk relates to the capacity to meet liabilities.

The assets of each sub-fund mainly comprise of realisable securities, which can be sold to meet funding requirements if necessary. Short-term flexibility can be achieved through the use of overdraft facilities where necessary.

## Foreign currency risk

Foreign currency risk is the risk of movement in the value of overseas financial instruments as a result of fluctuations in exchange rates.

All or part of a sub-fund's investments may be denominated in currencies other than sterling, therefore both the value of the investments and the revenue from them can be affected by currency movements.

For the Allianz Strategic Bond Fund and the Allianz Gilt Yield Fund, the fund manager seeks to minimise this risk by hedging using forward currency contracts as and when deemed appropriate. For the other sub-funds, no hedge transactions were entered into during the year.

## Credit risk

Credit risk is the risk of default by a counterparty in discharging its obligations under transactions that could result in a sub-fund suffering a loss.

Outstanding settlements are subject to credit risk. Credit risk is mitigated by a sub-fund through its decision to transact with counterparties of high credit quality. The sub-fund only buys and sells investments through brokers which are approved counterparties, thus minimising the risk of default during settlement.

The Allianz Strategic Bond Fund may invest in what are considered to be riskier bonds (below investment grade). This increases the risk of default and could affect both the revenue and capital value of the sub-fund. The sub-fund therefore has significant exposure to credit risk. The sub-fund invests in credit default swaps, which will reduce credit risk.

The Allianz Gilt Yield Fund, which predominantly holds UK fixed rate government bonds, and the remaining sub-funds which predominantly hold equities, have minimal exposure to credit risk.

## Interest rate risk

Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates.

The Allianz Gilt Yield Fund and Allianz Strategic Bond Fund both invest predominantly in fixed interest securities, the values of which are directly affected by changes in prevailing market interest rates. These sub-funds therefore have significant exposure to interest rate risk.

The remaining sub-funds invest predominantly in equities, the values of which are not directly affected by changes in prevailing market interest rates. Therefore these sub-funds have minimal exposure to interest rate risk.

## Financial Risk Management continued

### Derivative risk

Derivatives may be used for the purposes of Efficient Portfolio Management (EPM). EPM restricts the use of derivatives to the reduction of risk, the reduction of cost and the generation of additional capital or revenue with an acceptably low level of risk. EPM transactions must be economically appropriate and the exposure fully covered. The Allianz UK Equity Income Fund may write covered call options up to 20% of the Net Asset Value of the sub-fund (at the time of writing) as part of its EPM strategy.

Where the investment objective risk profile permits, derivative transactions may be used for the purposes of meeting the investment objective of the relevant sub-fund as well as for EPM. For the purpose of clarity, the use of derivatives for EPM purposes should not lead to an increase in risk to the sub-fund. However, derivatives when used to implement investment policies, may increase volatility of the sub-fund's share price. The Allianz Gilt Yield Fund and Allianz Strategic Bond Fund utilise derivatives to implement the investment policy.

### Underlying exposure for derivatives

Fund	Counterparty	Future contracts £000s	FX Forward contracts £000s	UK Written Call Options £000s	Credit Default Swaps £000s	Inflation Swaps £000s	Interest Rate Swaps £000s	Total £000s
Allianz Strategic Bond Fund	Barclays, Morgan Stanley, JP Morgan and Bank of America Merrill Lynch	(6,624)	205,625	0	36,907	23,067	25,000	283,975
Allianz Gilt Yield Fund	Morgan Stanley and Bank of America Merrill Lynch	(174,401)	172,843	0	0	0	0	(1,558)
Allianz UK Equity Income Fund	Credit Suisse	0	0	(1,633)	0	0	0	(1,633)
		<b>(181,025)</b>	<b>378,468</b>	<b>(1,633)</b>	<b>36,907</b>	<b>23,067</b>	<b>25,000</b>	<b>280,784</b>

Collateral received from Barclays in respect of derivative securities was £530,000 in the form of cash (2016 - £Nil in the form of cash).

Collateral received from Bank of America Merrill Lynch in respect of derivative securities was £540,000 in the form of cash (2016 - £570,000 in the form of cash).

Collateral received from JP Morgan in respect of derivative securities was £160,000 in the form of cash (2016 - £Nil in the form of cash).

Collateral paid to UBS in respect of derivative securities was £2,560,000 in the form of cash (2016 -£3,840,000 in the form of cash).

Collateral paid to Bank of America Merrill Lynch in respect of derivative securities was £3,370,000 in the form of cash (2016 - £Nil in the form of cash).

### Counterparty Risk

A sub-fund conducts transactions through or with brokers, clearing houses, market counterparties and other agents. A sub-fund will therefore be subject to the risk of the inability of any such counterparty to perform its obligations, whether due to insolvency, bankruptcy or other causes.

A sub-fund may invest into instruments such as notes, swaps or warrants, the performance of which is linked to a market or investment to which the sub-fund seeks to be exposed. Such instruments are issued by a range of counterparties and through its investment the sub-fund will be subject to the counterparty risk of the issuer, in addition to the investment exposure it seeks.

The sub-funds will only enter into Over the Counter (OTC) derivatives transactions and efficient portfolio management techniques with reputable institutions which are subject to prudential supervision and specialising in these types of transactions. In principle, the counterparty risk for such transactions and techniques should not exceed 10% of the relevant sub-fund's net assets when the counterparty is an approved bank or 5% of its net assets in other cases. However, if a counterparty defaults, the actual losses may exceed these limits. If a counterparty were to default on its obligations this may have an adverse impact on the performance of the relevant sub-fund causing loss to investors.

## Financial Risk Management continued

### Risk and Reward Profile

	← Typically lower rewards ← Typically lower risk				Typically higher rewards → Typically higher risk →		
Sub-fund	1	2	3	4	5	6	7
Allianz Gilt Yield Fund				4			
Allianz Strategic Bond Fund			3				
Allianz Continental European Fund					5		
Allianz European Equity Income Fund					5		
Allianz UK Equity Income Fund					5		
Allianz UK Opportunities Fund					5		
Allianz UK Mid-Cap Fund						6	

Please note, the category stated above is the same for each class of share within the relevant sub-fund.

This risk and reward indicator is based on past performance data and calculated in accordance with European legislation. It may not be a reliable indication of the future risk profile of the sub-fund. The categorisation of the sub-fund is not guaranteed and may change in the future. Even the lowest category 1 does not mean a risk-free investment.

#### Why is the sub-fund in this category?

Sub-funds of category 3 have shown in the past a low to medium volatility. The volatility describes how much the value of the sub-fund went up and down in the past. The shares of a sub-fund of category 3 might be subject to low to medium price fluctuations based on the historical volatilities observed.

Sub-funds of category 4 have shown in the past a medium volatility. The volatility describes how much the value of the sub-fund went up and down in the past. The shares of a sub-fund of category 4 might be subject to medium price fluctuations based on the historical volatilities observed.

Sub-funds of category 5 have shown in the past a medium to high volatility. The volatility describes how much the value of the sub-fund went up and down in the past. The shares of a sub-fund of category 5 might be subject to medium to high price fluctuations based on historical volatilities observed.

Sub-funds of category 6 have shown in the past a high volatility. The volatility describes how much the value of the sub-fund went up and down in the past. The shares of a sub-fund of category 6 might be subject to high price fluctuations based on the historical volatilities observed.



## Financial Risk Management continued

### Value at Risk (VaR)

VaR is a measure of the potential maximum portfolio loss over a specific time horizon at a given confidence level under normal market conditions. It is a measure of market risk.

In the relative VaR approach the risk budget utilisation is defined as the VaR of the sub-fund divided by the VaR of a benchmark or a reference portfolio (i.e. a portfolio reflecting the sub-fund's investment strategy, but free of derivatives). This can be an actual benchmark portfolio (such as an index) or a fictitious benchmark portfolio. The VaR of the sub-fund should not exceed twice the VaR of a comparable benchmark portfolio. In the absolute VaR approach, the maximum VaR that a sub-fund can have is limited relative to its Net Asset Value.

The table below, details the VaR approach for the Allianz Gilt Yield Fund, Allianz Strategic Bond Fund and their respective Reference Portfolio. The table also details minimum, maximum and average monthly VaR utilisation that occurred.

	Global Exposure									Leverage
	VaR limits									
Fund Name	Method used to calculate global exposure	Time period	Type of model	Parameters (Confidence Interval, holding period, observation period)	Reference Portfolio	Lowest %	Highest %	Average %	Maximum limits %	Leverage average %
Allianz Gilt Yield Fund	Relative VaR	1.9.2016 - 31.8.2017	Delta Normal	99% Confidence, 10 days, 260 days	FTSE Actuaries UK Conventional Gilts All Stocks Index	93	119	109	200	0
Allianz Strategic Bond Fund	Absolute VaR	31.8.2017 - 31.8.2017	Delta Normal	99% Confidence, 10 days, 260 days	Bloomberg Barclays Global Aggregate hedged to Sterling	1.28	1.28	1.28	14.14	2

On 31 August 2017 the risk measurement methodology for Allianz Strategic Bond fund changed from the Commitment Approach to Value at Risk ("VaR"). The manager plans to use more derivatives in the portfolio in order to more efficiently manage the portfolio and implement investment strategies. As a consequence of this the level of leverage within the Fund may increase. Although it is envisaged that these changes will not alter the risk profile of the Fund, Allianz GI has reviewed the way it measures and calculated global exposure of the fund in accordance with its obligations under the Committee of European Securities Regulations (CESR) guidelines on Risk Measurement and Calculation of Global Exposure and Counterparty Risk for Undertakings for Collective Investments in Transferable Securities and selected the appropriate methodology based on its assessment of the Funds risk profile.

## Statement of the Authorised Corporate Director's Responsibilities

The financial statements are prepared in accordance with UK generally accepted accounting principles and applicable accounting standards. The ACD is responsible for keeping such accounting records as are necessary to enable it to ensure that the financial statements comply with the Financial Conduct Authority ("FCA") regulations and The Statement of Recommended Practice "Financial Statements of UK Authorised Funds 2014" issued by the Investment Management Association (now the Investment Association) "IMA SORP".

The Open-Ended Investment Companies Regulations 2001 require the ACD to prepare an annual report for each annual accounting year and a half-yearly report for each half-yearly accounting period of the Company.

The annual long report for the Company is required to contain:

- (i) For each sub-fund:
  - the full Financial Statements for the annual accounting year which must be prepared in accordance with the requirements of the IMA SORP;
  - the report of the ACD in accordance with the COLL requirements; and
  - the comparative table in accordance with the COLL requirements;
- (ii) the report of the Depositary in accordance with the COLL requirements;
- (iii) the report of the Auditors in accordance with the COLL requirements.

In preparing the financial statements the ACD is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The ACD is required to ensure that the Financial Statements in the annual long report give a true and fair view of the net revenue (expense) and the net capital gains (losses) on the property of the Company for the annual accounting year in question and the financial positions of the sub-funds as at the end of that year.

The half-yearly long report for the Company is required to contain:

- (i) For each sub-fund:
  - the full Financial Statements for the half-yearly accounting period which must be prepared in accordance with the requirements of the IMA SORP; and
  - the report of the ACD in accordance with the COLL requirements.

The Investment Objective and Policy for each sub-fund are set out within the individual Financial Statements for that sub-fund.

# Collective Notes to the Final Report and Financial Statements

## 1. Accounting policies

The financial statements of the sub-funds have been prepared on a going concern basis in accordance with FRS 102 and the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds' issued by the Investment Management Association (now the Investment Association) in May 2014 ('IMA SORP').

- a. Revenue: Dividends and withholding tax recoverable from overseas authorities are treated as receivable on the date on which the security is quoted ex-dividend where the amounts can be reasonably determined. Foreign dividends are grossed up at the appropriate rate of tax. Bank interest and ACD fee rebates are accounted for on an accruals basis. Underwriting commission is recognised when the issue underwritten closes. Option premiums received by the Company are amortised to revenue over the period to maturity. Gains and losses arising on derivative securities are treated as revenue or capital, reflecting the underlying intent of the transaction.

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment and is treated as revenue. The effective yield basis amortises any discount or premium on the debt element of the purchase or an investment over its remaining life based on contractual cash flows.

Accrued interest purchased and sold on interest bearing securities is excluded from the capital cost of these securities and dealt with as part of the revenue of each sub-fund.

Returns from bond futures and credit default swaps are apportioned into revenue and capital components in order to reflect the nature of the financial instrument.

- b. Stock dividends: Ordinary stock dividends are recognised wholly as revenue and are based on the market value of the shares on the dates they are quoted ex-dividend. Where an enhancement is offered, the amount by which market value of the shares (on the day they are quoted ex-dividend) exceeds the cash dividend is taken to capital.

- c. Special dividends: The underlying circumstances behind special dividends are reviewed in determining whether the receipt is revenue or capital in nature. Special dividends recognised as revenue will form part of the distribution. Any tax treatment will follow the accounting treatment of the principal amount.

- d. Valuation: The investments of a sub-fund have been valued as at close of business on the last working day of the accounting year at the bid market price net of any accrued interest. Unlisted, suspended and unapproved investments are shown at the ACD's valuation.

- e. Foreign currencies: Assets and liabilities have been translated into sterling at the exchange rates prevailing at close of business on the last working day of the accounting year. Transactions denominated in foreign currencies are translated into sterling at the exchange rates ruling at the date of the transactions. The resulting exchange differences are included in the Statement of Total Return.

- f. Taxation: The standard rate of corporation tax for a sub-fund of an OEIC is 20%, with relief for double taxation taken where applicable. The tax accounting treatment follows the principal amounts involved.

- g. Deferred tax: Full provision is made for deferred taxation except to the extent that deferred tax assets are considered to be irrecoverable.

- h. Expenses: Expenses are recognised on an accruals basis and charged against revenue. The ACD's annual fee for Allianz Gilt Yield Fund, Allianz European Equity Income Fund and the Allianz UK Equity Income Fund is deducted from the capital account for the purpose of the distribution.

- i. Allocation of revenue and expenses to multiple share classes: With the exception of the ACD's annual fee, distribution costs, printing costs, and the registration fees, which are directly attributable to individual share classes, all revenue and expenses are allocated to share classes pro rata to the value of the net assets of the relevant share class on the day that the revenue or expense is incurred.

## Collective Notes to the Final Report and Financial Statements continued

### 2. Distribution policies

- a. For the Allianz Gilt Yield Fund, Allianz Strategic Bond Fund and Allianz UK Equity Income Fund, the ACD pays an interim distribution at its discretion. For the Allianz European Equity Income Fund, the ACD pays a quarterly distribution at its discretion. Otherwise, for all sub-funds, net revenue is accumulated in the sub-fund throughout the year and distributed at the year end. Should expenses exceed revenue there will be no distribution and the shortfall will be transferred from capital.
- b. The ordinary element of a stock dividend is treated as revenue but does not form part of the distribution, with the exception of the Allianz UK Equity Income Fund where the ordinary element of a stock dividend is treated as revenue and forms part of the distribution.
- c. The Allianz Gilt Yield Fund and the Allianz Strategic Bond Fund distribute revenue on debt securities on an effective yield basis. Indexation is recognised on UK Government index linked securities.
- d. The ACD's annual fee for the Allianz Gilt Yield Fund, the Allianz European Equity Income Fund and the Allianz UK Equity Income Fund is deducted from the capital account for the purpose of the distribution.

# Allianz Gilt Yield Fund

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# Fund Information

## Investment Objective and 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).

## Fund Information continued

## Fund Details

Fund Manager	Mike Riddell	
Benchmark	FTSE Actuaries UK Conventional Gilts All Stocks Index	
Underlying Yield to 31 August 2017	C Shares	0.8%
	I Shares	1.0%
	Y Shares	1.0%
Distribution Yield to 31 August 2017	C Shares	1.3%
	I Shares	1.3%
	Y Shares	1.4%
Income allocation dates	Interim	28 February*
	Final	31 August
Income pay dates	Interim	30 April
	Final	31 October
Launch dates	Fund	16 May 2002
	C Shares	16 May 2002
	I Shares	16 May 2002
	Y Shares	20 February 2017
ISA status	Yes	
Share Classes and types of Shares	C (Income Shares) I (Income Shares) Y (Accumulation Shares)	
Minimum investment	C Shares	Lump sum £500 Monthly saving £50
	I Shares	Lump sum £10,000,000
	Y Shares	Lump sum £100,000,000 (Available to Approved Investors only at the discretion of the ACD)
Initial charge	C Shares	Nil
	I Shares	Nil
	Y Shares	Nil
Annual ACD fee	C Shares	0.50%
	I Shares	0.30%
	Y Shares	0.30%

\*29 February in a leap year

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.

# Comparative Tables

For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>C Shares (Income)</b>			
Opening net asset value per share	189.74	164.42	160.47
Return before operating charges	(5.57)	29.14	8.04
Operating charges	(0.97)	(0.91)	(0.88)
Return after operating charges	(6.54)	28.23	7.16
Distributions	(2.21)	(2.91)	(3.21)
Closing net asset value per share	180.99	189.74	164.42
After direct transaction costs of <sup>1</sup>	0.00	0.00	0.00
Return after operating charges	(3.45)%	17.17%	4.46%
Closing net asset value (£'000)	92,392	119,862	185,967
Closing number of shares	51,047,773	63,173,328	113,102,397
Operating charges	0.54%	0.53%	0.53%
Direct transaction costs	0.00%	0.00%	0.00%
<b>Prices</b>			
Highest share price	189.20	191.27	175.29
Lowest share price	171.64	161.73	157.33

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>I Shares (Income)</b>			
Opening net asset value per share	196.70	170.12	165.69
Return before operating charges	(5.76)	30.19	8.32
Operating charges	(0.59)	(0.57)	(0.56)
Return after operating charges	(6.35)	29.62	7.76
Distributions	(2.32)	(3.04)	(3.33)
Closing net asset value per share	188.03	196.70	170.12
After direct transaction costs of <sup>1</sup>	0.00	0.00	0.00
Return after operating charges	(3.23)%	17.41%	4.68%
Closing net asset value (£'000)	1,318,475	999,584	769,982
Closing number of shares	701,213,749	508,167,909	452,615,219
Operating charges	0.32%	0.32%	0.33%
Direct transaction costs	0.00%	0.00%	0.00%
<b>Prices</b>			
Highest share price	196.16	198.30	181.16
Lowest share price	178.07	167.40	162.47

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 <sup>2</sup> Pence per Share
<b>Y Shares (Accumulation)</b>	
Opening net asset value per share	5,000.00
Return before operating charges	204.85
Operating charges	(17.88)
Return after operating charges	186.97
Distributions	0.00
Retained distributions on accumulation shares	0.00
Closing net asset value per share	5,186.97
After direct transaction costs of <sup>1</sup>	0.00
Return after operating charges	3.74%
Closing net asset value (£'000)	24
Closing number of shares	468
Operating charges	0.35%
Direct transaction costs	0.00%
<b>Prices</b>	
Highest share price	5,200.94
Lowest share price	4,987.19

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

<sup>2</sup> From 20 February 2017 to 31 August 2017.

Operating charges 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 sub-fund.



# Distribution Table

## For the year ended 31 August 2017

### Interim

Group 1: Shares purchased prior to 1 September 2016

Group 2: Shares purchased on or after 1 September 2016 to 28 February 2017

Share Class	Gross Distribution 30 April 2017 per Share (p)	Equalisation 30 April 2017 per Share (p)	Distribution paid 30 April 2017 per Share (p)	Distribution paid 30 April 2016 per Share (p)
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	1.0851	0.0000	1.0851	1.2267
Group 2	0.6543	0.4308	1.0851	1.2267
<b>Income Shares</b>				
<b>I Shares</b>				
Group 1	1.1423	0.0000	1.1423	1.2786
Group 2	0.6280	0.5143	1.1423	1.2786
<b>Accumulation Shares</b>				
<b>Y Shares<sup>1</sup></b>				
Group 1	0.0000	0.0000	0.0000	N/A
Group 2	0.0000	0.0000	0.0000	N/A

### Final

Group 1: Shares purchased prior to 1 March 2017

Group 2: Shares purchased on or after 1 March 2017 to 31 August 2017

Share Class	Gross Distribution 31 October 2017 per Share (p)	Equalisation 31 October 2017 per Share (p)	Distribution payable 31 October 2017 per Share (p)	Distribution paid 31 October 2016 per Share (p)
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	1.1202	0.0000	1.1202	1.1006
Group 2	0.4170	0.7032	1.1202	1.1006
<b>Income Shares</b>				
<b>I Shares</b>				
Group 1	1.1813	0.0000	1.1813	1.1531
Group 2	0.5528	0.6285	1.1813	1.1531
<b>Accumulation Shares</b>				
<b>Y Shares<sup>1</sup></b>				
Group 1	0.0000	0.0000	0.0000	N/A
Group 2	0.0000	0.0000	0.0000	N/A

<sup>1</sup> On 20 February 2017, Class 'Y' Shares were introduced, therefore there were no shares in issue for the comparative figure.

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. Current year distribution figures are gross whereas the comparative figures are net of income tax.

Investors are reminded that distribution is not guaranteed.

# Investment Review

## Performance Summary

Over the year under review, 1st September 2016 to 31st August 2017, the Fund's C Inc class produced a total return of -3.14% and the 'I' class produced a total return of -3.06%. The Fund's benchmark, the FTSE Actuaries UK Conventional Gilts All Stocks Index, produced a total return of -3.28% over the period\*. The primary reason for this outperformance was the fund's dynamic duration and curve positioning through H1 2017.

## Market Background

The end of 2016 saw a vicious bear market in global government bonds, which began on the belief in central bank regime change globally, was fuelled by rising inflation figures as part of a global deflation narrative, and took a final leg up in yields following Trump's election in the US, and the consensus belief that the ensuing tax cuts and infrastructure spending would push a late-cycle US economy into high inflation territory. UK gilts in particular led the selloff in October, following hardline Brexit rhetoric out of the Conservative Party conference. Globally, we believed that the rising headline inflation figures were actually caused by base effects in the YoY change in commodity prices, in turn fuelled by Chinese stimulus. Sterling's marked depreciation made the UK a somewhat different case.

The global bond bear market finally tired in December, although UK government bonds came under renewed pressure in January. February was a good month for gilts, as a result of UK data beginning to roll over. This was helped by a more dovish than expected inflation report from the Bank of England, with 30-year gilts falling over 30 basis points on the month.

In April we witnessed a risk-on move after the first round of the French presidential elections, which reversed some of the gains seen that month. We also had the announcement of a general election in the UK, which added some more short-term uncertainty to the economy. The Bank of England's May inflation report appeared particularly dovish, which proved supportive for gilts. Yields fell and sterling weakened. Commodity base effects faded away, as sterling's depreciation started to feed further into inflation rates.

We saw a second shift in rhetoric by major central banks globally in June, and markets started to price in higher rates, particularly at the front end. However, geopolitical concerns from the Korean peninsula, and political controversies in the US, saw a large risk-off move in August, bringing yields lower as investors sought safe-haven assets.

## Portfolio Review

The fund's central five strategies to generate returns are duration, curve positioning, relative value, cross market and inflation.

We moved from short duration relative to the benchmark in early September to long duration immediately after bond market fears over an extreme BoJ policy response failed to materialise. The fund also increased its position in 30-Year US Treasuries that had been initiated in mid-August. We held the view that inflation breakevens – which were essentially pricing CPI to be above 2.5% over the very long term – were far too high, and we held no exposure to inflation-linked gilts over this period. Fund duration was slightly long from mid-September through to October.

We held a bias to be long duration given structural factors globally, and the future growth path of the UK. In Q4 2016's government bond bear market, the fund's long duration positioning therefore hampered returns. The fund slightly increased its US treasury holdings in November, as the yield pick-up seemed attractive. Initially the US exposure worked well for the fund, but following the US election, treasuries all along the yield curve saw a significant sell-off, meaning that US Treasury exposure (hedged back to sterling) within the fund hurt returns in Q4.

In Q4 the fund also greatly increased exposure to 10-year gilts, as this part of the curve became exceptionally attractive, likely due to overseas investors expressing large speculative positions via 10-year gilt futures. This was damaging to performance in November, but helped drive returns through the end of Q4 and in Q1.

Through Q1 we generally retained a long duration bias, although we tactically and temporarily took the fund short duration ahead of periods of large gilt supply. We brought the fund neutral duration in April, when 10-year yields

\* 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. Performance per comparative table based on bid market price portfolio valuation at close of business on the last day of the accounting period and with related accounting adjustments. Benchmark performance based on end of day prices.

## Investment Review continued

touched 1%. We moved long duration before the BoE's May Inflation Report, which turned out to be the peak for yields in May, benefitting fund returns. We also added back long-end exposure during the second half of May, when we bought some 40-year gilts at syndication.

Curve positioning was a very important source of alpha for the fund in June. Following the election result, 10s30s steepened on the back of political uncertainty, and we initiated a curve flattener position. The UK curve then saw a bear flattening into month end, and so our positioning on the long end meant that we outperformed, even while being long-duration through a selloff.

Through June and July we sold our US treasury position, before adding and increasing exposure to 5-year Canadian government bonds. After June's global central bank rhetoric caused gilt yields to back up, we added UK duration, reducing over the summer after the market focused on geopolitical fears, and we felt too high a probability of a military event was priced in.

### Outlook

Global growth momentum and bond yields will continue to influence gilts. In terms of UK-specific factors, on the data front, the housing market continues to look rather gloomy. Net consumer credit growth has slowed, and GfK Consumer Confidence remains negative, although a slight improvement from July.

On the inflation front, the labour market continued to tighten, although in common with almost every other developed economy, low unemployment rates have so far failed to translate into higher wage growth. The Bank of England expects to see a pick-up in wage growth and a rebound in economic activity next year, and if this scenario materialises it may prompt higher UK interest rates. Even so, this eventuality is now largely priced in, with (as at early September) two rate hikes fully discounted by the market by end 2018. We currently believe that gilts are fairly priced, and in the absence of much stronger economic data, we would likely view any further rise in yields as a decent buying opportunity.

18 September 2017

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.

# Portfolio Statement

As at 31 August 2017

Nominal		Market Value £000s	% of Net Assets
<b>Sterling Denominated Fixed Rate Government Bonds 90.68% (2016 - 95.04%)</b>			
£19,500,000	Treasury 0.125% Inflation Linked Gilts 22/11/2056	39,528	2.80
£122,800,000	Treasury 0.5% Bonds 22/7/2022	123,096	8.72
£157,600,000	Treasury 1.25% Stock 22/7/2018	159,059	11.27
£37,000,000	Treasury 1.5% Bonds 22/7/2026	38,761	2.75
£92,000,000	Treasury 1.5% Gilts 22/7/2047	87,747	6.22
£86,600,000	Treasury 2.25% Stock 7/9/2023	95,198	6.75
£163,075,000	Treasury 3.25% Stock 22/1/2044	214,929	15.23
£159,200,000	Treasury 4.25% Stock 7/9/2039	234,163	16.60
£37,000,000	Treasury 4.5% Stock 7/12/2042	58,152	4.12
£161,100,000	Treasury 4.75% Stock 7/12/2030	228,806	16.22
		<b>1,279,439</b>	<b>90.68</b>
<b>Sterling Denominated Fixed Rate Corporate Bonds 0.00% (2016 - 1.64%)</b>			
<b>Canadian Dollar Denominated Fixed Rate Government Bonds 8.83% (2016 - 0.00%)</b>			
CAD 115,000,000	Canada (Government) 0.75% Bonds 1/9/2021	69,346	4.92
CAD 90,000,000	Canada (Government) 1.5% Notes 1/6/2023	55,209	3.91
		<b>124,555</b>	<b>8.83</b>
<b>US Dollar Denominated Fixed Rate Government Bonds 0.00% (2016 - 1.71%)</b>			
<b>DERIVATIVES (0.20)% (2016 - (0.01)%)</b>			
<b>Sterling Open Futures Contracts 0.04% (2016 - (0.02)%)</b>			
(1,370)	Long Gilt December 2017 Futures	522	0.04
<b>CAD Dollar Open Forward Exchange Contracts 0.00% (2016 - 0.00%)</b>			
	Bought CAD 10,800,000 : Sold GBP 6,608,330	75	0.00
<b>Sterling Open Forward Exchange Contracts (0.23)% (2016 - 0.01%)</b>			
	Bought GBP 17,322,520 : Sold USD 22,155,495	135	0.01
	Bought GBP 128,316,992 : Sold CAD 212,875,000	(3,418)	(0.24)
		<b>(3,283)</b>	<b>(0.23)</b>

## Portfolio Statement continued

Nominal	Market Value £000s	% of Net Assets
<b>US Dollar Open Forward Exchange Contracts (0.01)% (2016 - 0.00%)</b>		
Bought USD 22,155,000 : Sold GBP 17,318,972	(131)	(0.01)
Investment assets <sup>1</sup>	1,401,177	99.31
Net other assets	9,714	0.69
<b>Net assets</b>	<b>1,410,891</b>	<b>100.00</b>

<sup>1</sup> Includes derivative liabilities.

Unless otherwise stated, all investments are approved securities being either officially listed in a member state or traded on or under the rules of an eligible securities market.

Note: Comparative figures show percentages for each category of holding at 31 August 2016.

Please refer to page 30 for details on the credit quality of the portfolio.



## Statement of Total Return

For the year ended 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Income					
Net capital (losses) gains	2		(39,674)		152,271
Revenue	3	16,191		17,085	
Expenses	4	(4,111)		(3,402)	
Interest payable and similar charges	6	(727)		(344)	
Net revenue before taxation		11,353		13,339	
Taxation	5	0		0	
Net revenue after taxation			11,353		13,339
<b>Total return before distributions</b>			<b>(28,321)</b>		<b>165,610</b>
Distributions	7		(15,189)		(16,514)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(43,510)</b>		<b>149,096</b>

## Statement of Change in Net Assets Attributable to Shareholders

For the year ended to 31 August 2017

	2017 £000s	2017 £000s	2016 £000s	2016 £000s
<b>Opening net assets attributable to shareholders</b>		<b>1,119,446</b>		<b>955,949</b>
Amounts receivable on creation of shares	394,460		198,474	
Less: Amounts payable on cancellation of shares	(59,505)		(184,108)	
		334,955		14,366
Dilution levy		0		9
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		(43,510)		149,096
Unclaimed distributions		0		26
<b>Closing net assets attributable to shareholders</b>		<b>1,410,891</b>		<b>1,119,446</b>

Notes to the final report and financial statements are from page 24 to 31.

# Balance Sheet

As at 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
<b>Assets</b>					
Fixed assets					
Investments			1,404,726		1,101,479
Current assets					
Debtors	8	28,764		10,616	
Cash and bank balances	9	9,559		16,320	
<b>Total other assets</b>			38,323		26,936
<b>Total assets</b>			1,443,049		1,128,415
<b>Liabilities</b>					
Investment liabilities			(3,549)		(229)
Creditors					
Distribution payable on income shares	10	(8,856)		(8,166)	
Other creditors	10	(19,753)		(574)	
<b>Total other liabilities</b>			(28,609)		(8,740)
<b>Total liabilities</b>			(32,158)		(8,969)
<b>Net assets attributable to shareholders</b>			1,410,891		1,119,446

Notes to the final report and financial statements are from page 24 to 31.

# Notes to the Final Report and Financial Statements

## 1. Accounting policies

The applicable accounting policies adopted by the Allianz Gilt Yield Fund are included on pages 9 and 10 of the Collective Notes to the Final Report and Financial Statements.

## 2. Net capital (losses) gains

	2017 £000s	2016 £000s
(Losses) gains on non-derivative securities	(40,450)	162,372
Gains (losses) on derivative securities	6,321	(10,223)
(Losses) gains on forward currency contracts	(5,091)	97
(Losses) gains on currency	(446)	32
Handling charges	(8)	(7)
<b>Net capital (losses) gains</b>	<b>(39,674)</b>	<b>152,271</b>

## 3. Revenue

	2017 £000s	2016 £000s
Collateral interest	2	0
Interest from fixed income securities	16,189	17,022
Returns from bond futures	0	63
<b>Total revenue</b>	<b>16,191</b>	<b>17,085</b>

## Notes to the Final Report and Financial Statements continued

## 4. Expenses

	2017 £000s	2016 £000s
<b>Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director and agents of either of them:</b>		
ACD's annual fee <sup>1</sup>	3,836	3,174
Company secretarial costs	1	1
	3,837	3,175
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fees	161	131
Safe custody fees	66	46
	227	177
<b>Other expenses:</b>		
Audit fee	13	12
Distribution costs	16	16
Printing costs	3	4
Registration fees	13	15
Taxation advice	2	3
	47	50
<b>Total expenses</b>	<b>4,111</b>	<b>3,402</b>

<sup>1</sup> For the purpose of the distribution, this expense is borne by the capital account (see Note 7).

All expenditure stated above is inclusive of VAT where applicable.

The Audit fee for the year, excluding VAT, was £10,570 (2016 - £9,757).

## Notes to the Final Report and Financial Statements continued

## 5. Taxation

	2017 £000s	2016 £000s
<b>a. Analysis of taxation charge for the year:</b>		
Corporation tax	0	0
<b>Total taxation for the year (see Note 5(b))</b>	<b>0</b>	<b>0</b>

**b. Factors affecting taxation charge for the year:**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for a sub-fund of an Open Ended Investment Company 20% (2016 - 20%).

**The differences are explained below:**

Net revenue before taxation	11,353	13,339
Corporation tax at 20% (2016 - 20%)	2,271	2,668
<b>Effects of:</b>		
Indexation relief on index linked gilts	(135)	(127)
Tax deductible interest distributions	(2,136)	(2,541)
<b>Total taxation charge for the year (see Note 5(a))</b>	<b>0</b>	<b>0</b>

OEICs are exempt from tax on capital gains, therefore capital returns are not included in the above reconciliation.

## 6. Interest payable and similar charges

	2017 £000s	2016 £000s
Interest	20	17
Returns from short position bond futures	707	327
<b>Total interest payable and similar charges</b>	<b>727</b>	<b>344</b>



## Notes to the Final Report and Financial Statements continued

**7. Distributions**

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares and comprise:

	2017 £000s	2016 £000s
Interim	7,504	8,433
Final	8,856	8,166
	16,360	16,599
Add: Revenue deducted on cancellation of shares	114	526
Less: Revenue received on creation of shares	(1,285)	(611)
<b>Net distributions for the year</b>	<b>15,189</b>	<b>16,514</b>
<b>Reconciliation of net revenue after taxation to net distributions for the year:</b>		
Net revenue after taxation	11,353	13,339
Capitalised expenses	3,836	3,174
Equalisation on conversions	0	1
<b>Net distributions for the year</b>	<b>15,189</b>	<b>16,514</b>

**8. Debtors**

	2017 £000s	2016 £000s
Accrued revenue	7,857	8,324
Amounts receivable on creation of shares	6,698	2,292
Sales awaiting settlement	14,209	0
	<b>28,764</b>	<b>10,616</b>

**9. Cash and bank balances**

	2017 £000s	2016 £000s
Amount held at futures clearing houses and brokers	5,712	3,935
Cash and bank balances	3,847	12,385
	<b>9,559</b>	<b>16,320</b>

## Notes to the Final Report and Financial Statements continued

**10. Creditors**

	2017 £000s	2016 £000s
<b>a. Distribution payable on income shares</b>		
Net distribution payable	8,856	6,556
Income tax payable	0	1,610
	8,856	8,166
<b>b. Other creditors</b>		
Accrued ACD's annual fee	369	302
Amounts payable on cancellation of shares	293	189
Other accrued expenses	82	83
Purchases awaiting settlement	19,009	0
	19,753	574

**11. Related party transactions**

The ACD is deemed to be a related party under the definition of Financial Reporting Standard 102, which requires the disclosure of details of material transactions between the sub-fund and any related party.

Details of any related party transactions occurring during the year, including commissions paid and any balances due at the year end are disclosed in the Balance Sheet, the Statement of Change in Net Assets Attributable to Shareholders and Notes 4, 7, 8 and 10 to the financial statements. All creations and cancellations were transacted with the ACD.

**12. Equalisation**

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of net revenue included in the purchase price of all Group 2 shares. In the case of Accumulation shares, it is automatically reinvested in the sub-fund at the first distribution payment date after the shares were purchased. In the case of Income shares, it is refunded as part of a shareholder's first distribution. Being a capital repayment it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

**13. Shareholders' funds**

The sub-fund currently has three share classes in issue; C, I and Y. The ACD's annual fee on the share classes are as follows:

Class C:	0.50%
Class I:	0.30%
Class Y:	0.30%

The net asset value per share and the number of shares in issue are given in the Comparative Tables on page 14 to 16.

The distribution per share is given in the Distribution Table on page 17.

Revenue available for allocation will be allocated between the share classes based on the respective proportionate interests represented by those share classes on a daily basis and taxation is computed by reference to the net revenue after expenses attributable to each class. All share classes have the same rights on winding up.

**14. Contingent liabilities and commitments**

As at 31 August 2017 there were no contingent liabilities (2016 - £Nil).

## Notes to the Final Report and Financial Statements continued

### 15. Derivatives and other financial instruments

The narrative on pages 4 to 5 explains the different types of risks the sub-fund may face.

For this sub-fund, the ACD measures and manages risk using the value-at-risk approach. Please see page 6 for further details.

#### a. Fair value hierarchy

An analysis of the portfolio in accordance with the fair value hierarchy is shown below:

	Assets 31 August 2017 £000s	Liabilities 31 August 2017 £000s	Assets 31 August 2016 £000s	Liabilities 31 August 2016 £000s
Level 1: Quoted	522	0	0	(229)
Level 2: Observable	1,404,204	(3,549)	1,101,479	0
Level 3: Unobservable	0	0	0	0

The fair value as at the reporting date has been estimated using the following fair value hierarchy:

#### Level (1) Quoted prices for identical instruments in active markets

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### Level (2) Valuation techniques that use:

Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

#### Level (3) Valuation techniques that use:

Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

When the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate, the fair value is estimated by using an alternative valuation technique. Such valuation techniques will, where possible, maximise the use of observable market data inputs as opposed to non-observable entity determined data inputs.

The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

#### b. Maturity of financial liabilities

All liabilities are due in one year or less or on demand (2016 - same).

#### c. Fair value disclosure

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair value.

#### d. Derivatives

Derivatives are used in the sub-fund for the purposes of hedging and/or investment purposes. The main instruments used are money market futures and forward currency contracts. For more details please refer to page 5.

## Notes to the Final Report and Financial Statements continued

**15. Derivatives and other financial instruments (continued)****e. Credit rating**

An analysis of the credit quality of the sub-fund's portfolio is shown below:

	2017 Market Value £000s	2017 % of Net Assets	2016 Market Value £000s	2016 % of Net Assets
Investment Grade	1,403,994	99.51	1,101,381	98.39
Derivatives	(2,817)	(0.20)	(131)	(0.01)
Other assets (liabilities)	9,714	0.69	18,196	1.62
<b>Total net assets</b>	<b>1,410,891</b>	<b>100.00</b>	<b>1,119,446</b>	<b>100.00</b>

A fixed income security is deemed to be of investment grade, if it is rated BBB- or above.

As at 31 August 2017, all fixed income investments were investment grade (31 August 2016 - same).

**16. Share movement**

For the year ended 31 August 2017:

	Class C Shares (Income)	Class I Shares (Income)	Class Y Shares (Accumulation)
Opening shares	63,173,328	508,167,909	0
Shares created	2,325,154	211,289,821	587
Shares cancelled	(14,366,633)	(18,325,002)	(119)
Shares converted	(84,076)	81,021	0
<b>Closing shares</b>	<b>51,047,773</b>	<b>701,213,749</b>	<b>468</b>

## Notes to the Final Report and Financial Statements continued

**17. Portfolio transaction costs**

For the year ending 31 August

	Transaction Value 2017 £000s	Commissions 2017 £000s	Taxes 2017 %	Taxes 2017 £000s	Taxes 2017 %	Transaction Value 2016 £000s	Commissions 2016 £000s	Taxes 2016 %	Taxes 2016 £000s	Taxes 2016 %
<b>Purchases</b>										
Debt instruments (direct)	4,690,638	0	-	0	-	2,603,268	0	-	0	-
Total purchases	4,690,638	0		0		2,603,268	0		0	
Total purchases including transaction costs	4,690,638					2,603,268				
<b>Sales</b>										
Debt instruments (direct)	4,336,503	0	-	0	-	2,583,310	0	-	0	-
Total sales	4,336,503	0		0		2,583,310	0		0	
Total sales net of transaction costs	4,336,503					2,583,310				
Derivative cost		0	-	0	-		8	-	0	-
Total transaction costs		0		0			8		0	
<b>Total transaction costs as a % of average net assets</b>		<b>0.00%</b>		<b>0.00%</b>			<b>0.00%</b>		<b>0.00%</b>	

The above analysis covers any direct transaction costs suffered by the sub-fund during the year. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

For the sub-fund's investment transactions in debt and money market instruments any applicable transaction charges form part of the dealing spread for these instruments. Transactions in money market instruments to manage the sub-fund's daily liquidity position are excluded from the analysis.

During the year the sub-fund utilised futures contracts as derivative instruments covering different underlying asset classes. The settlement values for opening and closing derivative positions are not comparable to principal values for transactions in direct holding investments and therefore purchase and sale amounts for derivative transactions are not quantified in the analysis above. Transaction costs for derivatives positions will be either suffered as direct costs or form part of the dealing spread for the instruments. Any direct costs are identified in the analysis above.

Dealing spread costs suffered by the sub-fund vary considerably for the different asset / instrument types depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.05% (2016 - 0.02%).



# Allianz Strategic Bond Fund

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# Fund Information

## Investment Objective and Policy

The objective of the Fund is to maximise total return, consistent with preservation of capital and prudent investment management, primarily through investment directly in debt securities issued by corporate, government, supranational institutions and local regional agencies or by gaining exposure indirectly through the use of derivatives, as well as any other security. The Fund will invest internationally although at least 80% of its assets shall be invested in Sterling denominated (or hedged back to Sterling) debt 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 aims to achieve the investment objective by investing (directly or indirectly) 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), Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United States of America.

The Fund will invest primarily in investment grade debt securities (with fixed, variable or floating rates of interest and may vary inversely with respect to a reference rate), but may invest in debt securities that are rated below investment grade.

The Fund may use derivative instruments such as futures, options, options on swaps, swap agreements (e.g. 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, which may be up to a significant degree. 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).

## Fund Information continued

## Fund Details

<b>Fund Manager</b>	Mike Riddell			
<b>Benchmark</b>	Bloomberg Barclays Global Aggregate hedged to Sterling			
<b>Underlying Yield to 31 August 2017</b>	A Shares	0.8%		
	C Shares	1.5%		
	I Shares	1.8%		
	SP Shares	1.7%		
<b>Distribution Yield to 31 August 2017</b>	A Shares	0.8%		
	C Shares	1.5%		
	I Shares	1.8%		
	SP Shares	1.7%		
<b>Income allocation dates</b>	Interim	28 February*		
	Final	31 August		
<b>Income pay dates</b>	Interim	30 April		
	Final	31 October		
<b>Launch dates</b>	Fund	16 May 2002	I Shares	28 July 2016
	A Shares	16 May 2002	SP Shares	13 February 2017
	C Shares	1 April 2005		
<b>ISA status</b>	Yes			
<b>Share Classes and types of Shares</b>	A (Income Shares)		I (Income Shares)	
	C (Income Shares)		SP (Income Shares)	
<b>Minimum investment</b>	A Shares	Lump sum £500		
		Monthly saving £50		
	C Shares	Lump sum £500		
		Monthly saving £50		
	I Shares	Lump sum £10,000,000		
	SP Shares	Lump Sum £10,000,000 (Available to Approved Investors only)		
<b>Initial charge</b>	A Class	4%	I Class	Nil
	C Class	Nil	SP Shares	Nil
<b>Annual ACD fee</b>	A Class	1.25%	I Class	0.39%
	C Class	0.60%	SP Shares	0.48%

\*29 February in a leap year

With effect from 1 September 2016, the Allianz Strategic Bond 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.

# Comparative Tables

For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>A Shares (Income)</b>			
Opening net asset value per share	155.68	146.21	146.14
Return before operating charges	(0.79)	14.11	6.25
Operating charges	(2.19)	(2.17)	(2.16)
Return after operating charges	(2.98)	11.94	4.09
Distributions	(0.82)	(2.47)	(4.02)
Closing net asset value per share	151.88	155.68	146.21
After direct transaction costs of <sup>1</sup>	0.00	0.00	0.00
Return after operating charges	(1.91)%	8.17%	2.80%
Closing net asset value (£'000)	24,042	32,747	42,999
Closing number of shares	15,829,377	21,034,584	29,408,241
Operating charges	1.45%	1.46%	1.44%
Direct transaction costs	0.00%	0.00%	0.00%
<b>Prices</b>			
Highest share price	156.31	157.44	155.68
Lowest share price	148.07	144.76	145.22

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund

## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>C Shares (Income)</b>			
Opening net asset value per share	156.16	146.65	146.58
Return before operating charges	(0.79)	14.18	6.26
Operating charges	(1.08)	(1.05)	(1.08)
Return after operating charges	(1.87)	13.13	5.18
Distributions	(1.94)	(3.62)	(5.11)
Closing net asset value per share	152.35	156.16	146.65
After direct transaction costs of <sup>1</sup>	0.00	0.00	0.00
Return after operating charges	(1.20)%	8.95%	3.53%
Closing net asset value (£'000)	26,566	72,553	25,021
Closing number of shares	17,437,824	46,461,511	17,061,402
Operating charges	0.71%	0.70%	0.72%
Direct transaction costs	0.00%	0.00%	0.00%
<b>Prices</b>			
Highest share price	156.81	158.36	156.52
Lowest share price	148.84	145.20	145.69

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 <sup>2</sup> Pence per Share
<b>I Shares (Income)</b>		
Opening net asset value per share	100.39	100.00
Return before operating charges	(0.51)	0.64
Operating charges	(0.45)	(0.05)
Return after operating charges	(0.96)	0.59
Distributions	(1.49)	(0.20)
Closing net asset value per share	97.94	100.39
After direct transaction costs of <sup>1</sup>	0.00	0.00
Return after operating charges	(0.96)%	0.59%
Closing net asset value (£'000)	69,924	25,692
Closing number of shares	71,396,235	25,592,086
Operating charges <sup>3</sup>	0.46%	0.53%
Direct transaction costs	0.00%	0.00%
<b>Prices</b>		
Highest share price	100.81	101.26
Lowest share price	95.75	99.68

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

<sup>2</sup> On 28 July 2016, class I shares were introduced.

<sup>3</sup> Operating charges figure has been annualised from 28 July 2016 to 31 August 2016.

Operating charges 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 sub-fund

## Comparative Tables continued

## For the year ended 31 August

	2017 <sup>2</sup> Pence per Share
<b>SP Shares (Income)</b>	
Opening net asset value per share	100.00
Return before operating charges	3.10
Operating charges	(0.61)
Return after operating charges	2.49
Distributions	0.00
Closing net asset value per share	102.49
After direct transaction costs of <sup>1</sup>	0.00
Return after operating charges	2.49%
Closing net asset value (£'000)	5
Closing number of shares	4,872
Operating charges	0.60%
Direct transaction costs	0.00%
<b>Prices</b>	
Highest share price	103.10
Lowest share price	99.62

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

<sup>2</sup> From 13 February 2017 to 31 August 2017.

Operating charges 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 sub-fund

# Distribution Table

For the year ended 31 August 2017

Interim

Group 1: Shares purchased prior to 1 September 2016

Group 2: Shares purchased on or after 1 September 2016 to 28 February 2017

Share Class	Gross Distribution 30 April 2017 per Share (p)	Equalisation 30 April 2017 per Share (p)	Distribution paid 30 April 2017 per Share (p)	Distribution paid 30 April 2016 per Share (p)
<b>Income Shares</b>				
<b>A Shares</b>				
Group 1	0.5481	0.0000	0.5481	1.3693
Group 2	0.3052	0.2429	0.5481	1.3693
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	1.1200	0.0000	1.1200	1.8034
Group 2	0.6951	0.4249	1.1200	1.8034
<b>Income Shares</b>				
<b>I Shares<sup>1</sup></b>				
Group 1	0.8332	0.0000	0.8332	N/A
Group 2	0.7470	0.0862	0.8332	N/A
<b>Income Shares</b>				
<b>SP Shares<sup>2</sup></b>				
Group 1	0.0000	0.0000	0.0000	N/A
Group 2	0.0000	0.0000	0.0000	N/A

<sup>1</sup> On 28 July 2016, class I shares were introduced, therefore there were no group 1 shares in issue for the comparative figures.

<sup>2</sup> On 13 February 2017, class SP shares were introduced, therefore there were no shares in issue for the comparative figures.

With effect from 1 September 2016, the Allianz Strategic Bond 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. Current year distribution figures are gross whereas the comparative figures are net of income tax.

Investors are reminded that distribution is not guaranteed.



## Distribution Table continued

## Final

Group 1: Shares purchased prior to 1 March 2017

Group 2: Shares purchased on or after 1 March 2017 to 31 August 2017

Share Class	Gross Distribution 31 October 2017 per Share (p)	Equalisation 31 October 2017 per Share (p)	Distribution payable 31 October 2017 per Share (p)	Distribution paid 31 October 2016 per Share (p)
<b>Income Shares</b>				
<b>A Shares</b>				
Group 1	0.2689	0.0000	0.2689	0.6103
Group 2	0.0941	0.1748	0.2689	0.6103
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	0.8235	0.0000	0.8235	1.0898
Group 2	0.3767	0.4468	0.8235	1.0898
<b>Income Shares</b>				
<b>I Shares<sup>1</sup></b>				
Group 1	0.6608	0.0000	0.6608	N/A
Group 2	0.3468	0.3140	0.6608	0.1575
<b>Income Shares</b>				
<b>SP Shares<sup>2</sup></b>				
Group 1	0.0000	0.0000	0.0000	N/A
Group 2	0.0000	0.0000	0.0000	N/A

<sup>1</sup> On 28 July 2016, class I shares were introduced, therefore there were no group 1 shares in issue for the comparative figures.<sup>2</sup> On 13 February 2017, class SP shares were introduced, therefore there were no shares in issue for the comparative figures.

With effect from 1 September 2016, the Allianz Strategic Bond 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. Current year distribution figures are gross whereas the comparative figures are net of income tax.

Investors are reminded that distribution is not guaranteed.

# Investment Review

## Performance Summary

Over the twelve-month period under review, from 1 September 2016 to 31 August 2017, the Fund's 'C Inc' class produced a total return of -1.06% and the 'A' Inc class produced a total return of -1.77%. The Fund's benchmark, the Barclays Global Aggregate hedged to Sterling, produced a total return of -0.74% over the period.\*

The key reasons for this underperformance were our long duration positioning through Q4 2016, and our main credit derivative position through 2017, while our inflation positions proved a strong positive for portfolio returns.

## Market Background

The end of 2016 saw one of the most vicious bear markets in global government bonds ever, which began on the belief in central bank regime change globally, was fuelled by rising inflation figures as part of a global reflation narrative, and took a final leg up in yields following Trump's election in the US, and the consensus belief that the ensuing tax cuts and infrastructure spending would push a late-cycle US economy into high inflation territory. Globally, we believed that the rising headline inflation figures were primarily caused by base effects in the year-on-year change in commodity prices, in turn fuelled by Chinese stimulus. Sterling's marked depreciation made the UK a somewhat different case, since evidence suggests that it takes at least two years for the full effects of sterling moves to filter through to the inflation rate.

The global bond bear market finally tired in December, and in February started to see global government bonds reverse some of their selloff. Global inflation rates continued to tick higher, on the back of the commodity price base effects we anticipated, peaking around March. Politics took the limelight through Q2, with the French and UK elections. While adding some short-term uncertainty, Macron's victory in the first round of the presidential elections contributed to a risk-on move in bond markets. Credit rallied and government bonds sold off. Commodity base effects faded away globally, while sterling's depreciation started to feed further into higher inflation rates.

We saw a second shift in rhetoric by major central banks globally in June, contributing to the second bear market of

the period under review. Markets started to price in higher rates, particularly at the front end. However, geopolitical concerns from the Korean peninsula, and political controversies in the US, saw a large risk-off move in August, bringing yields lower as investors sought safe haven assets.

Volatility over the period was in a downward trend, to hit record low levels in July. Despite some elevated levels around political events, lower volatility supported a tightening of credit spreads over the period.

## Portfolio Review

The Fund's primary drivers of returns are duration and curve positioning, credit, inflation and FX.

On duration, global structural factors meant that we generally held a long duration bias over the period; however we dynamically moved fund duration around surrounding central bank announcements, political events, supply factors and pick-ups in the global growth outlook. We did not believe in the market narrative supporting the return of global reflation in Q4 2016, however our long duration positioning hurt performance. As rates sold off, our conviction increased, and we saw in the New Year very long duration versus the benchmark. We took some profit and reduced duration as government bonds rallied in February, although we retained the view that government bonds had further to go. This conviction was revitalised in June when government bonds sold off following central bank rhetoric of tighter policy. Although this initially hurt performance, we increased duration which drove alpha over the summer. As geopolitical concerns brought yields lower in August, we trimmed duration to bring the fund neutral by end of the month.

At the start of the period, the Fund's credit exposure was moved to underweight for the first time post-Brexit, as a 12% short position in European financials subordinated credit was entered into. This short was increased over the period under review, until our credit strategy was slightly short credit outright. Unfortunately, a combination of volatility touching record low levels, a marked tightening following Macron's first-round electoral victory, and a technical change to the CDS index in June caused this spread to tighten severely, which was a large negative

\* 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. Performance per comparative table based on bid market price portfolio valuation at close of business on the last day of the accounting period and with related accounting adjustments. Benchmark performance based on end of day prices.

contributor to the Fund. Elsewhere, we added credit exposure selectively at issuance, and rotated sector exposure, moving out of energy holdings and most recently selling UK financial exposure. We also reduced EM exposure over the year, following a strong rally in Turkish and Mexican government bonds.

The central view guiding our inflation strategy was that structural factors will continue to weigh down on inflation rates, and inflation-linked bonds appeared too expensive. We tactically bought linkers around issuance, but our main fundamental views were expressed using inflation swaps, on both absolute and relative views that inflation expectations would fall.

Although we had been relatively quiet in the FX space in 2016, we increased activity here when our convictions grew. Primarily, through early 2017 we moved short a basket of EM currencies (KRW, BRL, ZAR, RUB) and we also moved longer dollar following its slide through 2017 to levels we felt were overdone against the backdrop of tighter US policy.

### Outlook

Despite the economic backdrop, central banks globally now appear focused on a tightening path. The Fund as at the end of the period was short duration. We retain a negative view on credit, given that low volatility has contributed to very tight credit spreads. One reason for the low volatility was the exceptionally loose monetary policy globally which, if reversed, should lead to higher volatility and wider spreads. Given the disparity between the Federal Reserve leading the central bank tightening, and the amount the US dollar has sold off, our central FX expectation is for the US dollar to rally. This would prove bearish for both emerging markets and commodities. We continue to expect a low inflation environment, given structural changes to the labour market and global economy, but if a stronger dollar negatively impacts commodity prices, headline inflation could dip. Chinese growth picked up over the summer, proving supportive for commodities, but we continue to closely monitor events here in case a downturn materialises.

18 September 2017

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.

# Portfolio Statement

As at 31 August 2017

Nominal	Market Value £000s	% of Net Assets
<b>Sterling Denominated Fixed Rate Government Bonds 2.49% (2016 - 8.10%)</b>		
£330,000 Federal National Mortgage Association 5.375% Bonds 7/12/2028	449	0.37
£1,145,000 Treasury 0.5% Bonds 22/7/2022	1,148	0.95
£1,390,000 Treasury 0.75% Bonds 22/7/2023	1,402	1.17
	<b>2,999</b>	<b>2.49</b>
<b>Sterling Denominated Fixed Rate Corporate Debt Securities 5.66% (2016 - 11.50%)</b>		
£200,000 AA Bond 4.2487% Senior European Medium Term Notes 31/7/2043	214	0.18
£350,000 ABP Finance 6.25% Guaranteed European Medium Term Bonds 14/12/2026	455	0.38
£400,000 AIG 5% Guaranteed Senior European Medium Term Bonds 26/4/2023	469	0.39
£200,000 Arqiva Financing 5.34% European Medium Term Note 30/12/2037	241	0.20
£900,000 BASF 1.75% European Medium Term Notes 11/3/2025	917	0.76
£400,000 E.ON International Finance 6% Guaranteed European Medium Term Bonds 30/10/2019	444	0.37
£100,000 Holmes Master Issuer 4.009% Guaranteed Mortgage Backed European Medium Term Bonds 15/10/2054	101	0.08
£300,000 Imperial Brands Finance 7.75% Guaranteed European Medium Term Notes 24/6/2019	336	0.28
£300,000 Nationwide Building Society 2.25% European Medium Term Notes 29/4/2022	317	0.26
£400,000 Telecom Italia 6.375% Guaranteed Senior European Medium Term Notes 24/6/2019	437	0.36
£100,000 Telecom Italia 7.375% Guaranteed Senior European Medium Term Notes 15/12/2017	102	0.09
£496,848 Telereal Secured Finance 4.01% Asset Backed Notes 10/12/2033	541	0.45
£300,000 Telereal Securitisation 4.0902% Asset Backed Bonds 10/12/2033	316	0.26
£200,000 Trafford Centre Finance 4.75% Bonds 28/4/2029	222	0.18
£1,000,000 Travis Perkins 4.375% Guaranteed Senior Bonds 15/9/2021	1,051	0.87
£300,000 United Utilities Water 5.75% Guaranteed Senior European Medium Term Bonds 25/3/2022	362	0.30
£100,000 Vodafone 5.375% Guaranteed Senior European Medium Term Notes 5/12/2017	101	0.08
£200,000 Volkswagen Financial Services 2.375% Guaranteed European Medium Term Notes 13/11/2018	203	0.17
	<b>6,829</b>	<b>5.66</b>
<b>Sterling Denominated Fixed Rate Perpetual Corporate Debt Securities 0.00% (2016 - 0.00%)</b>		
£319,233 Whitnash 9% Guaranteed Perpetual Notes <sup>1</sup>	0	0.00
<b>Sterling Denominated Variable Rate Corporate Debt Securities 1.59% (2016 - 2.25%)</b>		
£300,000 Greene King Finance Floating Rate Notes 15/3/2036	230	0.19
£1,050,000 NGG Finance 5.625% Floating Rate Notes 18/6/2073	1,193	0.99

## Portfolio Statement continued

Nominal		Market Value £000s	% of Net Assets
<b>Sterling Denominated Variable Rate Corporate Debt Securities (continued)</b>			
£44,833	Residential Mortgage Securities 25 A1 3.56475% Floating Rate Mortgage Backed Securities 16/12/2050	45	0.04
£500,000	Trafford Centre Finance 0.854% Floating Rate Medium Term Notes 28/7/2038	452	0.37
		<b>1,920</b>	<b>1.59</b>
<b>Sterling Denominated Variable Rate Perpetual Corporate Debt Securities 0.00% (2016 - 0.11%)</b>			
<b>Euro Denominated Fixed Rate Government Bonds 11.00% (2016 - 21.16%)</b>			
€ 1,600,000	Germany (Federal Republic) 2.5% Bonds 4/7/2044	1,958	1.62
€ 3,000,000	Germany (Federal Republic) 4.75% Bonds 4/7/2028	4,052	3.36
€ 1,500,000	Italy (Republic) 0.95% Bonds 15/3/2023	1,380	1.15
€ 4,000,000	Italy (Republic) 1.6% Bonds 1/6/2026	3,620	3.00
€ 2,350,000	Italy (Republic) 3.45% Bonds 1/3/2048	2,249	1.87
		<b>13,259</b>	<b>11.00</b>
<b>Euro Denominated Fixed Rate Corporate Debt Securities 1.46% (2016 - 2.33%)</b>			
€ 850,000	AT&T 3.15% Bonds 4/9/2036	791	0.65
€ 1,050,000	General Electric 2.125% Bonds 17/5/2037	974	0.81
		<b>1,765</b>	<b>1.46</b>
<b>Euro Denominated Fixed Rate Perpetual Corporate Debt Securities 0.69% (2016 - 1.03%)</b>			
€ 800,000	Rabobank Nederland 6.625% Perpetual Bonds	826	0.69
<b>Euro Denominated Variable Rate Corporate Debt Securities 1.01% (2016 - 0.86%)</b>			
€ 18,982	Berica 0.379% Floating Rate Notes 31/12/2055	17	0.02
€ 1,200,000	Merck 3.375% Variable Rate Bonds 12/12/2074	1,195	0.99
		<b>1,212</b>	<b>1.01</b>
<b>Euro Denominated Variable Rate Perpetual Corporate Debt Securities 2.08% (2016 - 1.71%)</b>			
€ 1,400,000	NN 4.5% Perpetual Subordinated Floating Rate Notes	1,400	1.16
€ 1,200,000	Total 2.625% Perpetual Floating Rate Notes	1,105	0.92
		<b>2,505</b>	<b>2.08</b>
<b>US Dollar Denominated Fixed Rate Government Bonds 24.53% (2016 - 21.63%)</b>			
\$1,000,000	Abu Dhabi (Government) 3.125% Bonds 3/5/2026	791	0.66
\$2,000,000	Ukraine (Republic of) 1.471% Notes 29/09/2021	1,531	1.27
\$6,000,000	Treasury 1.625% Bonds 15/2/2026	4,499	3.73
\$6,000,000	Treasury 1.75% Bonds 31/12/2020	4,693	3.89

## Portfolio Statement continued

Nominal		Market Value £000s	% of Net Assets
<b>US Dollar Denominated Fixed Rate Government Bonds (continued)</b>			
\$6,000,000	Treasury 1.75% Notes 15/5/2023	4,639	3.85
\$4,400,000	Treasury 2% Bonds 15/11/2026	3,385	2.81
\$5,000,000	Treasury 2.125% Bonds 29/2/2024	3,935	3.26
\$5,000,000	Treasury 2.25% Bonds 15/2/2027	3,925	3.26
\$2,000,000	Treasury 5% Notes 15/5/2037	2,171	1.80
		<b>29,569</b>	<b>24.53</b>
<b>US Dollar Denominated Fixed Rate Corporate Debt Securities 1.80% (2016 - 3.35%)</b>			
\$400,000	California Resources 5% Bonds 15/1/2020	173	0.14
\$1,500,000	Petroleum of Trinidad & Tobago 9.75% Bonds 14/8/2019	1,271	1.06
\$750,000	Vodafone 6.15% Guaranteed Senior Bonds 27/2/2037	721	0.60
		<b>2,165</b>	<b>1.80</b>
<b>US Dollar Denominated Variable Rate Perpetual Corporate Debt Securities 0.55% (2016 - 0.53%)</b>			
\$740,000	Rabobank Nederland 11% Guaranteed Perpetual Subordinated Floating Rate Bonds	659	0.55
<b>Australian Dollar Denominated Fixed Rate Government Bonds 3.45% (2016 - 2.30%)</b>			
AUD 7,500,000	Australia (Commonwealth) 3% Bonds 21/3/2047	4,162	3.45
<b>Australian Dollar Denominated Fixed Rate Corporate Debt Securities 1.03% (2016 - 0.00%)</b>			
AUD 2,000,000	International Bank for Reconstruction & Development 2.8% Medium Term Notes 12/1/2022	1,241	1.03
<b>Canadian Dollar Denominated Fixed Rate Government Bonds 14.74% (2016 - 2.03%)</b>			
CAD 15,000,000	Canada (Government) 0.75% Bonds 1/9/2021	9,045	7.50
CAD 10,000,000	Canada (Government) 1.5% Notes 1/6/2023	6,134	5.09
CAD 3,000,000	Canada (Government) 5.75% Debentures 1/6/2029	2,589	2.15
		<b>17,768</b>	<b>14.74</b>
<b>Danish Krone Denominated Fixed Rate Government Bonds 6.96% (2016 - 4.05%)</b>			
DKK 60,000,000	Denmark (Kingdom) 1.75% Bonds 15/11/2025	8,393	6.96
<b>Japanese Yen Denominated Fixed Rate Government Bonds 6.77% (2016 - 4.81%)</b>			
JPY 830,000,000	Japan (Government) 0.1% Bonds 15/3/2019	5,876	4.88
JPY 400,000,000	Japan (Government) 0.4% Bonds 20/3/2056	2,282	1.89
		<b>8,158</b>	<b>6.77</b>

## Portfolio Statement continued

Nominal	Market Value £000s	% of Net Assets
<b>Mexican Peso Denominated Fixed Rate Government Bonds 6.65% (2016 - 6.01%)</b>		
MXN125,000,000 Mexico (Government) 8.5% Bonds 13/12/2018	5,552	4.61
MXN 50,000,000 Mexico (Government) 8.5% Bonds 31/5/2029	2,455	2.04
	<b>8,007</b>	<b>6.65</b>
<b>New Zealand Dollar Denominated Fixed Rate Government Bonds 2.86% (2016 - 1.47%)</b>		
NZD 7,000,000 New Zealand (Government) 2.75% Bonds 15/4/2037	3,446	2.86
<b>Singapore Dollar Denominated Fixed Rate Government Bonds 0.00% (2016 - 3.28%)</b>		
<b>DERIVATIVES (1.36)% (2016 - (3.60)%)</b>		
<b>Sterling Open Forward Exchange Contracts (1.92)% (2016 - (3.99)%)</b>		
Bought GBP 11,275,677 : Sold AUD 18,720,000	(223)	(0.18)
Bought GBP 13,011,029 : Sold JPY 1,794,740,750	276	0.23
Bought GBP 17,593,879 : Sold CAD 29,375,568	(585)	(0.49)
Bought GBP 3,430,344 : Sold NZD 6,142,623	18	0.01
Bought GBP 38,073,839 : Sold USD 48,617,364	358	0.30
Bought GBP 45,129,975 : Sold EUR 51,110,000	(2,038)	(1.69)
Bought GBP 660,000 : Sold ZAR 10,940,437	8	0.01
Bought GBP 7,900,000 : Sold MXN 184,754,977	(127)	(0.11)
	<b>(2,313)</b>	<b>(1.92)</b>
<b>Sterling Open Futures Contracts 0.00% (2016 - (0.02)%)</b>		
<b>Sterling Interest Rate Swaps 0.07% (2016 - 0.00%)</b>		
25,000,000 Receive 0.9% Pay Variable 31/10/2020	82	0.07
<b>Australian Dollar Open Forward Exchange Contracts 0.04% (2016 - 0.06%)</b>		
Bought AUD 1,600,000 : Sold JPY 132,042,560	53	0.04
Bought AUD 54,396 : Sold GBP 32,954	1	0.00
	<b>54</b>	<b>0.04</b>
<b>Canadian Dollar Open Forward Exchange Contracts 0.00% (2016 - 0.00%)</b>		
Bought CAD 345,125 : Sold GBP 210,000	4	0.00
<b>Canadian Dollar Open Futures Contracts 0.00% (2016 - 0.00%)</b>		
25 Canada 10years Bond December 2017	2	0.00
<b>Euro Credit Default Swaps 0.30% (2016 - 0.61%)</b>		
€ 20,000,000 CDS Euro ML 1% 20/06/2022	178	0.15
€ 20,000,000 CDS Euro JPM 1% 20/06/2022	178	0.15
	<b>356</b>	<b>0.30</b>



## Portfolio Statement continued

Nominal	Market Value £000s	% of Net Assets
<b>Euro Open Forward Exchange Contracts 0.40% (2016 - 0.00%)</b>		
Bought EUR 1,770,000 : Sold USD 2,059,601	36	0.03
Bought EUR 13,004,000 : Sold GBP 11,549,631	451	0.37
Bought EUR 160,000 : Sold SEK 1,530,208	(2)	0.00
Bought EUR 60,000 : Sold CAD 89,745	0	0.00
	<b>485</b>	<b>0.40</b>
<b>Euro Open Futures Contracts (0.03)% (2016 - (0.19)%)</b>		
(63) Euro- Oat September 2017	(33)	(0.03)
<b>Euro Inflation Swaps (0.14)% (2016 - 0.00%)</b>		
€ 25,000,000 EUR20270615R1.318PCPTE1D	(173)	(0.14)
<b>Japanese Yen Open Forward Exchange Contracts 0.14% (2016 - 0.02%)</b>		
Bought JPY 59,879,452 : Sold USD 525,000	15	0.01
Bought JPY 764,745,911 : Sold GBP 5,231,360	162	0.13
	<b>177</b>	<b>0.14</b>
<b>Mexican Peso Open Forward Exchange Contracts 0.00% (2016 - 0.06%)</b>		
<b>New Zealand Dollar Open Forward Exchange Contracts (0.08)% (2016 - 0.00%)</b>		
Bought NZD 8,660,640 : Sold GBP 4,888,035	(97)	(0.08)
<b>Swedish Krona Open Forward Exchange Contracts (0.00)% (2016 - (0.03)%)</b>		
<b>Swiss Franc Open Forward Exchange Contracts 0.00% (2016 - (0.03)%)</b>		
<b>US Dollar Open Forward Exchange Contracts (0.14)% (2016 - 0.05%)</b>		
Bought USD 13,638,668 : Sold GBP 10,607,416	(34)	(0.03)
Bought USD 3,243,964 : Sold KRW 3,700,000,000	(38)	(0.03)
Bought USD 5,672,686 : Sold BRL 18,000,000	7	0.01
Bought USD 8,204,174 : Sold ZAR 110,000,000	(105)	(0.09)
	<b>(170)</b>	<b>(0.14)</b>
<b>US Dollar Open Futures Contracts 0.00% (2016 - 0.14%)</b>		
Investment assets <sup>2</sup>	113,257	93.96
Net other assets	7,280	6.04
<b>Net assets</b>	<b>120,537</b>	<b>100.00</b>

<sup>1</sup> Indicates unquoted or delisted securities, stated at ACD's valuation.

<sup>2</sup> Includes derivative liabilities.

Unless otherwise stated, all investments are approved securities being either officially listed in a member state or traded on or under the rules of an eligible securities market.

Please refer to page 59 for details on the credit quality of the portfolio.

Note: Comparative figures show percentages for each category of holding at 31 August 2016.

## Statement of Total Return

For the year ended to 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Income					
Net capital (losses) gains	2		(3,390)		5,240
Revenue	3	2,964		2,676	
Expenses	4	(948)		(815)	
Interest payable and similar charges	6	(370)		(246)	
Net revenue before taxation		1,646		1,615	
Taxation	5	0		0	
Net revenue after taxation			1,646		1,615
<b>Total return before distributions</b>			(1,744)		6,855
Distributions	7		(1,658)		(1,624)
<b>Change in net assets attributable to shareholders from investment activities</b>			(3,402)		5,231

## Statement of Change in Net Assets Attributable to Shareholders

For the year ended to 31 August 2017

	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Opening net assets attributable to shareholders		130,992		68,020
Amounts receivable on creation of shares	80,274		75,330	
Less: Amounts payable on cancellation of shares	(87,346)		(17,601)	
		(7,072)		57,729
Dilution levy		19		0
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		(3,402)		5,231
Unclaimed distributions		0		12
<b>Closing net assets attributable to shareholders</b>		120,537		130,992

Notes to the final report and financial statements are from page 51 to 60.

# Balance Sheet

As at 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
<b>Assets</b>					
Fixed assets					
Investments			116,712		130,066
Current assets					
Debtors	8	4,585		21,640	
Cash and bank balances	9	9,336		5,493	
<b>Total other assets</b>			<b>13,921</b>		<b>27,133</b>
<b>Total assets</b>			<b>130,633</b>		<b>157,199</b>
<b>Liabilities</b>					
Investment liabilities			(3,455)		(5,747)
Amount held at futures clearing houses and brokers	9	(1,080)		(570)	
Creditors					
Bank overdraft	9	0		(362)	
Distribution payable on income shares	10	(658)		(807)	
Other creditors	10	(4,903)		(18,721)	
<b>Total other liabilities</b>			<b>(6,641)</b>		<b>(20,460)</b>
<b>Total liabilities</b>			<b>(10,096)</b>		<b>(26,207)</b>
<b>Net assets attributable to shareholders</b>			<b>120,537</b>		<b>130,992</b>

Notes to the final report and financial statements are from page 51 to 60.

# Notes to the Final Report and Financial Statements

## 1. Accounting policies

The applicable accounting policies adopted by the Allianz Strategic Bond Fund are included on pages 9 and 10 of the Collective Notes to the Final Report and Financial Statements.

## 2. Net capital (losses) gains

	2017 £000s	2016 £000s
Gains on non-derivative securities	19	12,935
Gains on currency	356	174
Gains (losses) on derivative securities	2,737	(1,257)
Losses on forward currency contracts	(6,486)	(6,602)
Handling charges	(16)	(10)
<b>Net capital (losses) gains</b>	<b>(3,390)</b>	<b>5,240</b>

## 3. Revenue

	2017 £000s	2016 £000s
Bank interest	1	2
Interest from fixed income securities	2,931	2,517
Returns from bond futures	32	24
Premiums from credit default swaps	0	133
<b>Total revenue</b>	<b>2,964</b>	<b>2,676</b>

## Notes to the Final Report and Financial Statements continued

## 4. Expenses

	2017 £000s	2016 £000s
<b>Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director and agents of either of them:</b>		
ACD's annual fee	821	705
Company secretarial costs	1	1
	822	706
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fees	31	24
Safe custody fees	20	9
	51	33
<b>Other expenses:</b>		
Audit fee	13	13
Distribution costs	24	20
Printing costs	5	7
Registration fees	30	33
Taxation advice	2	3
Other expenses	1	0
	75	76
<b>Total expenses</b>	<b>948</b>	<b>815</b>

All expenditure stated above is inclusive of VAT where applicable.

The Audit fee for the year, excluding VAT, was £10,570 (2016 - £10,855).

## Notes to the Final Report and Financial Statements continued

## 5. Taxation

	2017 £000s	2016 £000s
<b>a. Analysis of taxation charge for the year:</b>		
Corporation tax	0	0
<b>Total taxation for the year (see Note 5(b))</b>	<b>0</b>	<b>0</b>

**b. Factors affecting taxation charge for the year:**

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK for a sub-fund of an Open Ended Investment Company (20%) (2016 - 20%).

The differences are explained below:

Net revenue before taxation	1,646	1,615
Corporation tax at 20% (2016 - 20%)	329	323
<b>Effects of:</b>		
Surplus allowable expenses utilised in the year	0	(6)
Tax deductible interest distributions	(329)	(317)
<b>Total taxation charge for the year (see Note 5(a))</b>	<b>0</b>	<b>0</b>

OEICs are exempt from tax on capital gains, therefore capital returns are not included in the above reconciliation.

## 6. Interest payable and similar charges

	2017 £000s	2016 £000s
Interest	18	15
Premiums on credit default swaps	100	10
Returns from short position bond futures	252	221
<b>Total interest payable and similar charges</b>	<b>370</b>	<b>246</b>

## Notes to the Final Report and Financial Statements continued

**7. Distributions**

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares and comprise:

	2017 £000s	2016 £000s
Interim	931	958
Final	658	807
	1,589	1,765
Add: Revenue deducted on cancellation of shares	182	86
Less: Revenue received on creation of shares	(113)	(227)
<b>Net distributions for the year</b>	<b>1,658</b>	<b>1,624</b>
<b>Reconciliation of net revenue after taxation to net distributions for the year:</b>		
Net revenue after taxation	1,646	1,615
Equalisation on conversions	12	9
<b>Net distributions for the year</b>	<b>1,658</b>	<b>1,624</b>

**8. Debtors**

	2017 £000s	2016 £000s
Accrued revenue	851	1,117
Amounts receivable on creation of shares	38	11,036
Foreign currency receivable	0	9,487
Sales awaiting settlement	3,696	0
	<b>4,585</b>	<b>21,640</b>

**9. Cash and bank balances**

	2017 £000s	2016 £000s
Amount held at futures clearing houses and brokers	2,748	5,231
Cash and bank balances	6,588	262
	<b>9,336</b>	<b>5,493</b>
Overdrawn amounts held at futures clearing houses and brokers	(1,080)	(570)
Bank overdraft	0	(362)
	<b>8,256</b>	<b>4,561</b>

## Notes to the Final Report and Financial Statements continued

**10. Creditors**

	2017 £000s	2016 £000s
<b>a. Distribution payable</b>		
Net distribution payable	658	675
Income tax payable	0	132
	<b>658</b>	<b>807</b>
<b>b. Other creditors</b>		
Accrued ACD's annual fee	65	75
Amounts payable on cancellation of shares	4,794	56
Foreign currency payable	0	9,472
Other accrued expenses	44	45
Purchases awaiting settlement	0	9,073
	<b>4,903</b>	<b>18,721</b>

**11. Related party transactions**

The ACD is deemed to be a related party under the definition of Financial Reporting Standard 102, which requires the disclosure of details of material transactions between the sub-fund and any related party.

Details of any related party transactions occurring during the year, including commissions paid and any balances due at the year end are disclosed in the Balance Sheet, the Statement of Change in Net Assets Attributable to Shareholders and Notes 4, 7, 8 and 10 to the financial statements. All creations and cancellations of shares were transacted with the ACD.

**12. Equalisation**

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of net revenue included in the purchase price of all Group 2 shares. In the case of Income shares, it is refunded as part of a shareholder's first distribution. Being a capital repayment it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

**13. Shareholders' funds**

The sub-fund currently has four classes of share; A, C, I and SP. The ACD's annual fee on these share classes are as follows:

Class A: 1.25%  
 Class C: 0.60%  
 Class I: 0.39%  
 Class SP: 0.48%

The net asset value per share and the number of shares in issue are given in the Comparative Tables on pages 36 to 39.

The distribution per share is given in the Distribution Tables on page 40.

Revenue available for allocation will be allocated between the share classes based on the respective proportionate interests represented by those share classes on a daily basis and taxation is computed by reference to the net revenue after expenses attributable to each class. All share classes have the same rights on winding up.



## Notes to the Final Report and Financial Statements continued

**14. Contingent liabilities and commitments**

As at 31 August 2017 there were no contingent liabilities (2016 - £Nil).

**15. Derivatives and other financial instruments****a. Currency exposure**

A proportion of the net assets and liabilities of the sub-fund are denominated in currencies other than Sterling, with the effect that the total net assets and total return can be affected by currency movements.

Currency	Monetary Exposure 31 August 2017 £000s	Non-Monetary Exposure 31 August 2017 £000s	Total Exposure 31 August 2017 £000s	Monetary Exposure 31 August 2016 £000s	Non-Monetary Exposure 31 August 2016 £000s	Total Exposure 31 August 2016 £000s
Australian Dollar	0	(5,012)	(5,012)	24	72	96
Brazilian Real	0	(4,386)	(4,386)	0	0	0
Canadian Dollar	277	(165)	112	57	6	63
Danish Krone	0	8,496	8,496	1	5,362	5,363
Euro	1,686	(9,764)	(8,078)	831	(10,510)	(9,679)
Japanese Yen	5	314	319	28	914	942
Korean Won	0	(2,548)	(2,548)	0	0	0
Mexican Peso	0	115	115	32	5,569	5,601
New Zealand Dollar	0	4,861	4,861	26	49	75
Singapore Dollar	2	0	2	15	50	65
South African Rand	26	(7,104)	(7,078)	0	0	0
Swedish Krona	0	(149)	(149)	1	0	1
Swiss Franc	0	0	0	0	5,067	5,067
US Dollar	27	16,618	16,645	352	1,911	2,263

**b. Interest rate risk profile**

The interest rate profile of the sub-fund's portfolio of investments at the balance sheet date was:

Currency	Floating Rate 31 August 2017 £000s	Fixed Rate 31 August 2017 £000s	Non-Interest 31 August 2017 £000s	Total 31 August 2017 £000s	Floating Rate 31 August 2016 £000s	Fixed Rate 31 August 2016 £000s	Non-Interest 31 August 2016 £000s	Total 31 August 2016 £000s
Assets	6,296	108,587	1,829	116,712	7,151	121,870	1,045	130,066
Liabilities	0	0	(3,455)	(3,455)	0	0	(5,747)	(5,747)

## Notes to the Final Report and Financial Statements continued

## 15. Derivatives and other financial instruments (continued)

## c. Sensitivity analysis

## Market price sensitivity

The value of the sub-fund's investments (excluding open forward currency contracts), which were exposed to market price risk as at 31 August were as follows:

	2017 £000s	2016 £000s
Bonds	114,883	129,021
Credit Default swaps	356	800
Interest Rate swaps	(91)	0
Open futures contracts	(31)	(456)

The following illustrates the sensitivity of the net return and the net assets to an increase or decrease of 20% (2016 - 20%) in the fair values of the sub-fund's investments. This level of change is considered to be reasonably possible based on observation of market conditions in the year. The sensitivity analysis is based on the impact of a change to the value of the sub-fund's investments at each balance sheet date.

	2017 20% Increase in fair value £000s	2017 20% Decrease in fair value £000s	2016 20% Increase in fair value £000s	2016 20% Decrease in fair value £000s
<b>Capital Return</b>				
Net gains (losses) on investments at fair value	21,705	(21,705)	17,166	(17,166)

## Foreign Currency Risk Sensitivity

The following table details the sub-fund's sensitivity to a 20% increase and decrease in sterling against the relevant foreign currencies and the resultant impact that any such increase or decrease would have on the net return and net assets. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the year end for a 20% change in foreign currency rates.

	2017 20% Decrease in Sterling against foreign currencies £000s	2017 20% Increase in Sterling against foreign currencies £000s	2016 20% Decrease in Sterling against foreign currencies £000s	2016 20% Increase in Sterling against foreign currencies £000s
Australian Dollar	(1,253)	835	24	(16)
Brazilian Real	(1,097)	731	0	0
Canadian Dollar	28	(19)	16	(11)
Danish Krone	2,124	(1,416)	1,341	(894)
Euro	(2,020)	1,346	(2,420)	1,613
Japanese Yen	80	(53)	236	(157)
Korean Won	(637)	425	0	0
Mexican Peso	29	(19)	1,400	(934)
New Zealand Dollar	1,215	(810)	19	(13)
Singapore Dollar	1	0	16	(11)
South African Rand	(1,770)	1,180	0	0
Swedish Krona	(37)	25	0	0
Swiss Franc	0	0	1,267	(845)
US Dollar	4,161	(2,774)	566	(377)
<b>Change in net return and net assets</b>	<b>824</b>	<b>(549)</b>	<b>2,465</b>	<b>(1,645)</b>

## Notes to the Final Report and Financial Statements continued

### 15. Derivatives and other financial instruments (continued)

#### c. Sensitivity analysis continued

##### Interest rate risk sensitivity

Duration measures the sensitivity of a portfolio's price to change in interest rates. The calculation of duration incorporates yield, coupon, final maturity and other relevant factors.

Duration is considered to be an accurate predictor of price changes for small, parallel shifts of the yield curve. For every 0.01% movement in interest rates, a portfolio with a duration of one year will move in price by 0.01% in the opposite direction.

As at the 31 August 2017, the net asset value was £121.1m (2016 - £132.0m) (before the deduction of the interest distribution) with a duration of 5.77 years (2016 - 6.35 years).

Thus, for example, an increase of 0.25% in the interest rates would result in a fall of 1.44% or £1.7m (2016 - 1.59% or £2.0m) in the value of the portfolio.

#### d. Leverage

The use of derivatives may expose the sub-fund to a higher degree of risk. In particular, derivative contracts can be highly volatile and the amount of initial margin is generally small relative to the size of the contract so that transactions may be leveraged in terms of market exposure. A relatively small market movement may have a potentially larger impact on derivatives than on standard bonds or equities. Leveraged derivative positions can therefore increase a sub-fund's volatility.

The leverage is calculated on a commitment basis, by taking the sum of the net asset value and the incremental exposure generated through the use of derivatives and is expressed as a percentage of the net asset value.

The average level of leverage employed by the sub-fund during the year was 10.23% (2016 - 32.47%).

#### e. Fair value hierarchy

An analysis of the portfolio in accordance with the fair value hierarchy is shown below:

	Assets 31 August 2017 £000s	Liabilities 31 August 2017 £000s	Assets 31 August 2016 £000s	Liabilities 31 August 2016 £000s
Level 1: Quoted	2	(33)	0	(456)
Level 2: Observable	116,710	(3,422)	130,066	(5,291)
Level 3: Unobservable	0	0	0	0

The fair value as at the reporting date has been estimated using the following fair value hierarchy:

##### Level (1) Quoted prices for identical instruments in active markets

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

##### Level (2) Valuation techniques that use:

Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

##### Level (3) Valuation techniques that use:

Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

When the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate, the fair value is estimated by using an alternative valuation technique. Such valuation techniques will, where possible, maximise the use of observable market data inputs as opposed to non-observable entity determined data inputs.

The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

## Notes to the Final Report and Financial Statements continued

**15. Derivatives and other financial instruments (continued)****f. Maturity of financial liabilities**

All liabilities are due in one year or less or on demand (2016 - same).

**g. Fair value disclosure**

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair value.

**h. Derivatives**

Derivatives are used in the sub-fund for hedging purposes and/or investment purposes. The main instruments used are money market futures, forward exchange contracts and credit default swaps. For more details please refer to page 5.

**i. Credit rating**

An analysis of the credit quality of the sub-fund's portfolio is shown below:

	2017 Market Value £000s	2017 % of Net Assets	2016 Market Value £000s	2016 % of Net Assets
Investment Grade	103,040	85.48	122,229	93.34
Sub-investment Grade	3,034	2.52	5,776	4.39
Non-rated	8,809	7.31	1,016	0.78
Derivatives	(1,626)	(1.35)	(4,702)	(3.60)
Other assets	7,280	6.04	6,673	5.09
<b>Total net assets</b>	<b>120,537</b>	<b>100.00</b>	<b>130,992</b>	<b>100.00</b>

A fixed income security is deemed to be of investment grade, if it is rated BBB- or above. Sub-investment grade are those securities that are rated below investment grade.

**16. Share movement**

For the year ended 31 August 2017:

	Class A Shares (Income)	Class C Shares (Income)	Class I Shares (Income)	Class SP Shares (Income)
Opening shares	21,034,584	46,461,511	25,592,086	0
Shares created	788,919	3,414,699	74,057,023	5,478
Shares cancelled	(3,115,027)	(35,300,662)	(28,252,874)	(606)
Shares converted	(2,879,099)	2,862,276	0	0
<b>Closing shares</b>	<b>15,829,377</b>	<b>17,437,824</b>	<b>71,396,235</b>	<b>4,872</b>

## Notes to the Final Report and Financial Statements continued

**17. Portfolio transaction costs**

For the year ending 31 August

	Transaction					Transaction				
	Value	Commissions	Taxes	Taxes		Value	Commissions	Taxes	Taxes	
	2017	2017	2017	2017	2017	2016	2016	2016	2016	2016
	£000s	£000s	%	£000s	%	£000s	£000s	%	£000s	%
<b>Purchases</b>										
Debt instruments (direct)	204,947	0	-	0	-	201,725	0	-	0	-
Total purchases	204,947	0		0		201,725	0		0	
Total purchases including transaction costs	204,947					201,725				
<b>Sales</b>										
Debt instruments (direct)	218,381	0	-	0	-	152,877	0	-	0	-
Total sales	218,381	0		0		152,877	0		0	
Total sales net of transaction costs	218,381					152,877				
<b>Derivative transaction costs</b>		2		0			2		0	
<b>Total transaction costs</b>		2		0			2		0	
<b>Total transaction costs as a % of average net assets</b>		0.00%		0.00%			0.00%		0.00%	

The above analysis covers any direct transaction costs suffered by the sub-fund during the year. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

For the sub-fund's investment transactions in debt and money market instruments any applicable transaction charges form part of the dealing spread for these instruments. Transactions in money market instruments to manage the sub-fund's daily liquidity position are excluded from the analysis.

During the year the sub-fund utilised futures contracts and credit default swaps as derivative instruments covering different underlying asset classes. The settlement values for opening and closing derivative positions are not comparable to principal values for transactions in direct holding investments and therefore purchase and sale amounts for derivative transactions are not quantified in the analysis above. Transaction costs for derivatives positions will be either suffered as direct costs or form part of the dealing spread for the instruments. Any direct costs are identified in the analysis above.

Dealing spread costs suffered by the sub-fund vary considerably for the different asset / instrument types depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.11% (2016 - 0.17%).

# Allianz Continental European Fund

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# Fund Information

## Investment Objective and Policy

This Fund's objective is to provide investors with long term capital growth.

The ACD aims to achieve the investment objective by investing in a diversified portfolio of investments in European Companies (excluding the United Kingdom). At least 70% of the Fund's assets will be invested in Continental Europe.

The Fund's policy is to invest in shares listed on a European stock exchange. The Fund invests predominantly in larger companies.

The ACD may also utilize deposits and money market instruments in the management of the portfolio. The Fund may also invest up to 10% of the Fund's assets in collective investment schemes.

## Fund Details

<b>Fund Manager</b>	Thorsten Winkelmann and Marcus Morris-Eyton (since 01/06/2017)	
<b>Benchmark</b>	S&P Europe Ex-UK Large MidCap Growth (British Pound) Net Total Return	
<b>Income allocation date</b>	31 August	
<b>Income pay date</b>	31 October	
<b>Launch date</b>	Fund	16 May 2002
	A Shares	16 May 2002
	C Shares	18 April 2012
	S Shares	26 January 2016
	SP Shares	13 February 2017
<b>ISA status</b>	Yes	
<b>Share Classes and types of Shares</b>	A (Accumulation Shares) C (Accumulation Shares) S (Accumulation Shares) SP (Accumulation Shares)	
<b>Minimum investment</b>	A Shares	Lump sum £500 Monthly saving £50
	C Shares	Lump sum £500 Monthly saving £50
	S Shares	Lump sum £10,000,000 Available only at the discretion of the ACD
	SP Shares	Lump sum £10,000,000 Available only at the discretion of the ACD (Available to Approved Investors only)
<b>Initial charge</b>	A Shares	4%
	C Shares	Nil
	S Shares	Nil
	SP Shares	Nil
<b>Annual ACD fee</b>	A Shares	1.50%
	C Shares	0.75%
	S Shares	0.45%
	SP Shares	0.53%

# Comparative Tables

For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>A Shares (Accumulation)</b>			
Opening net asset value per share	1,054.34	875.62	800.87
Return before operating charges	244.42	194.89	90.19
Operating charges	(18.89)	(16.17)	(15.44)
Return after operating charges	225.53	178.72	74.75
Distributions	(2.20)	(2.25)	(0.25)
Retained distributions on accumulation shares	2.20	2.25	0.25
Closing net asset value per share	1,279.87	1,054.34	875.62
After direct transaction costs of <sup>1</sup>	(1.41)	(1.31)	(0.36)
Return after operating charges	21.39%	20.41%	9.33%
Closing net asset value (£'000)	20,510	18,175	19,762
Closing number of shares	1,602,453	1,723,831	2,256,904
Operating charges	1.65%	1.72%	1.78%
Direct transaction costs	0.12%	0.14%	0.04%
<b>Prices</b>			
Highest share price	1,283.84	1,091.77	956.71
Lowest share price	987.84	845.93	724.57

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.



## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>C Shares (Accumulation)</b>			
Opening net asset value per share	172.12	141.75	128.61
Return before operating charges	40.10	31.72	14.50
Operating charges	(1.56)	(1.35)	(1.36)
Return after operating charges	38.54	30.37	13.14
Distributions	(1.93)	(1.77)	(1.21)
Retained distributions on accumulation shares	1.93	1.77	1.21
Closing net asset value per share	210.66	172.12	141.75
After direct transaction costs of: <sup>1</sup>	(0.23)	(0.21)	(0.06)
Return after operating charges	22.39%	21.43%	10.22%
Closing net asset value (£'000)	22,547	16,557	10,948
Closing number of shares	10,703,266	9,619,541	7,723,344
Operating charges	0.83%	0.88%	0.97%
Direct transaction costs	0.12%	0.14%	0.04%
<b>Prices</b>			
Highest share price	211.27	178.17	154.41
Lowest share price	161.60	137.45	116.48

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 <sup>2</sup> Pence per Share
<b>S Shares (Accumulation)</b>		
Opening net asset value per share	116.32	100.00
Return before operating charges	27.16	16.81
Operating charges	(0.66)	(0.49)
Return after operating charges	26.50	16.32
Distributions	(1.71)	(1.50)
Retained distributions on accumulation shares	1.71	1.50
Closing net asset value per share	142.82	116.32
After direct transaction costs of <sup>1</sup>	(0.16)	(0.09)
Return after operating charges	22.78%	16.32%
Closing net asset value (£'000)	99,832	81,309
Closing number of shares	69,902,712	69,899,900
Operating charges <sup>3</sup>	0.52%	0.77%
Direct transaction costs	0.12%	0.14%
<b>Prices</b>		
Highest share price	143.22	120.39
Lowest share price	109.30	92.70

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

<sup>2</sup> On 26 January 2016, class 'S' shares were introduced.

<sup>3</sup> Operating charges figure has been annualised from 26 January 2016 to 31 August 2016.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 <sup>2</sup> Pence per Share
<b>SP Shares (Accumulation)</b>	
Opening net asset value per share	100.00
Return before operating charges	17.48
Operating charges	(0.68)
Return after operating charges	16.80
Distributions	0.00
Retained distributions on accumulation shares	0.00
Closing net asset value per share	116.80
After direct transaction costs of <sup>1</sup>	(0.14)
Return after operating charges	16.80%
Closing net asset value (£'000)	5
Closing number of shares	4,291
Operating charges	0.62%
Direct transaction costs	0.12%
<b>Prices</b>	
Highest share price	117.14
Lowest share price	100.00

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

<sup>2</sup> From 13 February 2017 to 31 August 2017.

# Distribution Table

For the year ended 31 August 2017

Final

Group 1: Shares purchased prior to 1 September 2016

Group 2: Shares purchased on or after 1 September 2016 to 31 August 2017

Share Class	Net Distribution 31 October 2017 per Share (p)	Equalisation 31 October 2017 per Share (p)	Distribution payable 31 October 2017 per Share (p)	Distribution paid 31 October 2016 per Share (p)
<b>Accumulation Shares</b>				
A Shares				
Group 1	2.2019	0.0000	2.2019	2.2460
Group 2	0.0000	2.2019	2.2019	2.2460
<b>Accumulation Shares</b>				
C Shares				
Group 1	1.9336	0.0000	1.9336	1.7681
Group 2	0.5614	1.3722	1.9336	1.7681
<b>Accumulation Shares</b>				
S Shares <sup>1</sup>				
Group 1	1.7075	0.0000	1.7075	N/A
Group 2	0.0000	1.7075	1.7075	1.5026
<b>Accumulation Shares</b>				
SP Shares <sup>2</sup>				
Group 1	N/A	N/A	N/A	N/A
Group 2	0.0000	0.0000	0.0000	N/A

<sup>1</sup> On 26 January 2016, class 'S' shares were introduced, therefore there were no group 1 shares in issue for the comparative figures.

<sup>2</sup> On 13 February 2017, class 'SP' shares were introduced, therefore there are no group 1 shares in issue or in the comparative figure.

Investors are reminded that distribution is not guaranteed.

# Investment Review

## Performance Summary

Over the one-year period under review, from 1 September 2016 to 31 August 2017, the Fund's 'A' class produced a total return of 21.38%, and 'C' class returned 22.39% (closing prices gross of fees in GBP). The Fund's benchmark, the Citigroup S&P Europe ex-UK Large Mid Cap Growth (British Pound) Net Total Return, produced a total return of 19.57% over the period.\*

The key reason for this outperformance was the selection of long-term superior high quality stocks with a structural growth profile. These long-term investments proved resilient in a volatile environment, and were able to outperform the rising market.

Allianz Continental European Fund outperformed its benchmark during the recent 12-month period, which includes the difficult Q4 of 2016, where the market rotation saw investors favour Value stocks over High Quality and Growth.

Stock selection contributed positively to performance. There was also a positive impact from the sector allocation versus the style benchmark, with our strong overweight in IT being supportive, along with underweights to Consumer Staples and Healthcare. Stock selection in Consumer Discretionary, Financials and Consumer Staples was especially strong.

On a single stock level, DSV, Richemont and Infineon were the best contributors to the performance on an active level. VAT Group, Banca Generali and Partners Group also outperformed. On the other hand, shares of Ingenico, BIC and DCC underperformed the benchmark. Symrise, Novo Nordisk and Lindt also detracted from performance.

Despite the especially difficult fourth quarter of 2016, we have nevertheless consistently been able to significantly grow our earnings, by identifying those few companies that are able to generate sustainable earnings growth through the cycle. We maintain our confident outlook for European equities for the remainder of 2017 – the European market appears well-supported by a much awaited earnings recovery, continued strong cyclical data, room for operating leverage, and a gradual reduction in last year's well documented political risk.

## Market Background

Continental equities ended the 12-month period strongly up (in EUR terms) although the past quarter was challenged by concerns on the strength of the Euro weighing on the outlook for company profits. The period can be characterised as one in which the perceived level of political risk initially increased strongly following Brexit, but has gradually subsided following several benign elections in Europe in 2017. The elections in France and the Netherlands were viewed as particularly important.

Telecom Services, Consumer Staples and Healthcare stocks were among those sectors with the weakest returns, while Banks, Financials and Insurance were the standout positive performers.

Economic data in Continental Europe has recently been particularly strong, which has provided a positive backdrop for European corporates. Eurozone second-quarter GDP growth was revised up to 0.6% from an initial estimate of 0.5%, taking the year-on-year increase to 2.2%.

Inflation also rose, with August's flash estimate jumping to 1.5%, although core inflation held steady at 1.2%. Against this backdrop, Mario Draghi, president of the European Central Bank (ECB), chose not to comment on ECB policy in his Jackson Hole speech, focusing instead on global trade. However, speculation grew that the European Central Bank would soon take steps to halt the appreciation of the Euro, which touched a two-year high against the US dollar during August.

While the rising Euro has been flagged as a potential headwind for Europe's exporters, our portfolio companies typically have a low capital intensity, along with pricing power, allowing them to react more easily to external factors such as inflation or currency fluctuations.

## Portfolio Review

The Continental European Fund strategy seeks consistent long-term outperformance across the business cycle, through a well-researched investment process based on bottom-up fundamental stock selection. We identify stocks with above-average structural earnings and cash flow growth, which the market has not yet fully anticipated, with strong franchises which are able to benefit from their

\* 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. Performance per comparative table based on bid market price portfolio valuation at close of business on the last day of the accounting period and with related accounting adjustments. Benchmark performance based on end of day prices.

## Investment Review continued

unique competitive position in order to sustain superior returns over the long term.

During the past 12 months, we initiated positions in Zalando (Europe's number 1 online fashion retailer, executing well in a structurally growing market), Osram Licht (high tech lighting firm, demonstrating long-term structural growth aspects) and Sartorius (pharma and lab equipment supplier, already owned in the Euroland Equity Growth strategy). We sold the holdings in Luxottica (less convinced about future growth rates, and potential challenges with Essilor merger) and Sodexo (sold at full valuation with limited mid-term upside relative to other positions).

### Outlook

We maintain our confident view on the European macro environment, as an improvement in cyclical data, and a much awaited earnings recovery, are now overshadowing the subsiding political risk.

The region remains under-owned internationally, with investors having shied away from the perceived heightened political risk, favouring the outperforming yet richly valued US market. Even within Europe, equities are unloved and under-owned. Domestic European investors are overweight fixed income at a time when its 30-year bull market appears to be challenged. Recent flow data though suggests this underweight positioning appears to be closing, with Europe now seeing a return of inflows, both at home and internationally.

Europe's economic prospects continue to look strong, with the latest (August) PMI reading for the Eurozone coming in at 55.3, signalling a notable increase in economic activity. This has been supported by continued loose monetary conditions, Chinese and moderate European fiscal stimulus, the "Macron effect" and a slowdown in private sector deleveraging.

This economic activity has also been reflected in a strongly improving European earnings picture. Q2 earnings results were again strong, once more beating consensus

expectations, despite the recent strength of the Euro against the USD. Consensus is now expecting 12.7% earnings growth for the European market for 2017, which is the second-highest since 2004, aided by a pick-up in the top line.

Importantly, many of the factors that have held back European earnings in previous years are now acting as welcome tailwinds. 1) Deflationary pressures have subsided, and a pickup in inflation should benefit corporates' nominal top-line growth, particularly with pricing power, able to pass on input cost pressures. This is particularly relevant at a time when margins are depressed, presenting the opportunity for operating leverage. 2) Commodity prices have stabilised (c.20% of the European market is exposed to the commodities). 3) Emerging markets exposure is no longer acting as a drag.

With the re-election of Rutte in the Netherlands, and the Macron victory in France, political risk is no longer a key feature of the Eurozone market. Politics however remains evident in European valuations, with the region significantly undervalued relative to other developed markets, notably the US, where on a sector adjusted P/B or CAPE basis the valuation discount is >30%. At a time when Trump's much speculated fiscal stimulative policies are being questioned after the failure of the recent Healthcare reform bill, and the unknown impact of protectionist policies, the two economies could well be heading in divergent directions.

We continue to focus on high quality businesses, with sustainable long-term competitive advantages, which provide a level of visibility that one currently struggles to find in any political policy. In a corporate world, increasingly challenged by disruption and innovation, these companies possess the necessary attributes to compound their high returns over the long term.

21 September 2017

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.

# Portfolio Statement

As at 31 August 2017

Holding	Market Value £000s	% of Net Assets
<b>OVERSEAS EQUITIES - 99.73% (2016 - 99.55%)</b>		
<b>Belgium - 2.71% (2016 - 3.59%)</b>		
34,480 Anheuser-Busch InBev	3,166	2.22
26,746 Ontex	705	0.49
	<b>3,871</b>	<b>2.71</b>
<b>Denmark - 11.60% (2016 - 11.35%)</b>		
51,696 Coloplast 'B'	3,277	2.29
91,694 DSV	5,046	3.53
151,582 Novo Nordisk 'B'	5,585	3.91
58,426 SimCorp	2,672	1.87
	<b>16,580</b>	<b>11.60</b>
<b>France - 13.01% (2016 - 14.00%)</b>		
23,049 Bic	2,146	1.50
103,743 Bureau Veritas	1,911	1.34
18,308 Dassault Systemes	1,397	0.98
39,782 Ingenico	3,057	2.14
27,781 Legrand	1,508	1.05
16,071 L'Oréal	2,629	1.84
16,353 LVMH Moët Hennessy	3,323	2.33
80,723 SCOR	2,621	1.83
	<b>18,592</b>	<b>13.01</b>
<b>Germany - 25.47% (2016 - 24.95%)</b>		
12,236 Continental	2,141	1.50
69,652 Fresenius	4,569	3.20
26,537 Fuchs Petrolub pref.	1,143	0.80
19,631 Henkel pref.	2,044	1.43
353,499 Infineon Technologies	6,326	4.43
27,966 OSRAM Licht	1,776	1.24
3,182 Rational	1,600	1.12
98,553 SAP	8,017	5.61
9,305 Sartorius pref.	715	0.50
51,725 Scout24	1,616	1.13
35,654 Symrise	2,023	1.42
44,843 United Internet	2,063	1.44
64,246 Zalando	2,363	1.65
	<b>36,396</b>	<b>25.47</b>

## Portfolio Statement continued

Holding	Market Value £000s	% of Net Assets
<b>Ireland - 8.81% (2016 - 7.11%)</b>		
43,249 DCC	3,045	2.13
31,845 Kerry 'A'	2,292	1.60
131,778 Kingspan	3,949	2.76
201,018 Ryanair	3,311	2.32
	<b>12,597</b>	<b>8.81</b>
<b>Italy - 2.12% (2016 - 2.79%)</b>		
58,484 Banca Generali	1,493	1.05
65,660 De'Longhi	1,531	1.07
	<b>3,024</b>	<b>2.12</b>
<b>Netherlands - 6.48% (2016 - 6.28%)</b>		
33,600 ASML	4,046	2.83
47,879 GrandVision	913	0.64
93,275 Unilever	4,304	3.01
	<b>9,263</b>	<b>6.48</b>
<b>Spain - 4.94% (2016 - 4.47%)</b>		
83,799 Amadeus IT	4,024	2.82
102,927 Inditex	3,031	2.12
	<b>7,055</b>	<b>4.94</b>
<b>Sweden - 11.37% (2016 - 11.73%)</b>		
210,850 Assa Abloy 'B'	3,529	2.47
133,944 Atlas Copco 'A'	4,068	2.85
136,308 Elekta 'B'	1,091	0.76
93,262 Hexagon 'B'	3,540	2.48
184,929 HEXPOL	1,401	0.98
141,521 Trelleborg 'B'	2,611	1.83
	<b>16,240</b>	<b>11.37</b>



## Portfolio Statement continued

Holding	Market Value £000s	% of Net Assets
<b>Switzerland - 13.22% (2016 - 13.28%)</b>		
73,045 Compagnie Financiere Richemont	5,055	3.54
19,629 Julius Baer (Regd.)	850	0.59
18,273 Kardex	1,482	1.04
436 Lindt & Spruengli Participating Certificates	1,937	1.36
6,541 Partners	3,283	2.30
19,357 Roche Holding	3,805	2.66
24,961 VAT	2,473	1.73
	<b>18,885</b>	<b>13.22</b>
Investment assets	142,503	99.73
Net other assets	391	0.27
<b>Net assets</b>	<b>142,894</b>	<b>100.00</b>

Unless otherwise stated, all investments are approved securities being either officially listed in a member state or traded on or under the rules of an eligible securities market.

Note: Comparative figures show percentages for each category of holding at 31 August 2016.

## Statement of Total Return

For the year ended to 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Income					
Net capital gains	2		24,654		16,155
Revenue	3	2,652		2,077	
Expenses	4	(922)		(650)	
Interest payable and similar charges	6	0		0	
Net revenue before taxation		1,730		1,427	
Taxation	5	(311)		(168)	
Net revenue after taxation			1,419		1,259
<b>Total return before distributions</b>			<b>26,073</b>		<b>17,414</b>
Distributions	7		(1,420)		(1,262)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>24,653</b>		<b>16,152</b>

## Statement of Change in Net Assets Attributable to Shareholders

For the year ended to 31 August 2017

	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Opening net assets attributable to shareholders		116,041		30,710
Amounts receivable on creation of shares	7,442		73,303	
Less: Amounts payable on cancellation of shares	(6,678)		(5,483)	
Dilution levy		764		67,820
		0		100
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		24,653		16,152
Retained distributions on accumulation shares		1,436		1,259
<b>Closing net assets attributable to shareholders</b>		<b>142,894</b>		<b>116,041</b>

Notes to the final report and financial statements are from page 75 to 83.

# Balance Sheet

As at 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
<b>Assets</b>					
Fixed assets					
Investments			142,503		115,520
Current assets					
Debtors	8	6,990		254	
Cash and bank balances	9	254		387	
<b>Total other assets</b>			<b>7,244</b>		<b>641</b>
<b>Total assets</b>			<b>149,747</b>		<b>116,161</b>
<b>Liabilities</b>					
Creditors					
Other creditors	10	(6,853)		(120)	
<b>Total liabilities</b>			<b>(6,853)</b>		<b>(120)</b>
<b>Net assets attributable to shareholders</b>			<b>142,894</b>		<b>116,041</b>

Notes to the final report and financial statements are from page 75 to 83.

# Notes to the Final Report and Financial Statements

## 1. Accounting policies

The applicable accounting policies adopted by the Allianz Continental European Fund are included on pages 9 and 10 of the Collective Notes to the Final Report and Financial Statements.

## 2. Net capital gains

	2017 £000s	2016 £000s
Gains on non-derivative securities	24,628	16,455
Gains (losses) on currency	38	(284)
Handling charges	(12)	(16)
<b>Net capital gains</b>	<b>24,654</b>	<b>16,155</b>

## 3. Revenue

	2017 £000s	2016 £000s
Overseas dividends - non-taxable	2,652	2,077
<b>Total revenue</b>	<b>2,652</b>	<b>2,077</b>

## Notes to the Final Report and Financial Statements continued

## 4. Expenses

	2017 £000s	2016 £000s
<b>Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director and agents of either of them:</b>		
ACD's annual fee	825	573
Company secretarial costs	1	1
	826	574
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fees	31	21
Safe custody fees	30	17
	61	38
<b>Other expenses:</b>		
Audit fee	13	13
Distribution costs	4	4
Printing costs	3	4
Registration fees	13	14
Taxation advice	2	3
	35	38
<b>Total expenses</b>	<b>922</b>	<b>650</b>

All expenditure stated above is inclusive of VAT where applicable.

The Audit fee for the year, excluding VAT, was £10,570 (2016 - 10,404).

## Notes to the Final Report and Financial Statements continued

## 5. Taxation

	2017 £000s	2016 £000s
<b>a. Analysis of taxation charge for the year:</b>		
Overseas tax suffered	311	168
<b>Total taxation for the year (see Note 5(b))</b>	<b>311</b>	<b>168</b>

**b. Factors affecting taxation charge for the year:**

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK for a sub-fund of an Open Ended Investment Company (20%) (2016 - 20%).

The differences are explained below:

Net revenue before taxation	1,730	1,427
Corporation tax at 20% (2016 - 20%)	346	285
<b>Effects of:</b>		
Overseas dividends - non-taxable	(530)	(415)
Overseas tax suffered	311	168
Surplus allowable expenses arising in the year	184	130
<b>Total taxation charge for the year (see Note 5(a))</b>	<b>311</b>	<b>168</b>

OEICs are exempt from tax on capital gains, therefore capital returns are not included in the above reconciliation.

**c. Deferred tax**

The sub-fund has not recognised a deferred tax asset of £821,000 (2016 - £637,000) as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

## 6. Interest payable and similar charges

	2017 £000s	2016 £000s
Interest	0	0

## Notes to the Final Report and Financial Statements continued

**7. Distributions**

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares and comprise:

	2017 £000s	2016 £000s
Final	1,436	1,259
Add: Revenue deducted on cancellation of shares	39	9
Less: Revenue received on creation of shares	(55)	(6)
<b>Net distributions for the year</b>	<b>1,420</b>	<b>1,262</b>
<b>Reconciliation of net revenue after taxation to net distributions for the year:</b>		
Net revenue after taxation	1,419	1,259
Net equalisation on conversion	1	3
<b>Net distributions for the year</b>	<b>1,420</b>	<b>1,262</b>

**8. Debtors**

	2017 £000s	2016 £000s
Accrued revenue	42	22
Amounts receivable on creation of shares	11	8
Foreign currency receivable	4,363	0
Overseas tax recoverable	234	224
Sales awaiting settlement	2,340	0
	<b>6,990</b>	<b>254</b>

**9. Cash and bank balances**

	2017 £000s	2016 £000s
Cash and bank balances	254	387

**10. Other creditors**

	2017 £000s	2016 £000s
Accrued ACD's annual fee	79	65
Amounts payable on cancellation of shares	83	17
Foreign currency payable	4,365	0
Purchases awaiting settlement	2,287	0
Other accrued expenses	39	38
	<b>6,853</b>	<b>120</b>

## Notes to the Final Report and Financial Statements continued

### 11. Related party transactions

The ACD is deemed to be a related party under the definition of Financial Reporting Standard 102, which requires the disclosure of details of material transactions between the sub-fund and any related party.

Details of any related party transactions occurring during the year, including commissions paid and any balances due at the year end are disclosed in the Balance Sheet, the Statement of Change in Net Assets Attributable to Shareholders and Notes 4, 8 and 10 to the financial statements. All creations and cancellations were transacted with the ACD.

### 12. Equalisation

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of net revenue included in the purchase price of all Group 2 shares. In the case of Accumulation shares, it is automatically reinvested in the sub-fund at the first distribution payment date after the shares were purchased. Being a capital repayment it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

### 13. Shareholders' funds

The sub-fund currently has four classes of share; A, C, S and SP. The ACD's annual fee on these share classes are as follows:

Class A: 1.50%  
 Class C: 0.75%  
 Class S: 0.45%  
 SP Class: 0.53%

The net asset value per share and the number of shares in issue are given in the Comparative Tables on page 63 to 66.

The distribution per share is given in the Distribution Table on page 67.

Revenue available for allocation will be allocated between the share classes based on the respective proportionate interests represented by those share classes on a daily basis and taxation is computed by reference to the net revenue after expenses attributable to each class. All share classes have the same rights on winding up.

### 14. Contingent liabilities and commitments

As at 31 August 2017 there were no contingent liabilities (2016 - £Nil).



## Notes to the Final Report and Financial Statements continued

**15. Derivatives and other financial instruments****a. Currency exposure**

The majority of the net assets and liabilities of the sub-fund are denominated in currencies other than Sterling, with the effect that the total net assets and total return can be affected by currency movements.

Currency	Monetary Exposure 31 August 2017 £000s	Non-Monetary Exposure 31 August 2017 £000s	Total Exposure 31 August 2017 £000s	Monetary Exposure 31 August 2016 £000s	Non-Monetary Exposure 31 August 2016 £000s	Total Exposure 31 August 2016 £000s
Danish Krone	0	16,647	16,647	0	13,212	13,212
Euro	19	87,948	87,967	17	70,782	70,799
Swedish Krona	0	16,245	16,245	0	13,611	13,611
Swiss Franc	0	18,884	18,884	0	15,466	15,466
US Dollar	9	0	9	9	0	9

**b. Interest rate risk profile**

The sub-fund did not hold any interest bearing financial instruments other than its cash and bank balances as at the balance sheet date (2016 - same).

**c. Sensitivity analysis****Market price sensitivity**

The value of the sub-fund's listed equities, which were exposed to market price risk as at 31 August was as follows:

	2017 £000s	2016 £000s
Listed equity investments held at fair value through profit or loss	142,503	115,520

The following illustrates the sensitivity of the net return and the net assets to an increase or decrease of 20% (2016 - 20%) in the fair values of the sub-fund's listed investments. This level of change is considered to be reasonably possible based on observation of market conditions in the year. The sensitivity analysis is based on the impact of a change to the value of the sub-fund's listed equity investments at each balance sheet date.

	2017 20% Increase in fair value £000s	2017 20% Decrease in fair value £000s	2016 20% Increase in fair value £000s	2016 20% Decrease in fair value £000s
<b>Capital Return</b>				
Net gains (losses) on investments at fair value	28,501	(28,501)	23,104	(23,104)

## Notes to the Final Report and Financial Statements continued

**15. Derivatives and other financial instruments (continued)****Foreign Currency Risk Sensitivity**

The following table details the sub-fund's sensitivity to a 20% increase and decrease in sterling against the relevant foreign currencies and the resultant impact that any such increase or decrease would have on the net return and net assets. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the year end for a 20% change in foreign currency rates.

	2017 20% Decrease in Sterling against foreign currencies £000s	2017 20% Increase in Sterling against foreign currencies £000s	2016 20% Decrease in Sterling against foreign currencies £000s	2016 20% Increase in Sterling against foreign currencies £000s
Danish Kroner	4,162	(2,775)	3,303	(2,202)
Euro	21,992	(14,661)	17,700	(11,780)
Swedish Krona	4,061	(2,708)	3,403	(2,269)
Swiss Franc	4,721	(3,147)	3,867	(2,578)
US Dollar	2	(2)	2	(2)
<b>Change in net return and net assets</b>	<b>34,938</b>	<b>(23,293)</b>	<b>28,275</b>	<b>(18,831)</b>

**d. Leverage**

The sub-fund did not employ significant leverage during the year (2016 - same).

**e. Fair value hierarchy**

An analysis of the portfolio in accordance with the fair value hierarchy is shown below:

	Assets 31 August 2017 £000s	Liabilities 31 August 2017 £000s	Assets 31 August 2016 £000s	Liabilities 31 August 2016 £000s
Level 1: Quoted	142,503	0	115,520	0
Level 2: Observable	0	0	0	0
Level 3: Unobservable	0	0	0	0

The fair value as at the reporting date has been estimated using the following fair value hierarchy:

**Level (1) Quoted prices for identical instruments in active markets**

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Level (2) Valuation techniques that use:**

Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

**Level (3) Valuation techniques that use:**

Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

When the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate, the fair value is estimated by using an alternative valuation technique. Such valuation techniques will, where possible, maximise the use of observable market data inputs as opposed to non-observable entity determined data inputs.

The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

## Notes to the Final Report and Financial Statements continued

### f. Maturity of financial liabilities

All liabilities are due in one year or less or on demand (2016 - same).

### g. Fair value disclosure

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair value.

### 16. Share movement

For the year ended 31 August 2017:

	Class A Shares (Accumulation)	Class C Shares (Accumulation)	Class S Shares (Accumulation)	Class SP Shares (Accumulation)
Opening shares	1,723,831	9,619,541	69,899,900	-
Shares created	18,256	3,686,858	2,812	6,459
Shares cancelled	(120,604)	(2,719,099)	-	(2,168)
Shares converted	(19,030)	115,966	-	-
Closing shares	1,602,453	10,703,266	69,902,712	4,291

## Notes to the Final Report and Financial Statements continued

**17. Portfolio transaction costs**

For the year ending 31 August

	Transaction					Transaction				
	Value	Commissions	Taxes	Taxes		Value	Commissions	Taxes	Taxes	
	2017	2017	2017	2017	2017	2016	2016	2016	2016	2016
	£000s	£000s	%	£000s	%	£000s	£000s	%	£000s	%
<b>Purchases</b>										
Equity instruments (direct)	37,052	12	0.03	133	0.36	79,363	20	0.03	79	0.10
Total purchases	37,052	12		133		79,363	20		79	
Total purchases including transaction costs	37,197					79,462				
<b>Sales</b>										
Equity instruments (direct)	34,853	11	0.03	-	-	10,427	7	0.07	0	-
Total sales	34,853	11		-		10,427	7		0	
Total sales net of transaction costs	34,842					10,420				
<b>Total transaction costs</b>		23		133			27		79	
<b>Total transaction costs as a % of average net assets</b>		0.02%		0.10%			0.04%		0.10%	

The above analysis covers any direct transaction costs suffered by the sub-fund during the year. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

Separately identifiable direct transaction costs (commissions & taxes etc) are attributable to the sub-fund's purchase and sale of equity shares. Additionally for equity shares there is a dealing spread cost (the difference between the buying and selling prices) which will be suffered on purchase and sale transactions.

Dealing spread costs suffered by the sub-fund vary considerably for the different asset / instrument types depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.05% (2016 - 0.04%)



# Allianz European Equity Income Fund

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# Fund Information

## Investment Objective and Policy

The objective of the Fund is to achieve high and increasing income together with capital growth.

The ACD aims to achieve the investment objective by investing mainly in securities listed on a Continental European stock exchange although it may invest internationally.

It is the general intention of the ACD to invest in securities which offer above average current dividend yield or, if not, the prospect of superior long term capital growth.

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

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## Fund Details

Fund Manager	Gregor Rudolph-Dengel and Joerg de Vries-Hippen	
Benchmark	MSCI Europe (ex UK) Index	
Income allocation dates	1st Interim	30 November
	2nd Interim	28 February*
	3rd Interim	31 May
	Final	31 August
Income pay dates	1st Interim	31 December
	2nd Interim	31 March
	3rd Interim	30 June
	Final	30 September
Launch date	Fund	16 May 2002
	A Shares	16 May 2002**
	C Shares	24 March 2014
ISA status	Yes	
Share Classes and types of Shares	A (Income Shares)	
	A (Accumulation Shares)	
	C (Income Shares)	
	C (Accumulation Shares)	
Minimum investment		
A Shares	Lump sum £500 Monthly saving £50	
C Shares	Lump sum £500	
Initial charge	A Shares	4%
	C Shares	Nil
Annual ACD fee	A Shares	1.50%
	C Shares	0.75%

\* 29 February in a leap year

\*\* Class 'A' Income shares were launched on 30 March 2009.

# Comparative Tables

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>A Shares (Income)</b>			
Opening net asset value per share	135.44	122.60	133.98
Return before operating charges	37.76	21.23	(3.75)
Operating charges	(3.70)	(3.36)	(3.26)
Return after operating charges	34.06	17.87	(7.01)
Distributions	(4.91)	(5.03)	(4.37)
Closing net asset value per share	164.59	135.44	122.60
After direct transaction costs of <sup>1</sup>	(0.16)	(0.10)	(0.10)
Return after operating charges	25.15%	14.58%	(5.23)%
Closing net asset value (£'000)	4,568	4,207	4,765
Closing number of shares	2,775,529	3,106,090	3,886,481
Operating charges	2.46%	2.63%	2.43%
Direct transaction costs	0.10%	0.08%	0.07%
<b>Prices</b>			
Highest share price	166.27	139.51	146.05
Lowest share price	134.20	118.19	119.45

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.



## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>A Shares (Accumulation)</b>			
Opening net asset value per share	197.64	171.28	180.65
Return before operating charges	55.48	30.35	(5.49)
Operating charges	(4.70)	(3.99)	(3.88)
Return after operating charges	50.78	26.36	(9.37)
Distributions	(7.99)	(7.87)	(6.51)
Retained distributions on accumulation shares	7.99	7.87	6.51
Closing net asset value per share	248.42	197.64	171.28
After direct transaction costs of <sup>1</sup>	(0.23)	(0.14)	(0.14)
Return after operating charges	25.69%	15.39%	(5.19)%
Closing net asset value (£'000)	22,166	19,028	18,509
Closing number of shares	8,922,603	9,627,789	10,806,400
Operating charges	2.12%	2.21%	2.12%
Direct transaction costs	0.10%	0.08%	0.07%
<b>Prices</b>			
Highest share price	249.49	203.00	198.29
Lowest share price	195.89	165.87	165.57

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>C Shares (Income)</b>			
Opening net asset value per share	100.74	90.59	98.20
Return before operating charges	28.27	15.67	(2.77)
Operating charges	(1.97)	(1.99)	(2.16)
Return after operating charges	26.30	13.68	(4.93)
Distributions	(3.61)	(3.53)	(2.68)
Closing net asset value per share	123.43	100.74	90.59
After direct transaction costs of <sup>1</sup>	(0.12)	(0.07)	(0.07)
Return after operating charges	26.11%	15.10%	(5.02)%
Closing net asset value (£'000)	1,823	1,637	1,197
Closing number of shares	1,476,963	1,624,903	1,321,406
Operating charges	1.75%	2.10%	2.19%
Direct transaction costs	0.10%	0.08%	0.07%
<b>Prices</b>			
Highest share price	124.58	103.76	107.48
Lowest share price	99.89	87.54	88.06

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund

## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>C Shares (Accumulation)</b>			
Opening net asset value per share	112.39	96.47	101.06
Return before operating charges	31.69	17.23	(3.24)
Operating charges	(1.51)	(1.31)	(1.35)
Return after operating charges	30.18	15.92	(4.59)
Distributions	(4.79)	(4.64)	(3.63)
Retained distributions on accumulation shares	4.79	4.64	3.63
Closing net asset value per share	142.57	112.39	96.47
After direct transaction costs of <sup>1</sup>	(0.13)	(0.08)	(0.08)
Return after operating charges	26.85%	16.50%	(4.54)%
Closing net asset value (£'000)	3,656	2,791	1,367
Closing number of shares	2,564,098	2,483,249	1,416,979
Operating charges	1.19%	1.28%	1.31%
Direct transaction costs	0.10%	0.08%	0.07%
<b>Prices</b>			
Highest share price	143.10	115.39	111.45
Lowest share price	111.44	93.82	92.73

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

# Distribution Tables

For the year ended 31 August 2017

1st Interim

Group 1: Shares purchased prior to 1 September 2016

Group 2: Shares purchased on or after 1 September 2016 to 30 November 2016

Share Class	Net Distribution 31 December 2016 per Share (p)	Equalisation 31 December 2016 per Share (p)	Distribution paid 31 December 2016 per Share (p)	Distribution paid 31 December 2015 per Share (p)
<b>Income Shares</b>				
<b>A Shares</b>				
Group 1	0.0000	0.0000	0.0000	0.3751
Group 2	0.0000	0.0000	0.0000	0.3751
<b>Accumulation Shares</b>				
<b>A Shares</b>				
Group 1	0.2105	0.0000	0.2105	0.6864
Group 2	0.1099	0.1006	0.2105	0.6864
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	0.0000	0.0000	0.0000	0.1922
Group 2	0.0000	0.0000	0.0000	0.1922
<b>Accumulation Shares</b>				
<b>C Shares</b>				
Group 1	0.1823	0.0000	0.1823	0.3993
Group 2	0.0844	0.0979	0.1823	0.3993

Investors are reminded that distribution is not guaranteed.

## Distribution Table continued

## 2nd Interim

Group 1: Shares purchased prior to 1 December 2016

Group 2: Shares purchased on or after 1 December 2016 to 28 February 2017

Share Class	Net Distribution 31 March 2017 per Share (p)	Equalisation 31 March 2017 per Share (p)	Distribution paid 31 March 2017 per Share (p)	Distribution paid 31 March 2016 per Share (p)
<b>Income Shares</b>				
<b>A Shares</b>				
Group 1	0.2575	0.0000	0.2575	0.5103
Group 2	0.2540	0.0035	0.2575	0.5103
<b>Accumulation Shares</b>				
<b>A Shares</b>				
Group 1	0.4347	0.0000	0.4347	0.8924
Group 2	0.1988	0.2359	0.4347	0.8924
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	0.3026	0.0000	0.3026	0.3116
Group 2	0.2064	0.0962	0.3026	0.3116
<b>Accumulation Shares</b>				
<b>C Shares</b>				
Group 1	0.3008	0.0000	0.3008	0.5482
Group 2	0.2004	0.1004	0.3008	0.5482

Investors are reminded that distribution is not guaranteed.

## Distribution Table continued

## 3rd Interim

Group 1: Shares purchased prior to 1 March 2017

Group 2: Shares purchased on or after 1 March 2017 to 31 May 2017

Share Class	Net Distribution 30 June 2017 per Share (p)	Equalisation 30 June 2017 per Share (p)	Distribution paid 30 June 2017 per Share (p)	Distribution paid 30 June 2016 per Share (p)
<b>Income Shares</b>				
<b>A Shares</b>				
Group 1	3.7358	0.0000	3.7358	3.7786
Group 2	1.4397	2.2961	3.7358	3.7786
<b>Accumulation Shares</b>				
<b>A Shares</b>				
Group 1	5.7003	0.0000	5.7003	5.5336
Group 2	4.6816	1.0187	5.7003	5.5336
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	2.6840	0.0000	2.6840	2.7763
Group 2	0.8161	1.8679	2.6840	2.7763
<b>Accumulation Shares</b>				
<b>C Shares</b>				
Group 1	3.3052	0.0000	3.3052	3.1966
Group 2	2.4729	0.8323	3.3052	3.1966

Investors are reminded that distribution is not guaranteed.

## Distribution Table continued

## Final

Group 1: Shares purchased prior to 1 June 2017

Group 2: Shares purchased on or after 1 June 2017 to 31 August 2017

Share Class	Net Distribution 30 September 2017 per Share (p)	Equalisation 30 September 2017 per Share (p)	Distribution paid 30 September 2017 per Share (p)	Distribution paid 30 September 2016 per Share (p)
<b>Income Shares</b>				
<b>A Shares</b>				
Group 1	0.9206	0.0000	0.9206	0.3668
Group 2	0.3402	0.5804	0.9206	0.3668
<b>Accumulation Shares</b>				
<b>A Shares</b>				
Group 1	1.6406	0.0000	1.6406	0.7552
Group 2	0.9663	0.6743	1.6406	0.7552
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	0.6233	0.0000	0.6233	0.2508
Group 2	0.3091	0.3142	0.6233	0.2508
<b>Accumulation Shares</b>				
<b>C Shares</b>				
Group 1	0.9983	0.0000	0.9983	0.4929
Group 2	0.4515	0.5468	0.9983	0.4929

Investors are reminded that distribution is not guaranteed.

# Investment Review

## Portfolio Summary

Over the twelve-month period under review, 1st September 2016 to 31st August 2017, the Fund's 'A' class (Acc) produced a total return of 25.70%, the 'A' class (Inc) produced 25.28%, the 'C' class (Acc) produced 26.87% and the 'C' class (Inc) produced 26.21%. The Fund's benchmark, the MSCI Europe (ex UK) Index, produced a total return of 24.42% over the period.\*

At the beginning of the reporting period, the post-US election rally triggered an indiscriminate rotation out of high-dividend and bond-proxy assets and into the cyclical sectors, on an expectation of a quick and successful implementation of Trump's business-friendly policies in the USA. Whilst relative performance of the strategy was consequently under pressure in Q4 2016 and early Q1 2017, it started to tentatively recover in February. However, with the win of Macron in the first round of the French presidential elections, markets experienced another strong risk-on move temporarily weighing on performance. This performance pattern is not unusual: in the early days of an uptick on markets the strategy tends to lag as – driven by improving top-down expectations – investors more indiscriminately drive the market higher, or even show a preference for the more risky, lower quality and more cyclical areas of the market. After such a first move, investors tend to shift from pure hope back to fundamentals, which is when those companies which are actually able to deliver on numbers start to outperform. This later stage of a rally is usually a good environment for the strategy, given the strong focus on companies which are able to sustainably pay and grow their dividends. This positive effect could clearly be observed since the low in relative performance in late April.

Sector positioning resulted in a distinct positive contribution driven by the underweight in Consumer Staples and Health Care, and the overweight in Financials. Stock selection was also a positive contributor, most prominently within Telecom Services, Energy and Financials. On single stock level, the positions in Drillisch, Allianz and Scor, as well as not holding Nestle, were the most positive contributors. The positions in SES, CTT, Enagas and not holding Banco Santander were the most significant detractors.

## Market Background

Continental European Equities delivered strong absolute returns over the course of the past twelve months, buoyed by signs that economic activity in the region was continuing to pick up momentum. The Eurozone composite purchasing managers' index held steady at a six-year high for much of the period, and the Ifo survey of German business confidence hit a record high in June. Having hit a four-year high of 2.0% in February, headline inflationary pressures subsequently eased again. Eurozone second-quarter GDP growth was revised up to 0.6% from an initial estimate of 0.5%, taking the year-on-year increase to 2.2%. At a country level, Spain recorded its strongest performance in three years, while the Netherlands saw its fastest pace of growth since the creation of the single currency region in 2000.

The European Central Bank (ECB) kept interest rates on hold, and maintained its bond-buying programme. However, in June the ECB dropped its easing bias, saying it now judged risks to be "broadly balanced", and raised its growth forecasts. During the month, speculation grew that the ECB was considering tapering its asset-purchase programme, when Mario Draghi described the recent weakness in inflation as temporary, saying "deflationary forces have been replaced by reflationary ones".

## Portfolio Review

The fund aims to generate sustainable returns and capital appreciation by investing in Continental European dividend stocks where we see the ability and willingness to pay consistent, high dividends. Our focus lies on solid balance sheets, high free cash flow generation, and strength of business model. A company's willingness to continually pay high dividends is crucial: here, we assess dividend policy, dividend history and management commitment to dividends. In our view, high distribution levels, and the commitment to paying them consistently, tend to produce more disciplined companies that need to budget their financial resources carefully and use them efficiently, resulting in lower share price fluctuations. New positions were all focused on company quality and dividend sustainability, as usual. We have increased our exposure to

\* 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. Performance per comparative table based on bid market price portfolio valuation at close of business on the last day of the accounting period and with related accounting adjustments. Benchmark performance based on end of day prices.



## Investment Review continued

Financials as we have gained more confidence in the dividend paying capabilities of some of the banks including Natixis, Credit Agricole, ING, ABN Amro and Swedbank.

Across other sectors we have added selected positions in Atlantia, Evonik Industries and Enel. The positions in Nokian Renkaat, Vivendi, Cembra Money Bank and Enagas were removed from the portfolio.

### Outlook

Continental European stocks have gone nowhere over the course of the summer months, as markets have circled in on the strengthening of the Euro (and a less expansionary stance of the ECB) as headwinds. EPS Revision Ratio has moderated amid the rising Euro, albeit staying above average levels.

On closer observation the market is missing that this is happening on the back of continued positive news flow. Concerns have moved away from the Eurozone, with the French elections outcome being the trigger for a re-assessment. Investors had actually requested some stabilisation in the Euro as a signal for less political risk. This has finally happened. However, the speed of the reversal (fastest move up since 2009) has obviously caught

many investors by surprise, and has made currency a new source for concern. As markets are climbing yet another “wall of worries”, they seem to be losing sight of the reasons behind that move.

The Euro strength and the increasing leeway in monetary policy are driven by upgrades to the domestic growth outlook, i.e. some of the causes for the currency strength are earnings-supportive. Consensus estimates for GDP growth in the Eurozone have risen to 2% and above. PMIs in the Eurozone are now above Global and US levels. Thus, the catch-up in growth estimates versus the US appears to be a key driver behind the currency movement. This domestic strength – complemented by robust Emerging Markets – and slower than expected wage growth should more than offset the currency headwinds, presenting a buying opportunity for European assets, as the market appears to be overly concerned.

15 September 2017

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.

# Portfolio Statement

As at 31 August 2017

Holding	Market Value £000s	% of Net Assets
<b>OVERSEAS EQUITIES - 93.46% (2016 - 94.55%)</b>		
<b>Belgium - 0.00% (2016 - 4.68%)</b>		
<b>Finland - 0.00% (2016 - 4.27%)</b>		
<b>France - 18.36% (2016 - 13.75%)</b>		
3,677 Air Liquide	348	1.08
37,410 AXA	841	2.61
55,075 Coface	407	1.26
29,650 Crédit Agricole	405	1.26
19,340 Klepierre	604	1.88
61,460 Natixis	357	1.11
9,800 Sanofi	738	2.29
35,183 SCOR	1,142	3.55
26,731 Total	1,071	3.32
	<b>5,913</b>	<b>18.36</b>
<b>Germany - 20.89% (2016 - 22.82%)</b>		
8,359 Allianz	1,387	4.31
12,020 Daimler	680	2.11
22,355 Drillisch	1,195	3.71
6,090 Evonik Industries	153	0.47
22,784 Freenet	589	1.83
9,247 Muenchener Rueckversicherung	1,479	4.59
10,420 ProSiebenSat.1 Media	272	0.85
74,759 TUI	974	3.02
	<b>6,729</b>	<b>20.89</b>
<b>Ireland- 1.19% (2016 - 0.00%)</b>		
83,319 Allied Irish Banks	384	1.19
<b>Italy - 6.34% (2016 - 0.91%)</b>		
49,460 Atlantia	1,232	3.82
172,940 Enel	811	2.52
	<b>2,043</b>	<b>6.34</b>
<b>Luxembourg - 4.31% (2016 - 5.05%)</b>		
78,290 SES Global FDR (each representing 1 class 'A' share)	1,387	4.31

## Portfolio Statement continued

Holding	Market Value £000s	% of Net Assets
<b>Netherlands - 15.34% (2016 - 7.32%)</b>		
32,110 ABN AMRO	697	2.16
96,290 ING	1,324	4.11
520,730 KPN	1,424	4.42
70,189 Royal Dutch Shell class 'A' Shares	1,499	4.65
	<b>4,944</b>	<b>15.34</b>
<b>Norway - 7.30% (2016 - 8.41%)</b>		
30,780 Statoil	451	1.40
78,310 Telenor	1,226	3.81
21,280 Yara International	673	2.09
	<b>2,350</b>	<b>7.30</b>
<b>Portugal - 1.39% (2016 - 1.94%)</b>		
93,452 CTT-Correios de Portugal	447	1.39
<b>Spain - 13.65% (2016 - 15.11%)</b>		
55,122 Cia de Distribucion Integral Logista	1,058	3.28
27,049 Enagas	617	1.92
83,210 Ferrovial	1,469	4.56
198,137 Iberdrola	1,254	3.89
	<b>4,398</b>	<b>13.65</b>
<b>Sweden - 2.11% (2016 - 4.13%)</b>		
32,390 Swedbank series 'A' shares	679	2.11
<b>Switzerland - 2.58% (2016 - 6.16%)</b>		
12,530 Sunrise Communications	832	2.58
Investment assets	30,106	93.46
Net other assets	2,107	6.54
<b>Net assets</b>	<b>32,213</b>	<b>100.00</b>

Unless otherwise stated, all investments are approved securities being either officially listed in a member state or traded on or under the rules of an eligible securities market.

Note: Comparative figures show percentages for each category of holding at 31 August 2016.

## Statement of Total Return

For the year ended to 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Income					
Net capital gains	2		6,216		3,042
Revenue	3	1,321		1,397	
Expenses	4	(579)		(556)	
Interest payable and similar charges	6	0		0	
Net revenue before taxation		742		841	
Taxation	5	(110)		(95)	
Net revenue after taxation			632		746
Total return before distributions			6,848		3,788
Distributions	7		(1,041)		(1,114)
Change in net assets attributable to shareholders from investment activities			5,807		2,674

## Statement of Change in Net Assets Attributable to Shareholders

For the year ended to 31 August 2017

	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Opening net assets attributable to shareholders		27,663		25,838
Amounts receivable on creation of shares	585		554	
Less: Amounts payable on cancellation of shares	(2,685)		(2,292)	
		(2,100)		(1,738)
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		5,807		2,674
Retained distributions on accumulation shares		843		888
Unclaimed distributions		0		1
Closing net assets attributable to shareholders		32,213		27,663

Notes to the final report and financial statements are from page 101 to 109.

# Balance Sheet

As at 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
<b>Assets</b>					
Fixed assets					
Investments			30,106		26,154
Current assets					
Debtors	8	515		222	
Cash and bank balances	9	2,011		1,393	
<b>Total other assets</b>			<b>2,526</b>		<b>1,615</b>
<b>Total assets</b>			<b>32,632</b>		<b>27,769</b>
<b>Liabilities</b>					
Investment liabilities					
Creditors					
Distribution payable on income shares	10	(35)		(15)	
Other creditors	10	(384)		(91)	
<b>Total other liabilities</b>			<b>(419)</b>		<b>(106)</b>
<b>Total liabilities</b>			<b>(419)</b>		<b>(106)</b>
<b>Net assets attributable to shareholders</b>			<b>32,213</b>		<b>27,663</b>

Notes to the final report and financial statements are from page 101 to 109.

# Notes to the Final Report and Financial Statements

## 1. Accounting policies

The applicable accounting policies adopted by the Allianz European Equity Income Fund are included on pages 9 and 10 of the Collective Notes to the Final Report and Financial Statements.

## 2. Net capital gains

	2017 £000s	2016 £000s
Gains on non-derivative securities	6,261	3,072
Losses on currency	(15)	(8)
Handling charges	(30)	(22)
<b>Net capital gains</b>	<b>6,216</b>	<b>3,042</b>

## 3. Revenue

	2017 £000s	2016 £000s
Overseas dividends - non-taxable	1,281	1,363
Overseas dividends - taxable	40	34
<b>Total revenue</b>	<b>1,321</b>	<b>1,397</b>

## Notes to the Final Report and Financial Statements continued

## 4. Expenses

	2017 £000s	2016 £000s
<b>Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director and agents of either of them:</b>		
ACD's annual fee <sup>1</sup>	409	368
Company secretarial costs	1	1
	410	369
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fees	12	10
Safe custody fees	7	6
	19	16
<b>Other expenses:</b>		
Audit fee	13	13
Distribution costs	36	44
Printing costs	19	27
Registration fees	80	84
Taxation advice	2	3
	150	171
<b>Total expenses</b>	<b>579</b>	<b>556</b>

<sup>1</sup> For the purpose of the distribution, this expense is borne by the capital account (see Note 7).

All expenditure stated above is inclusive of VAT where applicable.

The Audit fee for the year, excluding VAT, was £10,570 (2016 - £10,504).

## Notes to the Final Report and Financial Statements continued

**5. Taxation**

	2017 £000s	2016 £000s
<b>a. Analysis of taxation charge for the year:</b>		
Overseas tax	110	95
<b>Total taxation for the year (see Note 5(b))</b>	<b>110</b>	<b>95</b>

**b. Factors affecting taxation charge for the year:**

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK for a sub-fund of an Open Ended Investment Company (20%) (2016 - 20%).

The differences are explained below:

Net revenue before taxation	742	841
Corporation tax at 20% (2016 - 20%)	148	168
<b>Effects of:</b>		
Overseas dividends - non-taxable	(256)	(273)
Overseas tax suffered	110	95
Relief on overseas tax expensed	(1)	0
Surplus allowable expenses arising in the year	109	105
<b>Total taxation charge for the year (see Note 5(a))</b>	<b>110</b>	<b>95</b>

OEICs are exempt from tax on capital gains, therefore capital returns are not included in the above reconciliation.

**c. Deferred tax**

The sub-fund has not recognised a deferred tax asset of £826,000 (2016 - £717,000) as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

**6. Interest payable and similar charges**

	2017 £000s	2016 £000s
<b>Interest</b>	<b>0</b>	<b>0</b>



## Notes to the Final Report and Financial Statements continued

**7. Distributions**

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares and comprise:

	2017 £000s	2016 £000s
<b>1st Interim</b>		
Income Shares	0	16
Accumulation Shares	24	79
	24	95
<b>2nd Interim</b>		
Income Shares	12	22
Accumulation Shares	48	103
	60	125
<b>3rd Interim</b>		
Income Shares	146	167
Accumulation Shares	599	621
	745	788
<b>Final</b>		
Income Shares	35	15
Accumulation Shares	172	85
	207	100
Add: Revenue deducted on cancellation of shares	7	9
Less: Revenue received on creation of shares	(2)	(3)
<b>Net distributions for the year</b>	<b>1,041</b>	<b>1,114</b>
<b>Reconciliation of net revenue after taxation to net distributions for the year:</b>		
Net revenue after taxation	632	746
Capitalised expenses	409	368
<b>Net distributions for the year</b>	<b>1,041</b>	<b>1,114</b>

**8. Debtors**

	2017 £000s	2016 £000s
Accrued revenue	46	33
Amounts receivable on creation of shares	5	19
Foreign currency receivable	182	0
Overseas tax recoverable	185	170
Sales awaiting settlement	97	0
	<b>515</b>	<b>222</b>

## Notes to the Final Report and Financial Statements continued

**9. Cash and bank balances**

	2017 £000s	2016 £000s
Cash and bank balances	2,011	1,393

**10. Other creditors**

	2017 £000s	2016 £000s
<b>a. Distribution payable on income shares</b>		
Net distribution payable	35	15
<b>b. Other creditors</b>		
Accrued ACD's annual fee	37	32
Amounts payable on cancellation of shares	26	11
Foreign currency contracts awaiting settlement	182	0
Purchases awaiting settlement	89	0
Other accrued expenses	50	48
	<b>384</b>	<b>91</b>

**11. Related party transactions**

The ACD is deemed to be a related party under the definition of Financial Reporting Standard 102, which requires the disclosure of details of material transactions between the sub-fund and any related party.

Details of any related party transactions occurring during the year, including commissions paid and any balances due at the year end are disclosed in the Balance Sheet, the Statement of Change in Net Assets Attributable to Shareholders and Notes 4, 7, 8 and 10 to the financial statements. All creations and cancellations of shares were transacted with the ACD.

In addition, the following asset is considered to be a related party of the ACD and was held by the sub-fund as at the Balance Sheet date:

	2017 £000s	2016 £000s
Allianz	1,387	1,389

The value of purchases during the year were £Nil (2016 - £100,831).

The value of sales during the year were £571,124 (2016 - £Nil).

**12. Equalisation**

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of net revenue included in the purchase price of all Group 2 shares. In the case of Income shares, it is refunded as part of a shareholder's first distribution. In the case of Accumulation shares, it is automatically reinvested in the sub-fund at the first distribution payment date after the shares were purchased. Being a capital repayment it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

## Notes to the Final Report and Financial Statements continued

### 13. Shareholders' funds

The sub-fund currently has two share classes; A and C. The ACD's annual fee on these share classes are as follows:

Class A : 1.50%

Class C : 0.75%

The net asset value per share and the number of shares in issue are given in the Comparative Tables on pages 87 to 90.

The distribution per share is given in the Distribution Tables on page 91 to 94.

Revenue available for allocation will be allocated between the share classes based on the respective proportionate interests represented by those share classes on a daily basis and taxation is computed by reference to the net revenue after expenses attributable to each class. All share classes have the same rights on winding up.

### 14. Contingent liabilities and commitments

As at 31 August 2017 there were no contingent liabilities (2016 - £Nil).

### 15. Derivatives and other financial instruments

The narrative on pages 4 to 5 explains the different types of risks the sub-fund may face.

#### a. Currency exposure

The majority of the net assets and liabilities of the sub-fund are denominated in currencies other than Sterling, with the effect that the total net assets and total return can be affected by currency movements.

Currency	Monetary Exposure 31 August 2017 £000s	Non-Monetary Exposure 31 August 2017 £000s	Total Exposure 31 August 2017 £000s	Monetary Exposure 31 August 2016 £000s	Non-Monetary Exposure 31 August 2016 £000s	Total Exposure 31 August 2016 £000s
Euro	10	26,420	26,430	0	21,169	21,169
Norwegian Krone	0	2,356	2,356	0	2,332	2,332
Polish Zloty	0	2	2	0	2	2
Swedish Krona	0	680	680	0	1,143	1,143
Swiss Franc	0	832	832	0	1,711	1,711

#### b. Interest rate risk profile

The sub-fund did not hold any interest bearing financial instruments other than its cash and bank balances as at the balance sheet date (2016 - same).

#### c. Sensitivity analysis

##### Market price sensitivity

The value of the sub-fund's listed equities, which were exposed to market price risk as at 31 August was as follows:

	2017 £000s	2016 £000s
Listed equity investments held at fair value through profit or loss	30,106	26,154

## Notes to the Final Report and Financial Statements continued

**15. Derivatives and other financial instruments continued**

The following illustrates the sensitivity of the net return and the net assets to an increase or decrease of 20% (2016 - 20%) in the fair values of the sub-fund's listed investments. This level of change is considered to be reasonably possible based on observation of market conditions in the year. The sensitivity analysis is based on the impact of a change to the value of the sub-fund's listed equity investments at each balance sheet date.

	2017 20% Increase in fair value £000s	2017 20% Decrease in fair value £000s	2016 20% Increase in fair value £000s	2016 20% Decrease in fair value £000s
<b>Capital Return</b>				
Net gains (losses) on investments at fair value	6,021	( 6,021)	5,231	(5,231)

**Foreign Currency Risk Sensitivity**

The following table details the sub-fund's sensitivity to a 20% increase and decrease in sterling against the relevant foreign currencies and the resultant impact that any such increase or decrease would have on the net return and net assets. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the year end for a 20% change in foreign currency rates.

	2017 20% Decrease in Sterling against foreign currencies £000s	2017 20% Increase in Sterling against foreign currencies £000s	2016 20% Decrease in Sterling against foreign currencies £000s	2016 20% Increase in Sterling against foreign currencies £000s
Euro	6,608	(4,405)	5,292	(3,528)
Norwegian Krone	589	(393)	583	(389)
Polish Zloty	1	(0)	1	0
Swedish Krona	170	(113)	286	(191)
Swiss Franc	208	(139)	428	(285)
<b>Change in net return and net assets</b>	<b>7,576</b>	<b>(5,050)</b>	<b>6,590</b>	<b>(4,393)</b>

**d. Leverage**

The sub-fund did not employ significant leverage during the year (2016 - same).

**e. Fair value hierarchy**

An analysis of the portfolio in accordance with the fair value hierarchy is shown below:

	Assets 31 August 2017 £000s	Liabilities 31 August 2017 £000s	Assets 31 August 2016 £000s	Liabilities 31 August 2016 £000s
Level 1: Quoted	30,106	0	26,154	0
Level 2: Observable	0	0	0	0
Level 3: Unobservable	0	0	0	0

## Notes to the Final Report and Financial Statements continued

### 15. Derivatives and other financial instruments continued

The fair value as at the reporting date has been estimated using the following fair value hierarchy:

#### Level (1) Quoted prices for identical instruments in active markets

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### Level (2) Valuation techniques that use:

Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

#### Level (3) Valuation techniques that use:

Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

When the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate, the fair value is estimated by using an alternative valuation technique. Such valuation techniques will, where possible, maximise the use of observable market data inputs as opposed to non-observable entity determined data inputs.

The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

#### f. Maturity of financial liabilities

All liabilities are due in one year or less or on demand (2016 - same).

#### g. Fair value disclosure

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair value.

### 16. Share movement

For the year ended 31 August 2017:

	Class A Shares (Income)	Class A Shares (Accumulation)	Class C Shares (Income)	Class C Shares (Accumulation)
Opening shares	3,106,090	9,627,789	1,624,903	2,483,249
Shares created	57,398	22,718	205,793	167,399
Shares cancelled	(330,337)	(656,955)	(430,946)	(210,897)
Shares converted	(57,622)	(70,949)	77,213	124,347
Closing shares	2,775,529	8,922,603	1,476,963	2,564,098

**17. Portfolio transaction costs**

For the year ending 31 August

	Transaction					Transaction				
	Value	Commissions	Taxes	Taxes		Value	Commissions	Taxes	Taxes	
	2017	2017	2017	2017	2017	2016	2016	2016	2016	2016
	£000s	£000s	%	£000s	%	£000s	£000s	%	£000s	%
<b>Purchases</b>										
Equity instruments (direct)	12,323	10	0.08	11	0.09	9,464	8	0.08	4	0.04
Total purchases	12,323	10		11		9,464	8		4	
Total purchases including transaction costs	12,344					9,476				
<b>Sales</b>										
Equity instruments (direct)	14,653	11	0.08	-	-	10,705	9	0.08	0	
Total sales	14,653	11		-		10,705	9		0	
Total sales net of transaction costs	14,642					10,696				
<b>Total transaction costs</b>		21		11			17		4	
<b>Total transaction costs as a % of average net assets</b>		0.07%		0.03%			0.06%		0.02%	

The above analysis covers any direct transaction costs suffered by the fund during the period. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

Separately identifiable direct transaction costs (commissions & taxes etc) are attributable to the fund's purchase and sale of equity shares. Additionally for equity shares there is a dealing spread cost (the difference between the buying and selling prices) which will be suffered on purchase and sale transactions.

Dealing spread costs suffered by the fund vary considerably for the different asset / instrument types depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.06% (2016 : 0.04%)



# Allianz UK Equity Income Fund

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# Fund Information

## Investment Objective and Policy

The Fund aims to achieve high and increasing income together with 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 shares which offer above average current dividend income yield or, if not, the prospect of superior long term dividend growth. A small proportion of the Fund's investments may be held in convertibles and investment trust income shares in order to enhance the income yield.

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

## Fund Details

Fund Manager	Simon Gergel	
Benchmark	FTSE All-Share Index	
Income allocation dates	Interim Final	28 February* 31 August
Income pay date	Interim Final	30 April 31 October
Launch date	Fund A Shares C Shares	20 June 2002 20 June 2002 23 April 2014
ISA status	Yes	
Share Classes and types of Shares	A (Income Shares) C (Income Shares)	
Minimum investment		
A Shares	Lump sum £500 Monthly saving £50	
C Shares	Lump sum £500 Monthly saving £50	
Initial charge	A Shares C Shares	4% Nil
Annual ACD fee	A Shares C Shares	1.25% 0.75%

\*29 February in a leap year.

# Comparative Tables

For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>A Shares (Income)</b>			
Opening net asset value per share	265.49	265.36	279.16
Return before operating charges	42.80	15.41	2.47
Operating charges	(3.97)	(3.66)	(3.95)
Return after operating charges	38.83	11.75	(1.48)
Distributions	(12.21)	(11.62)	(12.32)
Closing net asset value per share	292.11	265.49	265.36
After direct transaction costs of <sup>1</sup>	(0.37)	(0.26)	(0.41)
Return after operating charges	14.63%	4.43%	(0.53)%
Closing net asset value (£'000)	61,554	59,942	66,825
Closing number of shares	21,072,056	22,577,742	25,183,134
Operating charges	1.41%	1.41%	1.40%
Direct transaction costs	0.13%	0.10%	0.14%
<b>Prices</b>			
Highest share price	299.43	275.27	301.46
Lowest share price	262.17	236.09	250.08

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>C Shares (Income)</b>			
Opening net asset value per share	95.89	95.40	99.83
Return before operating charges	15.53	5.51	0.88
Operating charges	(0.97)	(0.94)	(1.19)
Return after operating charges	14.56	4.57	(0.31)
Distributions	(4.36)	(4.08)	(4.12)
Closing net asset value per share	106.09	95.89	95.40
After transaction costs of <sup>1</sup>	(0.13)	(0.09)	(0.15)
Return after operating charges	15.19%	4.79%	(0.31)%
Closing net asset value (£'000)	7,028	6,455	2,567
Closing number of shares	6,624,747	6,731,475	2,690,819
Operating charges	0.95%	1.01%	1.18%
Direct transaction costs	0.13%	0.10%	0.14%
<b>Prices</b>			
Highest share price	108.70	99.40	108.14
Lowest share price	94.72	84.99	89.44

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

# Distribution Table

## For the year ended 31 August 2017

### Interim

Group 1: Shares purchased prior to 1 September 2016

Group 2: Shares purchased on or after 1 September 2016 to 28 February 2017

Share Class	Net Distribution 30 April 2017 per Share (p)	Equalisation 30 April 2017 per Share (p)	Distribution paid 30 April 2017 per Share (p)	Distribution paid 30 April 2016 per Share (p)
<b>Income Shares</b>				
<b>A Shares</b>				
Group 1	4.9209	0.0000	4.9209	4.2480
Group 2	2.7552	2.1657	4.9209	4.2480
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	1.7505	0.0000	1.7505	1.4469
Group 2	0.4175	1.3330	1.7505	1.4469

### Final

Group 1: Shares purchased prior to 1 March 2017

Group 2: Shares purchased on or after 1 March 2017 to 31 August 2017

Share Class	Net Distribution 31 October 2017 per Share (p)	Equalisation 31 October 2017 per Share (p)	Distribution payable 31 October 2017 per Share (p)	Distribution paid 31 October 2016 per Share (p)
<b>Income Shares</b>				
<b>A Shares</b>				
Group 1	7.2924	0.0000	7.2924	7.3709
Group 2	5.0896	2.2028	7.2924	7.3709
<b>Income Shares</b>				
<b>C Shares</b>				
Group 1	2.6119	0.0000	2.6119	2.6314
Group 2	0.6598	1.9521	2.6119	2.6314

Investors are reminded that distribution is not guaranteed.

# Investment Review

## Performance Summary

Over the 12-month period under review, 1st September 2016 to 31st August 2017, the Fund's 'C' class shares produced a total return of 15.3% whereas the 'A' class shares produced a total return of 14.74%. The Fund's benchmark, the FTSE All-Share Index, produced a total return of 14.3%.\* The main reason for the outperformance was strong stock-picking, particularly amongst smaller capitalisation companies.

## Market Background

The year saw a number of surprising market-moving developments. The election of Donald Trump seemed to mark a sea change in US politics. Initially this was interpreted positively, as the new President talked optimistically about promoting business, cutting taxes and slashing regulation. However, after a few months it became clear that much of the President's agenda was politically unworkable.

In the UK, the Prime Minister called a snap general election in an attempt to increase her majority, and cement her position ahead of difficult Brexit negotiations. This proved to be a serious misjudgement, as instead of increasing her majority she ended up losing her majority. In Europe, the populists generally did not do as well as expected, in particular in France where the centrist Emmanuel Macron delivered a resounding victory.

Elsewhere, emerging markets mostly outperformed low expectations, in particular China which continued its rebound from the lows of 2015. The threat of nuclear war also re-emerged as North Korea successfully tested a number of long-range nuclear missiles.

Despite this volatile backdrop, stock markets continued their ascent, helped along by the ongoing low-interest rate environment. In the UK specifically, overseas earners performed well, underpinned by the weakness of sterling. Domestically focussed stocks staged a short rebound after the initial post-Brexit collapse, but many subsequently retreated again as sentiment towards the UK economy deteriorated.

## Portfolio Review

The Fund comprises a portfolio of predominantly high-yielding UK equities, in order to achieve the objective of delivering high and increasing income together with capital growth. The Fund also has a limited exposure to continental European equities, and we write a selective portfolio of covered call options to supplement the income stream.

The Fund outperformed during the year due to strong stock-picking across a range of sectors. Antofagasta (copper mining), Coface (Insurance), Equiniti (business services), Sirius Real Estate (industrial property) and Hostelworld (online travel agent) all returned over 50%. Although there were some negative detractors, such as Ladbrokes and IG Group, these were less significant from a portfolio returns perspective.

The Fund's active, contrarian and value-driven stock-picking philosophy was in clear evidence during the year. We added a number of new positions across a range of sectors.

Within industrials, we added Meggitt, Morgan Advanced Materials and Tyman. We see scope for "self-help" management actions to drive improved profitability against a backdrop of gradually improving end markets.

In media we bought new positions in WPP and St Ives. The former was purchased post a de-rating, as investor concerns relating to the impact of digital media resurfaced. We have looked at this in detail, and believe that it is as much an opportunity as a threat to the advertising agency business model. In contrast, St Ives own a number of high-growth digital media companies that we believe will drive strong share price performance over time as the legacy print business becomes smaller and smaller.

Elsewhere we gradually increased the Fund's exposure to "UK domestics", by which we mean companies that conduct the majority of their business within the UK economy. Whilst we are far from sanguine about the prospects for the UK economy, we do not regard the long-term outlook as being that much worse than other parts of the world, and as such we see the low valuations currently

\* 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. Performance per comparative table based on bid market price portfolio valuation at close of business on the last day of the accounting period and with related accounting adjustments. Benchmark performance based on end of day prices.

## Investment Review continued

on offer as a long-term opportunity. We added the housebuilder Bovis Homes, which has significant self-help potential under new management. We also increased the position in pub company Greene King.

These new investments were funded by selling out of a number of holdings. Carnival, TGS Nopec, Central Asia Metals, Sunrise Communications and Hostelworld were all sold following strong performance, which reduced the attractiveness of the valuation case. We also exited Mothercare following a review of the investment case.

### Outlook

The growth rate of the UK economy has slowed this year, and there remain further risks to the economy from high levels of consumer debt and the impact of inflation on real earnings, as well as uncertainty in the corporate sector caused by Brexit. However, monetary policy remains supportive and, thus far, the consumer has held up OK with little sign that unemployment is rising. Also the UK stock market is not purely exposed to the UK economy, as the majority of sales and profits in UK listed stocks come from overseas operations.

Although stock markets have been trading near to all-time high levels, there remain plenty of opportunities to buy sound businesses trading on reasonable valuations, with attractive dividend yields. We are finding these opportunities both within domestic companies and amongst the more internationally diversified. Most

domestic stocks are pricing-in a difficult environment. Although an element of caution is understandable, as discussed above there are many companies across a range of sectors that seem undervalued under most realistic longer-term scenarios.

Recovery, or “self-help”, is another important theme that is present within many of the Fund’s holdings, and which also spans a number of industries. Internationally-spread businesses include the diversified oil companies, media, and aerospace & defence. Domestically-focused recovery stocks are predominantly in the consumer space, in particular leisure.

It is notable that the Fund has very limited exposure to “blue chip” consumer staples sectors like tobacco, household goods and beverages, where valuations are extended and future shareholder returns are likely to be modest at best. We believe that shareholder activism in this area has encouraged many of these businesses to cut investment and marketing spending to boost profit margins, and to take on higher levels of debt, partly to finance acquisitions. This is a short-term approach that could well leave companies more vulnerable to any cyclical downturn or structural changes in their industries.

26 September 2017

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.

# Portfolio Statement

As at 31 August 2017

Holding	Market Value £000s	% of Net Assets
<b>UNITED KINGDOM 82.13% (2016 - 80.14%)</b>		
<b>Aerospace &amp; Defence 5.91% (2016 - 4.19%)</b>		
274,388 BAE Systems	1,667	2.43
250,000 Meggitt	1,295	1.89
397,780 Senior	1,091	1.59
	<b>4,053</b>	<b>5.91</b>
<b>Banks 8.28% (2016 - 9.02%)</b>		
412,585 HSBC	3,096	4.51
4,060,216 Lloyds Banking	2,589	3.77
	<b>5,685</b>	<b>8.28</b>
<b>Beverages 1.05% (2016 - 1.33%)</b>		
27,803 Diageo	720	1.05
<b>Construction &amp; Materials 5.27% (2016 - 4.95%)</b>		
486,208 Balfour Beatty	1,306	1.90
124,583 Kier	1,461	2.13
249,000 Tyman	847	1.24
	<b>3,614</b>	<b>5.27</b>
<b>Electricity 1.97% (2016 - 1.60%)</b>		
94,691 SSE	1,348	1.97
<b>Electronic &amp; Electrical Equipment 1.27% (2016 - 0.00%)</b>		
290,000 Morgan Advanced Materials	869	1.27
<b>Financial Services 7.32% (2016 - 7.15%)</b>		
341,263 Ashmore	1,258	1.83
180,012 IG	1,161	1.69
616,042 Man	1,031	1.50
113,411 NEX	752	1.10
166,085 TP ICAP	820	1.20
	<b>5,022</b>	<b>7.32</b>
<b>Food &amp; Drug Retailers 1.51% (2016 - 1.60%)</b>		
440,953 J Sainsbury	1,038	1.51
<b>Food Producers 2.22% (2016 - 2.83%)</b>		
223,351 Tate & Lyle	1,525	2.22
<b>Gas, Water &amp; Multiutilities 3.61% (2016 - 4.69%)</b>		
562,587 Centrica	1,124	1.64
166,647 Pennon	1,352	1.97
	<b>2,476</b>	<b>3.61</b>

Holding	Market Value £000s	% of Net Assets
<b>General Retailers 1.46% (2016 - 3.20%)</b>		
314,415 Marks & Spencer	1,004	1.46
<b>Household Goods &amp; Home Construction 1.15% (2016 - 0.00%)</b>		
75,000 Bovis Homes	791	1.15
<b>Life Insurance 6.12% (2016 - 4.73%)</b>		
93,000 Prudential	1,687	2.46
584,410 Standard Life	2,510	3.66
	4,197	6.12
<b>Media 4.30% (2016 - 4.17%)</b>		
272,996 UBM	1,810	2.64
80,000 WPP	1,136	1.66
	2,946	4.30
<b>Mining 1.73% (2016 - 1.94%)</b>		
115,000 Antofagasta	1,190	1.73
<b>Mobile Telecommunications 1.86% (2016 - 3.24%)</b>		
174,526 Inmarsat	1,273	1.86
<b>Oil &amp; Gas Producers 2.57% (2016 - 2.66%)</b>		
395,848 BP	1,762	2.57
<b>Pharmaceuticals &amp; Biotechnology 6.06% (2016 - 6.20%)</b>		
271,077 GlaxoSmithKline	4,157	6.06
<b>Real Estate Investment Trusts 3.10% (2016 - 2.80%)</b>		
1,603,236 Hansteen	2,123	3.10
<b>Support Services 8.63% (2016 - 6.63%)</b>		
1,877,690 Begbies Traynor <sup>1</sup>	1,108	1.61
473,030 Equiniti	1,274	1.86
1,821,000 St. Ives	1,288	1.88
682,634 SThree	2,249	3.28
	5,919	8.63
<b>Travel &amp; Leisure 6.74% (2016 - 7.21%)</b>		
466,972 FirstGroup	548	0.80
214,185 Greene King	1,477	2.15
1,321,544 Ladbrokes	1,565	2.28
288,672 National Express	1,036	1.51
	4,626	6.74



## Portfolio Statement continued

Holding	Market Value £000s	% of Net Assets
<b>OVERSEAS EQUITIES 16.36% (2016 - 17.38%)</b>		
<b>Australia Equities 2.48% (2016 - 0.82%)</b>		
115,177 BHP Billiton	1,699	2.48
<b>France Equities 2.70% (2016 - 2.76%)</b>		
135,133 Coface	999	1.45
21,320 Total	855	1.25
	<b>1,854</b>	<b>2.70</b>
<b>Guernsey Equities 1.98% (2016 - 1.86%)</b>		
2,273,061 Sirius Real Estate	1,358	1.98
<b>Ireland 0.12% (2016 - 0.00%)</b>		
50,000 IFG	80	0.12
<b>Isle of Man Equities 1.72% (2016 - 1.49%)</b>		
600,282 Manx Telecom <sup>1</sup>	1,177	1.72
<b>Netherlands Equities 6.48% (2016 - 6.28%)</b>		
205,550 Royal Dutch Shell class 'B' shares	4,441	6.48
<b>Norway Equities 0.00% (2016 - 1.02%)</b>		
<b>Spain Equities 0.88% (2016 - 0.94%)</b>		
95,000 Iberdrola	601	0.88
<b>Switzerland Equities 0.00% (2016 - 1.17%)</b>		
<b>United States of America Equities 0.00% (2016 - 1.04%)</b>		
<b>DERIVATIVES (0.02)% (2016 - 0.00%)</b>		
<b>UK Written Call Options (0.02)% (2016 - 0.00%)</b>		
(10) Diageo Call Options October 2017	(6)	(0.01)
(20) GlaxoSmithKline Call Options October 2017	0	0.00
(50) HSBC Call Options October 2017	(5)	(0.01)
(40) HSBC Call Options November 2017	(1)	0.00
(15) Prudential Call Options December 2017	(3)	0.00
	<b>(15)</b>	<b>(0.02)</b>
Investment assets <sup>2</sup>	67,533	98.47
Net other assets	1,049	1.53
<b>Net assets</b>	<b>68,582</b>	<b>100.00</b>

<sup>1</sup>Securities Listed on Alternative Investment Market<sup>2</sup>Includes derivative liabilities

Unless otherwise stated, all investments are approved securities being either officially listed in a member state or traded on or under the rules of an eligible securities market.

Note: Comparative figures show percentages for each category of holding at 31 August 2016.

## Statement of Total Return

For the year ended to 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Income					
Net capital gains	2		7,174		697
Revenue	3	3,044		3,033	
Expenses	4	(911)		(894)	
Interest payable and similar charges	6	0		0	
Net revenue before taxation		2,133		2,139	
Taxation	5	(24)		(18)	
Net revenue after taxation			2,109		2,121
<b>Total return before distributions</b>			<b>9,283</b>		<b>2,818</b>
Distributions	7		(2,917)		(2,903)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>6,366</b>		<b>(85)</b>

## Statement of Change in Net Assets Attributable to Shareholders

For the year ended to 31 August 2017

	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Opening net assets attributable to shareholders		66,397		69,392
Amounts receivable on creation of shares	4,442		6,097	
Less: Amounts payable on cancellation of shares	(8,649)		(9,100)	
		(4,207)		(3,003)
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		6,366		(85)
Unclaimed distributions		26		93
<b>Closing net assets attributable to shareholders</b>		<b>68,582</b>		<b>66,397</b>

Notes to the final report and financial statements are from page 123 to 130.

# Balance Sheet

As at 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
<b>Assets</b>					
Fixed assets					
Investments			67,548		64,753
Current assets					
Debtors	8	666		565	
Cash and bank balances	9	2,387		3,334	
<b>Total other assets</b>			<b>3,053</b>		<b>3,899</b>
<b>Total assets</b>			<b>70,601</b>		<b>68,652</b>
<b>Liabilities</b>					
Investment liabilities			(15)		(4)
Creditors					
Distribution payable on income shares	10	(1,710)		(1,841)	
Other creditors	10	(294)		(410)	
<b>Total other liabilities</b>			<b>(2,004)</b>		<b>(2,251)</b>
<b>Total liabilities</b>			<b>(2,019)</b>		<b>(2,255)</b>
<b>Net assets attributable to shareholders</b>			<b>68,582</b>		<b>66,397</b>

Notes to the final report and financial statements are from page 123 to 130.

# Notes to the Final Report and Financial Statements

## 1. Accounting policies

The applicable accounting policies adopted by the UK Equity Income Fund are included on pages 9 and 10 of the Collective Notes to the Final Report and Financial Statements.

## 2. Net capital gains

	2017 £000s	2016 £000s
Gains on non-derivative securities	7,184	711
Losses on currency	(3)	(14)
Gains on derivative securities	0	5
Handling charges	(7)	(5)
<b>Net capital gains</b>	<b>7,174</b>	<b>697</b>

## 3. Revenue

	2017 £000s	2016 £000s
Franked UK dividends	2,519	2,628
Overseas dividends - non-taxable	398	273
Premiums on derivative securities	46	57
Stock dividends	17	0
Underwriting commission	0	1
Unfranked UK dividends	64	74
<b>Total revenue</b>	<b>3,044</b>	<b>3,033</b>

## Notes to the Final Report and Financial Statements continued

## 4. Expenses

	2017 £000s	2016 £000s
<b>Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director and agents of either of them:</b>		
ACD's annual fee <sup>1</sup>	810	790
Company secretarial costs	1	1
	811	791
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fees	22	21
Safe custody fees	4	3
	26	24
<b>Other expenses:</b>		
Audit fee	13	12
Distribution costs	16	16
Printing costs	4	7
Registration fees	39	42
Taxation advice	2	2
	74	79
<b>Total expenses</b>	<b>911</b>	<b>894</b>

<sup>1</sup> For the purpose of the distribution, this expense is borne by the capital account (see Note 7).

All expenditure stated above is inclusive of VAT where applicable.

The Audit fee for the year, excluding VAT, was £10,570 (2016 - £9,757).

## 5. Taxation

	2017 £000s	2016 £000s
<b>a. Analysis of taxation charge for the year:</b>		
Overseas tax suffered	24	18
<b>Total taxation for the year (see Note 5(b))</b>	<b>24</b>	<b>18</b>

## Notes to the Final Report and Financial Statements continued

**5. Taxation continued****b. Factors affecting taxation charge for the year:**

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK for a sub-fund of an Open Ended Investment Company (20%) (2016 - 20%).

The differences are explained below:

Net revenue before taxation	2,133	2,139
Corporation tax at 20% (2016 - 20%)	427	428
<b>Effects of:</b>		
Overseas dividends - non-taxable	(80)	(55)
Overseas tax suffered	24	18
Stock dividends - non-taxable	(3)	0
Surplus allowable expenses arising in the year	160	153
UK dividends not subject to corporation tax	(504)	(526)
<b>Total taxation charge for the year (see Note 5(a))</b>	<b>24</b>	<b>18</b>

OEICs are exempt from tax on UK capital gains, therefore capital returns are not included in the above reconciliation.

**c. Deferred tax**

The sub-fund has not recognised a deferred tax asset of £5,987,000 (2016 - £5,827,000) arising as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

**6. Interest payable and similar charges**

	2017 £000s	2016 £000s
Interest	0	0

**7. Distributions**

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares and comprise:

	2017 £000s	2016 £000s
Interim	1,165	1,060
Final	1,710	1,841
	2,875	2,901
Add: Revenue deducted on cancellation of shares	88	101
Less: Revenue received on creation of shares	(46)	(99)
<b>Net distributions for the year</b>	<b>2,917</b>	<b>2,903</b>
<b>Reconciliation of net revenue after taxation to net distributions for the year:</b>		
Net revenue after taxation	2,109	2,121
Capitalised expenses	810	790
Net equalisation on conversions	0	(2)
Tax relief on capitalised fees	(2)	(6)
<b>Net distributions for the year</b>	<b>2,917</b>	<b>2,903</b>

## Notes to the Final Report and Financial Statements continued

**8. Debtors**

	2017 £000s	2016 £000s
Accrued revenue	452	402
Amounts receivable on creation of shares	163	118
Overseas tax recoverable	51	45
	<b>666</b>	<b>565</b>

**9. Cash and bank balances**

	2017 £000s	2016 £000s
Amounts held at futures clearing houses and brokers	75	48
Cash and bank balances	2,312	3,286
	<b>2,387</b>	<b>3,334</b>

**10. Creditors**

	2017 £000s	2016 £000s
<b>a. Distribution payable on income shares</b>		
Net distribution payable	1,710	1,841
<b>b. Other creditors</b>		
Accrued ACD's annual fee	71	68
Amounts payable on cancellation of shares	44	53
Other accrued expenses	34	37
Purchases awaiting settlement	145	252
	<b>294</b>	<b>410</b>

**11. Related party transactions**

The ACD is deemed to be a related party under the definition of Financial Reporting Standard 102, which requires the disclosure of details of material transactions between the sub-fund and any related party.

Details of any related party transactions occurring during the year, including commissions paid and any balances due at the year end are disclosed in the Balance Sheet, the Statement of Change in Net Assets Attributable to Shareholders and Notes 4, 7, 8 and 10 to the financial statements. All creations and cancellations of shares were transacted with the ACD.

**12. Equalisation**

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of net revenue included in the purchase price of all Group 2 shares. In the case of Income shares, it is refunded as part of a shareholder's first distribution. Being a capital repayment it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

## Notes to the Final Report and Financial Statements continued

### 13. Shareholders' funds

The sub-fund currently has two classes of share; A and C. The ACD's annual fee on these share classes are as follows:

Class A: 1.25%

Class C: 0.75%

The net asset value per share and the number of shares in issue are given in the Comparative Tables on pages 113 to 114. The distribution per share is given in the Distribution Tables on page 115.

Revenue available for allocation will be allocated between the share classes based on the respective proportionate interests represented by those share classes on a daily basis and taxation is computed by reference to the net revenue after expenses attributable to each class. All share classes have the same rights on winding up.

### 14. Contingent liabilities and commitments

As at 31 August 2017 there were no contingent liabilities (2016 - £Nil).

### 15. Derivatives and other financial instruments

The narrative on pages 4 to 5 explains the different types of risks the sub-fund may face.

#### a. Currency exposure

A portion of the net assets and liabilities of the sub-fund are denominated in currencies other than Sterling, with the effect that the total net assets and total return can be affected by currency movements.

Currency	Monetary Exposure 31 August 2017 £000s	Non-Monetary Exposure 31 August 2017 £000s	Total Exposure 31 August 2017 £000s	Monetary Exposure 31 August 2016 £000s	Non-Monetary Exposure 31 August 2016 £000s	Total Exposure 31 August 2016 £000s
Euro	0	2,422	2,422	0	3,741	3,741
Norwegian Krone	0	0	0	0	678	678
Swiss Franc	0	0	0	0	780	780
US Dollar	3	35	38	3	52	55

#### b. Interest rate risk profile

The sub-fund did not hold any interest bearing financial instruments other than its cash and bank balances as at the balance sheet date (2016 - same).

#### c. Sensitivity analysis

##### Market price sensitivity

The value of the sub-fund's listed equities, which were exposed to market price risk as at 31 August was as follows:

	2017 £000s	2016 £000s
Listed equity investments held at fair value through profit or loss	67,548	64,753
UK written call options	(15)	(4)

The following illustrates the sensitivity of the net return and the net assets to an increase or decrease of 20% (2016 - 20%) in the fair values of the sub-fund's listed investments. This level of change is considered to be reasonably possible based on observation of market conditions in the year. The sensitivity analysis is based on the impact of a change to the value of the sub-fund's listed equity investments at each balance sheet date.



## Notes to the Final Report and Financial Statements continued

## 15. Derivatives and other financial instruments continued

	2017 20% Increase in fair value £000s	2017 20% Decrease in fair value £000s	2016 20% Increase in fair value £000s	2016 20% Decrease in fair value £000s
<b>Capital Return</b>				
Net gains (losses) on investments at fair value	13,507	(13,507)	12,950	(12,950)

**Foreign Currency Risk Sensitivity**

The following table details the sub-fund's sensitivity to a 20% increase and decrease in sterling against the relevant foreign currencies and the resultant impact that any such increase or decrease would have on the net return and net assets. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the year end for a 20% change in foreign currency rates.

	2017 20% Decrease in Sterling against foreign currencies £000	2017 20% Increase in Sterling against foreign currencies £000s	2016 20% Decrease in Sterling against foreign currencies £000	2016 20% Increase in Sterling against foreign currencies £000s
Euro	606	(404)	935	(624)
Norwegian Krone	0	0	170	(113)
Swiss Franc	0	0	195	(130)
US Dollar	10	(6)	14	(9)
<b>Change in net return and net assets</b>	<b>616</b>	<b>(410)</b>	<b>1,314</b>	<b>(876)</b>

**d. Leverage**

The use of derivatives may expose the sub-fund to a higher degree of risk. In particular, derivative contracts can be highly volatile and the amount of initial margin is generally small relative to the size of the contract so that transactions may be leveraged in terms of market exposure. A relatively small market movement may have a potentially larger impact on derivatives than on standard bonds or equities. Leveraged derivative positions can therefore increase a sub-fund's volatility.

The leverage is calculated on a commitment basis, by taking the sum of the net asset value and the incremental exposure generated through the use of derivatives and is expressed as a percentage of the net asset value.

The average level of leverage employed by the sub-fund during the year was 2.32% (31 August 2016 - 1.19%).

**e. Fair value hierarchy**

An analysis of the portfolio in accordance with the fair value hierarchy is shown below:

	Assets 31 August 2017 £000s	Liabilities 31 August 2017 £000s	Assets 31 August 2016 £000s	Liabilities 31 August 2016 £000s
Level 1: Quoted	67,548	(15)	64,753	(4)
Level 2: Observable	0	0	0	0
Level 3: Unobservable	0	0	0	0

The fair value as at the reporting date has been estimated using the following fair value hierarchy:

## Notes to the Final Report and Financial Statements continued

### Level (1) Quoted prices for identical instruments in active markets

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### Level (2) Valuation techniques that use:

Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

### Level (3) Valuation techniques that use:

Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

When the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate, the fair value is estimated by using an alternative valuation technique. Such valuation techniques will, where possible, maximise the use of observable market data inputs as opposed to non-observable entity determined data inputs.

The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

### f. Maturity of financial liabilities

All liabilities are due in one year or less or on demand (2016 - same).

### g. Fair value disclosure

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair value.

### h. Derivatives

The sub-fund operates a strategy of writing (selling) covered call options on selected shares held within the portfolio in order to generate additional revenue. There is a maximum 20% limit, at the time of writing, on the proportion of the portfolio that can be exposed to call options. The effect of this strategy is that should the value of the shares rise the sub-fund would only benefit in that rise up to the call price.

Over the year the strategy has accrued additional revenue of £46,000 (2016 - £57,000).

Allowing for the change in market value of option positions and the opportunity cost of any option exercises, the net contribution to the sub-fund over the year was £24,000 (2016 - £30,000).

As at 31 August 2017, the sub-fund had outstanding options positions with a market value of £(15,000) (2016 - £(4,000)), resulting in an underlying exposure to 1.2% (2016 - 1.3%) of the portfolio (valued at strike prices).

For more details please refer to page 5.

## 16. Share movement

For the year ended 31 August 2017:

	Class A Shares (Income)	Class C Shares (Income)
Opening shares	22,577,742	6,731,475
Shares created	1,167,210	1,189,584
Shares cancelled	(2,512,539)	(1,739,191)
Shares converted	(160,357)	442,879
Closing shares	21,072,056	6,624,747

## Notes to the Final Report and Financial Statements continued

**17. Portfolio transaction costs**

For the year ending 31 August

	Transaction Value 2017 £000s	Commissions 2017 £000s	Taxes 2017 %	Taxes 2017 £000s		Transaction Value 2016 £000s	Commissions 2016 £000s	Taxes 2016 %	Taxes 2016 £000s	
<b>Purchases</b>										
Equity instruments (direct)	14,366	12	0.09	62	0.43	12,032	9	0.07	42	0.35
Total purchases	14,366	12		62		12,032	9		42	
Total purchases including transaction costs	14,440					12,083				
<b>Sales</b>										
Equity instruments (direct)	18,838	13	0.07	0	0.00	16,781	13	0.08	0	-
Total sales	18,838	13		0		16,781	13		0	
Total sales net of transaction costs	18,825					16,768				
Derivative transaction costs		1		0			1		0	
Total transaction costs		26		62			23		42	
Total transaction costs as a % of average net assets		0.04%		0.09%			0.04%		0.06%	

The above analysis covers any direct transaction costs suffered by the sub-fund during the year. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

Separately identifiable direct transaction costs (commissions & taxes etc) are attributable to the sub-fund's purchase and sale of equity shares. Additionally for equity shares there is a dealing spread cost (the difference between the buying and selling prices) which will be suffered on purchase and sale transactions.

During the year the sub-fund utilised derivative instruments including options covering equities. The settlement values for opening and closing derivative positions are not comparable to principal values for transactions in direct holding investments and therefore purchase and sale amounts for derivative transactions are not quantified in the analysis above. Transaction costs for derivatives positions will be either suffered as direct costs or form part of the dealing spread for the instruments. Any direct costs are identified in the analysis above.

Dealing spread costs suffered by the sub-fund vary considerably for the different asset / instrument types depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.10% (2016 - 0.14%).

# Allianz UK Opportunities Fund (formerly Allianz UK Growth Fund)

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# Fund Information

## Change of Name

Please note that the Allianz UK Growth Fund changed its name to the Allianz UK Opportunities Fund on 13 January 2017.

## Investment Objective and Policy

The Fund aims to achieve capital growth.

The ACD aims to achieve the investment objective by investing in all economic sectors of the United Kingdom although it may invest internationally. The ACD will not follow any particular style bias and it will seek to take advantage of opportunities across the UK and other international markets to achieve capital growth. The ACD will predominantly invest into stocks. The Fund may also hold fixed income securities. It is the intention of the ACD to mainly invest in sectors and stocks which are represented on the FTSE All Share Index.

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

## Fund Details

Fund Manager	Matthew Tillett	
Benchmark	FTSE All Share Index	
Income allocation date	31 August	
Income pay date	31 October	
Launch date	Fund	20 June 2002
	A Shares	20 June 2002
	C Shares	27 March 2014
	Y Shares	20 February 2017
	I Shares	1 June 2017
ISA status	Yes	
Share Classes and types of Shares	A (Accumulation Shares) C (Accumulation Shares) Y (Accumulation Shares) I (Accumulation Shares)	
Minimum investment		
A Shares	Lump sum £500 Monthly saving £50	
C Shares	Lump sum £500 Monthly saving £50	
Y Shares	Lump Sum £100,000,000 (Available to Approved Investors only)	
I Shares	Lump Sum £10,000,000	
Initial charge	A Shares	4%
	C Shares	Nil
	Y Shares	Nil
	I Shares	Nil
Annual ACD fee	A Shares	1.25%
	C Shares	0.75%
	Y Shares	0.30%
	I Shares	0.50%

# Comparative Tables

For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>A Shares (Accumulation)</b>			
Opening net asset value per share	4,671.31	4,316.42	4,343.21
Return before operating charges	1,000.07	416.90	34.82
Operating charges	(74.54)	(62.01)	(61.61)
Return after operating charges	925.53	354.89	(26.79)
Distributions	(67.32)	(79.89)	(68.65)
Retained distributions on accumulation shares	67.32	79.89	68.65
Closing net asset value per share	5,596.84	4,671.31	4,316.42
After direct transaction costs of <sup>1</sup>	(12.95)	(9.77)	(8.70)
Return after operating charges	19.81%	8.22%	(0.62)%
Closing net asset value (£'000)	29,875	39,553	43,473
Closing number of shares	533,771	846,721	1,007,153
Operating charges	1.43%	1.44%	1.41%
Direct transaction costs	0.25%	0.23%	0.20%
<b>Prices</b>			
Highest share price	5,641.54	4,742.71	4,701.97
Lowest share price	4,705.28	3,777.00	3,924.79

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>C Shares (Accumulation)</b>			
Opening net asset value per share	109.08	100.22	100.39
Return before operating charges	23.41	9.75	0.79
Operating charges	(1.10)	(0.89)	(0.96)
Return after operating charges	22.31	8.86	(0.17)
Distributions	(1.86)	(2.41)	(2.09)
Retained distributions on accumulation shares	1.86	2.41	2.09
Closing net asset value per share	131.39	109.08	100.22
After direct transaction costs of <sup>1</sup>	(0.30)	(0.23)	(0.20)
Return after operating charges	20.45%	8.84%	(0.17)%
Closing net asset value (£'000)	30,685	5,289	2,894
Closing number of shares	23,353,502	4,848,562	2,887,659
Operating charges	0.90%	0.89%	0.95%
Direct transaction costs	0.25%	0.23%	0.20%
<b>Prices</b>			
Highest share price	132.42	110.75	109.05
Lowest share price	109.88	87.89	90.76

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 <sup>2</sup> Pence per Share
<b>I Shares (Accumulation)</b>	
Opening net asset value per share	100.00
Return before operating charges	1.01
Operating charges	(0.54)
Return after operating charges	0.47
Distributions	0.00
Retained distributions on accumulation shares	0.00
Closing net asset value per share	100.47
After direct transaction costs of <sup>1</sup>	(0.25)
Return after operating charges	0.47%
Closing net asset value (£'000)	518
Closing number of shares	515,839
Operating charges	0.54%
Direct transaction costs	0.25%
<b>Prices</b>	
Highest share price	101.23
Lowest share price	96.79

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

<sup>2</sup> From 1 June 2017 to 31 August 2017.

Operating charges 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 sub-fund.



## Comparative Tables continued

## For the year ended 31 August

	2017 <sup>2</sup> Pence per Share
<b>Y Shares (Accumulation)</b>	
Opening net asset value per share	5,000.00
Return before operating charges	413.37
Operating charges	(20.97)
Return after operating charges	392.40
Distributions	0.00
Retained distributions on accumulation shares	0.00
Closing net asset value per share	5,392.40
After direct transaction costs of <sup>1</sup>	(13.03)
Return after operating charges	7.85%
Closing net asset value (£'000)	84
Closing number of shares	1,565
Operating charges	0.40%
Direct transaction costs	0.25%
<b>Prices</b>	
Highest share price	5,433.20
Lowest share price	4,950.53

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

<sup>2</sup> From 20 February 2017 to 31 August 2017.

Operating charges 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 sub-fund.

# Distribution Table

For the year ended 31 August 2017

Final

Group 1: Shares purchased prior to 1 September 2016

Group 2: Shares purchased on or after 1 September 2016 to 31 August 2017

Share Class	Net Distribution 31 October 2017 per Share (p)	Equalisation 31 October 2017 per Share (p)	Distribution payable 31 October 2017 per Share (p)	Distribution paid 31 October 2016 per Share (p)
<b>Accumulation Shares</b>				
<b>A Shares</b>				
Group 1	67.3229	0.0000	67.3229	79.8854
Group 2	31.0151	36.3078	67.3229	79.8854
<b>Accumulation Shares</b>				
<b>C Shares</b>				
Group 1	1.8586	0.0000	1.8586	2.4126
Group 2	1.2373	0.6213	1.8586	2.4126
<b>Accumulation Shares</b>				
<b>I Shares<sup>1</sup></b>				
Group 1	0.0000	0.0000	0.0000	N/A
Group 2	0.0000	0.0000	0.0000	N/A
<b>Accumulation Shares</b>				
<b>Y Shares<sup>2</sup></b>				
Group 1	0.0000	0.0000	0.0000	N/A
Group 2	0.0000	0.0000	0.0000	N/A

<sup>1</sup> On 1 June 2017, Class 'I' Shares were introduced, therefore there are no shares in issue in the comparative.

<sup>2</sup> On 20 February 2017, Class 'Y' Shares were introduced, therefore there are no shares in issue in the comparative.

Investors are reminded that distribution is not guaranteed.

# Investment Review

## Performance Summary

Over the 12-month period under review, 1st September 2016 to 31st August 2017, the Fund's 'C' class shares produced a total return of 20.6% and the Fund's 'A' class shares produced a total return of 19.92%. The Fund's benchmark, the FTSE All Share Index, produced a total return of 14.3%.\* The main reason for the outperformance was strong stock-picking, particularly amongst smaller capitalisation companies.

## Market Background

The year saw a number of surprising market-moving developments. The election of Donald Trump seemed to mark a sea change in US politics. Initially this was interpreted positively, as the new President talked optimistically about promoting business, cutting taxes and slashing regulation. However, after a few months it became clear that much of the President's agenda was politically unworkable.

In the UK, the Prime Minister called a snap general election in an attempt to increase her majority, and cement her position ahead of difficult Brexit negotiations. This proved to be a serious misjudgement, as instead of increasing her majority she ended up losing her majority. In Europe, the populists generally did not do as well as expected, in particular in France where the centrist Emmanuel Macron delivered a resounding victory.

Elsewhere, emerging markets mostly outperformed low expectations, in particular China which continued its rebound from the lows of 2015. The threat of nuclear war also re-emerged as North Korea successfully tested a number of long-range nuclear missiles.

Despite this volatile backdrop, stock markets continued their ascent, helped along by the ongoing low-interest rate environment. In the UK specifically, overseas earners performed well, underpinned by the weakness of sterling. Domestically focussed stocks staged a short rebound after the initial post-Brexit collapse, but many subsequently retreated again as sentiment towards the UK economy deteriorated.

## Portfolio Review

The Fund aims to deliver a compelling long-term risk-adjusted return through a concentrated portfolio that invests on an unconstrained basis across all companies and sectors in the UK stock market. We invest in companies that we believe are significantly undervalued relative to their assets or long-term earnings potential, and where the downside risks are quantifiable and typically low. The benchmark is the FTSE All Share, but the fund is not constructed with reference to this or any other equity index.

The Fund outperformed by over 6% during the year due to strong stock-picking across a range of sectors. Equiniti (business services), Better Capital (listed private equity), Sirius Real Estate (industrial property), Hostelworld (online travel agent) and Faroe Petroleum (oil & gas) all returned over 50%. Although there were some negative detractors, such as Goals Soccer Centres and Greene King, these were not that significant from a portfolio returns perspective. The Fund's highly active, opportunistic and value-driven stock-picking philosophy was in clear evidence during the year.

We added a number of new positions within the "UK domestics" space, by which we mean companies that conduct the majority of their business within the UK economy. This is an area that has been savagely de-rated following the EU Referendum vote and the deteriorating investor sentiment towards the UK economy. Whilst we are far from sanguine about the prospects for the UK economy, we do not regard the long-term outlook as being that much worse than other parts of the world, and as such we see the low valuations currently on offer as a long-term opportunity. However, we are being highly selective, preferring to focus on those companies with strong business models and solid balance sheets. Examples include Howden Joinery, Servelec, Greene King, Ten Entertainment and DFS Furniture, all of which were added to the Fund during the year.

Elsewhere, we added two new holdings in the aerospace and defence sector, Cobham and Meggitt. After a period of difficult end markets, we scope for long-term recovery at

\* 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. Performance per comparative table based on bid market price portfolio valuation at close of business on the last day of the accounting period and with related accounting adjustments. Benchmark performance based on end of day prices.

## Investment Review continued

both companies, driven by “self-help” management actions and gradually improving defence and aerospace end markets.

These new investments were funded by selling out of a number of holdings. Serica Energy, Exova Group and Hostelworld were all sold following strong performance, which reduced the attractiveness of the valuation case. We also exited Brammer after the company was taken over by private equity.

### Outlook

The growth rate of the UK economy has slowed this year, and there remain further risks to the economy from high levels of consumer debt, and the impact of inflation on real earnings, as well as uncertainty in the corporate sector caused by Brexit. However, monetary policy remains supportive and, thus far, the consumer has held up OK with little sign that unemployment is rising. Also the UK stock market is not purely exposed to the UK economy, as the majority of sales and profits in UK listed stocks come from overseas operations.

Although stock markets have been trading near to all-time high levels, there remain plenty of opportunities to buy sound businesses trading on reasonable valuations, with attractive dividend yields. We are finding these opportunities both within domestic companies and amongst the more internationally diversified. Most domestic stocks are pricing-in a difficult environment.

Although an element of caution is understandable, as discussed above there are many companies across a range of sectors that seem undervalued under most realistic longer-term scenarios.

Recovery, or “self-help”, is another important theme that is present within many of the Fund’s holdings, and which also span a number of industries. Internationally-spread businesses include the diversified oil companies, media, and aerospace & defence. Domestically-focused recovery stocks are predominantly in the consumer space, in particular leisure.

It is notable that the Fund has very limited exposure to “blue chip” consumer staples sectors like tobacco, household goods and beverages, where valuations are extended and future shareholder returns are likely to be modest at best. We believe that shareholder activism in this area has encouraged many of these businesses to cut investment and marketing spending to boost profit margins, and to take on higher levels of debt, partly to finance acquisitions. This is a short-term approach that could well leave companies more vulnerable to any cyclical downturn or structural changes in their industries.

26 September 2017

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.

# Portfolio Statement

As at 31 August 2017

Holding	Market Value £000s	% of Net Assets
<b>UNITED KINGDOM EQUITIES 69.28% (2016 - 69.33%)</b>		
<b>Aerospace &amp; Defence 8.04% (2016 - 2.74%)</b>		
840,000 Cobham	1,153	1.89
365,000 Meggitt	1,891	3.09
682,369 Senior	1,872	3.06
	<b>4,916</b>	<b>8.04</b>
<b>Construction &amp; Materials 5.89% (2016 - 6.35%)</b>		
581,326 Balfour Beatty	1,562	2.55
599,934 Tyman	2,040	3.34
	<b>3,602</b>	<b>5.89</b>
<b>Equity Investment Instruments 0.00% (2016 - 4.52%)</b>		
<b>Financial Services 3.49% (2016 - 2.36%)</b>		
316,751 Ashmore	1,167	1.91
150,000 IG	967	1.58
	<b>2,134</b>	<b>3.49</b>
<b>Gas, Water &amp; Multiutilities 2.27% (2016 - 3.97%)</b>		
693,578 Centrica	1,386	2.27
<b>General Industrials 0.00% (2016 - 2.90%)</b>		
<b>General Retailers 2.78% (2016 - 1.91%)</b>		
350,000 DFS Furniture	830	1.36
881,431 Mothercare	870	1.42
	<b>1,700</b>	<b>2.78</b>
<b>Media 4.98% (2016 - 3.72%)</b>		
630,000 TEN Entertainment	995	1.63
143,214 UBM	950	1.55
77,500 WPP	1,101	1.80
	<b>3,046</b>	<b>4.98</b>
<b>Mining 1.70% (2016 - 4.04%)</b>		
7,288,000 Pan African Resources <sup>1</sup>	1,039	1.70
<b>Oil &amp; Gas Producers 7.35% (2016 - 9.07%)</b>		
560,425 BP	2,494	4.08
2,281,932 Faroe Petroleum <sup>1</sup>	1,962	3.21
89,500 SDX Energy <sup>1</sup>	39	0.06
	<b>4,495</b>	<b>7.35</b>

## Portfolio Statement continued

Holding	Market Value £000s	% of Net Assets
<b>Oil Equipment, Services &amp; Distribution 1.43% (2016 - 0.29%)</b>		
4,600,000 Enteq Upstream <sup>1</sup>	874	1.43
<b>Real Estate Investment &amp; Services 3.08% (2016 - 3.69%)</b>		
1,022,106 Development Securities	1,883	3.08
<b>Software &amp; Computer Services 2.81% (2016 - 0.00%)</b>		
614,310 Servelec	1720	2.81
<b>Support Services 14.62% (2016 - 12.76%)</b>		
2,742,320 Begbies Traynor <sup>1</sup>	1,618	2.65
1,201,500 Driver <sup>1</sup>	565	0.92
570,005 Equiniti	1,535	2.51
339,000 Howden Joinery	1,443	2.36
2,636,500 St. Ives	1,865	3.05
581,366 STThree	1,916	3.13
	8,942	14.62
<b>Technology Hardware &amp; Equipment 2.49% (2016 - 0.00%)</b>		
1,080,000 Laird	1,525	2.49
<b>Travel &amp; Leisure 8.35% (2016 - 11.01%)</b>		
1,217,905 FirstGroup	1,430	2.34
1,910,000 Goals Soccer Centres <sup>1</sup>	1,948	3.18
251,000 Greene King	1,731	2.83
	5,109	8.35
<b>OVERSEAS EQUITIES 21.73% (2016 - 25.43%)</b>		
<b>Germany Equities 0.00% (2016 - 2.31%)</b>		
<b>Guernsey Equities 8.19% (2016 - 8.25%)</b>		
276,289 Better Capital PCC 2009	149	0.24
8,256,654 Better Capital PCC 2012	2,642	4.32
3,715,070 Sirius Real Estate	2,220	3.63
	5,011	8.19
<b>Ireland Equities 4.51% (2016 - 1.78%)</b>		
1,722,597 IFG	2,756	4.51
<b>Israel Equities 0.56% (2016 - 0.00%)</b>		
92,308 Taptica International <sup>1</sup>	342	0.56
<b>Netherlands Equities 4.10% (2016 - 3.90%)</b>		
116,137 Royal Dutch Shell class 'B' shares	2,509	4.10

## Portfolio Statement continued

Holding	Market Value £000s	% of Net Assets
Norway Equities 0.00% (2016 - 1.54%)		
Singapore Equities 3.43% (2016 - 3.95%)		
4,996,249 Capital Drilling	2,098	3.43
Spain Equities 0.00% (2016 - 3.70%)		
United Arab Emirates Equities 0.94% (2016 - 0.00%)		
1,300,000 Gulf Marine Services	575	0.94
Investment assets	55,662	91.01
Net other assets	5,500	8.99
<b>Net assets</b>	<b>61,162</b>	<b>100.00</b>

<sup>1</sup> Securities listed on the Alternative Investments Market.

Unless otherwise stated, all investments are approved securities being either officially listed in a member state or traded on or under the rules of an eligible securities market.

Note: Comparative figures show percentages for each category of holding at 31 August 2016.

## Statement of Total Return

For the year ended to 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Income					
Net capital gains	2		8,432		2,617
Revenue	3	1,453		1,433	
Expenses	4	(643)		(601)	
Interest payable and similar charges	6	0		0	
Net revenue before taxation		810		832	
Taxation	5	(7)		(6)	
Net revenue after taxation			803		826
Total return before distributions			9,235		3,443
Distributions	7		(823)		(833)
Change in net assets attributable to shareholders from investment activities			8,412		2,610

## Statement of Change in Net Assets Attributable to Shareholders

For the year ended to 31 August 2017

	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Opening net assets attributable to shareholders		44,842		46,367
Inspecie transfer from Allianz UK Unconstrained Fund	10,862		0	
Amounts receivable on creation of shares	1,209		473	
Less: Amounts payable on cancellation of shares	(4,956)		(5,401)	
		7,115		(4,928)
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		8,412		2,610
Retained distributions on accumulation shares		793		793
Closing net assets attributable to shareholders		61,162		44,842

Notes to the final report and financial statements are from page 145 to 152.



# Balance Sheet

As at 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
<b>Assets</b>					
Fixed assets					
Investments			55,662		42,491
Current assets					
Debtors	8	179		157	
Cash and bank balances	9	5,441		2,399	
Total other assets			5,620		2,556
<b>Total assets</b>			<b>61,282</b>		<b>45,047</b>
<b>Liabilities</b>					
Creditors					
Other creditors	10	(120)		(205)	
<b>Total liabilities</b>			<b>(120)</b>		<b>(205)</b>
<b>Net assets attributable to shareholders</b>			<b>61,162</b>		<b>44,842</b>

Notes to the final report and financial statements are from page 145 to 152.

# Notes to the Final Report and Financial Statements

## 1. Accounting policies

The applicable accounting policies adopted by the UK Opportunities Fund are included on pages 9 and 10 of the Collective Notes to the Final Report and Financial Statements.

## 2. Net capital gains

	2017 £000s	2016 £000s
Gains on non-derivative securities	8,448	2,645
Losses on currency	(9)	(23)
Handling charges	(7)	(5)
<b>Net capital gains</b>	<b>8,432</b>	<b>2,617</b>

## 3. Revenue

	2017 £000s	2016 £000s
Franked UK dividends	1,069	1,107
Overseas dividends - non-taxable	384	310
Underwriting commission	0	1
Unfranked UK dividends	0	15
<b>Total revenue</b>	<b>1,453</b>	<b>1,433</b>

## Notes to the Final Report and Financial Statements continued

## 4. Expenses

	2017 £000s	2016 £000s
<b>Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director and agents of either of them:</b>		
ACD's annual fee	561	525
Company secretarial costs	1	1
	562	526
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fees	18	15
Safe custody fees	3	3
	21	18
<b>Other expenses:</b>		
Audit fee	13	12
Distribution costs	3	3
Printing costs	4	6
Registration fees	38	34
Taxation advice	2	2
	60	57
<b>Total expenses</b>	<b>643</b>	<b>601</b>

All expenditure stated above is inclusive of VAT where applicable.

The Audit fee for the year, excluding VAT, was £10,570 (2016 - £9,586).

## Notes to the Final Report and Financial Statements continued

## 5. Taxation

	2017 £000s	2016 £000s
<b>a. Analysis of taxation charge for the year:</b>		
Overseas tax suffered	7	6
<b>Total taxation for the year (see Note 5(b))</b>	<b>7</b>	<b>6</b>

**b. Factors affecting taxation charge for the year:**

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK for a sub-fund of an Open Ended Investment Company (20%) (2016 - 20%).

The differences are explained below:

Net revenue before taxation	810	832
Corporation tax at 20% (2016 - 20%)	162	166
<b>Effects of:</b>		
Overseas dividends - non-taxable	(77)	(62)
Overseas tax suffered	7	6
Surplus allowable expenses arising in the year	129	117
UK dividends not subject to corporation tax	(214)	(221)
<b>Total taxation charge for the year (see Note 5(a))</b>	<b>7</b>	<b>6</b>

OEICs are exempt from tax on capital gains, therefore capital returns are not included in the above reconciliation.

**c. Deferred tax**

The sub-fund has not recognised a deferred tax asset of £5,141,000 (2016 - £5,012,000) arising as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

## 6. Interest payable and similar charges

	2017 £000s	2016 £000s
Interest	0	0

## Notes to the Final Report and Financial Statements continued

**7. Distributions**

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares and comprise:

	2017 £000s	2016 £000s
Final	793	793
Add: Revenue deducted on cancellation of shares	37	44
Less: Revenue received on creation of shares	(7)	(4)
<b>Net distributions for the year</b>	<b>823</b>	<b>833</b>
<b>Reconciliation of net revenue after taxation to net distributions for the year:</b>		
Net revenue after taxation	803	826
Net equalisation on conversions	23	7
Undistributed revenue carried forward	(3)	0
<b>Net distributions for the year</b>	<b>823</b>	<b>833</b>

**8. Debtors**

	2017 £000s	2016 £000s
Accrued revenue	162	96
Amounts receivable on creation of shares	3	0
Foreign currency receivable	0	28
Overseas tax recoverable	14	6
Sales awaiting settlement	0	27
	<b>179</b>	<b>157</b>

**9. Cash and bank balances**

	2017 £000s	2016 £000s
Cash and bank balances	<b>5,441</b>	<b>2,399</b>

**10. Other creditors**

	2017 £000s	2016 £000s
Accrued ACD's annual fee	50	45
Amounts payable on cancellation of shares	38	104
Foreign currency payable	0	27
Other accrued expenses	32	29
Purchases awaiting settlement	0	0
	<b>120</b>	<b>205</b>

## Notes to the Final Report and Financial Statements continued

### 11. Related party transactions

The ACD is deemed to be a related party under the definition of Financial Reporting Standard 102, which requires the disclosure of details of material transactions between the sub-fund and any related party.

Details of any related party transactions occurring during the year, including commissions paid and any balances due at the year end are disclosed in the Balance Sheet, the Statement of Change in Net Assets Attributable to Shareholders and Notes 4, 7, 8 and 10 to the financial statements. All creations and cancellations of shares were transacted with the ACD.

### 12. Equalisation

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of net revenue included in the purchase price of all Group 2 shares. In the case of Accumulation shares, it is automatically reinvested in the sub-fund at the first distribution payment date after the shares were purchased. Being a capital repayment it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes

### 13. Shareholders funds

The sub-fund currently has four classes of share; A, C, I and Y. The ACD's annual fee on the share class is as follows:

Class A: 1.25%

Class C: 0.75%

Class Y: 0.30%

Class I: 0.50%

The net asset value per share and the number of shares in issue are given in the Comparative Tables on pages 133 to 136. The distribution per share is given in the Distribution Table on page 137.

Revenue available for allocation will be allocated between the share classes based on the respective proportionate interests represented by those share classes on a daily basis and taxation is computed by reference to the net revenue after expenses attributable to each class. All share classes have the same rights on winding up.

### 14. Contingent liabilities and commitments

As at 31 August 2017 there were no contingent liabilities (2016 - £Nil).

### 15. Derivatives and other financial instruments

The narrative on pages 4 to 5 explains the different types of risks the sub-fund may face.

#### a. Currency exposure

A proportion of the net assets and liabilities of the sub-fund are denominated in currencies other than Sterling, with the effect that the total net assets and total return can be affected by currency movements.

Currency	Monetary Exposure 31 August 2017 £000s	Non-Monetary Exposure 31 August 2017 £000s	Total Exposure 31 August 2017 £000s	Monetary Exposure 31 August 2016 £000s	Non-Monetary Exposure 31 August 2016 £000s	Total Exposure 31 August 2016 £000s
Euro	0	14	14	0	4,387	4,387
Norwegian Krone	0	0	0	0	691	691
US Dollar	2	0	2	2	0	2

## Notes to the Final Report and Financial Statements continued

### b. Interest rate risk profile

The sub-fund did not hold any interest bearing financial instruments other than its cash and bank balances as at the balance sheet date (2016 - same).

### 15. Derivatives and other financial instruments continued

#### c. Sensitivity analysis

##### Market price sensitivity

The value of the sub-fund's listed equities, which were exposed to market price risk as at 31 August was as follows:

	2017 £000s	2016 £000s
Listed equity investments held at fair value through profit or loss	55,662	42,491

The following illustrates the sensitivity of the net return and the net assets to an increase or decrease of 20% (2016 - 20%) in the fair values of the sub-fund's listed investments. This level of change is considered to be reasonably possible based on observation of market conditions in the year. The sensitivity analysis is based on the impact of a change to the value of the sub-fund's listed equity investments at each balance sheet date.

	2017 20% Increase in fair value £000s	2017 20% Decrease in fair value £000s	2016 20% Increase in fair value £000s	2016 20% Decrease in fair value £000s
<b>Capital Return</b>				
Net gains (losses) on investments at fair value	11,132	(11,132)	8,498	(8,498)

##### Foreign Currency Risk Sensitivity

The following table details the sub-fund's sensitivity to a 20% increase and decrease in sterling against the relevant foreign currencies and the resultant impact that any such increase or decrease would have on the net return and net assets. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the year end for a 20% change in foreign currency rates.

	2017 20% Increase in Sterling against foreign currencies £000	2017 20% Decrease in Sterling against foreign currencies £000s	2016 20% Increase in Sterling against foreign currencies £000	2016 20% Decrease in Sterling against foreign currencies £000s
Euro	(2)	4	(731)	1,097
Norwegian Krone	0	0	(115)	173
US Dollar	0	1	0	1
<b>Change in net return and net assets</b>	<b>(2)</b>	<b>5</b>	<b>(846)</b>	<b>1,271</b>

### d. Leverage

The sub-fund did not employ significant leverage during the year (2016 - same).

## Notes to the Final Report and Financial Statements continued

**15. Derivatives and other financial instruments continued****e. Fair value hierarchy**

An analysis of the portfolio in accordance with the fair value hierarchy is shown below:

	Assets 31 August 2017 £000s	Liabilities 31 August 2017 £000s	Assets 31 August 2016 £000s	Liabilities 31 August 2016 £000s
Level 1: Quoted	53,020	0	38,452	0
Level 2: Observable	2,642	0	4,039	0
Level 3: Unobservable	0	0	0	0

The fair value as at the reporting date has been estimated using the following fair value hierarchy:

**Level (1) Quoted prices for identical instruments in active markets**

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Level (2) Valuation techniques that use:**

Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

**Level (3) Valuation techniques that use:**

Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

When the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate, the fair value is estimated by using an alternative valuation technique. Such valuation techniques will, where possible, maximise the use of observable market data inputs as opposed to non-observable entity determined data inputs. The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

**f. Maturity of financial liabilities**

All liabilities are due in one year or less or on demand (2016 - same).

**g. Fair value disclosure**

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair value.

**16. Share movement**

For the year ended 31 August 2017:

	Class A Shares (Accumulation)	Class C Shares (Accumulation)	Class I Shares (Accumulation)	Class Y Shares (Accumulation)
Opening shares	846,721	4,848,562	0	0
Shares created	2,701	9,068,453	515,959	1,739
Shares cancelled	(69,454)	(1,084,152)	(120)	(174)
Shares converted	(246,197)	10,520,639	0	0
Closing shares	533,771	23,353,502	515,839	1,565



## Notes to the Final Report and Financial Statements continued

**17. Portfolio transaction costs**

For the year ending 31 August

	Transaction					Transaction				
	Value	Commissions	Taxes	Taxes		Value	Commissions	Taxes	Taxes	
	2017	2017	2017	2017	2017	2016	2016	2016	2016	2016
	£000s	£000s	%	£000s	%	£000s	£000s	%	£000s	%
<b>Purchases</b>										
Equity instruments (direct)	24,271	18	0.07	89	0.37	18,196	13	0.07	61	0.34
Collective investment schemes	1,150	1	0.09	0	-	1,987	2	0.10	0	-
Inspecie transfer from Allianz UK Unconstrained Fund	10,557	0	-	0	-	0	0	-	0	-
Total purchases	35,978	19		89		20,183	15		61	
Total purchases including transaction costs	36,086					20,259				
<b>Sales</b>										
Equity instruments (direct)	27,687	21	0.08	0	-	25,240	23	0.09	0	-
Collective investment schemes	3,122	1	0.03	0	-	338	0	-	0	-
Total sales	30,809	22		0		25,578	23		0	
Total sales net of transaction costs	30,787					25,555				
<b>Total transaction costs</b>		<b>41</b>		<b>89</b>			<b>38</b>		<b>61</b>	
<b>Total transaction costs as a % of average net assets</b>		<b>0.08%</b>		<b>0.17%</b>			<b>0.09%</b>		<b>0.14%</b>	

The above analysis covers any direct transaction costs suffered by the sub-fund during the year. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

Separately identifiable direct transaction costs (commissions & taxes etc) are attributable to the sub-fund's purchase and sale of equity shares. Additionally for equity shares there is a dealing spread cost (the difference between the buying and selling prices) which will be suffered on purchase and sale transactions.

For the sub-fund's investment in collective investment scheme holdings there will potentially be dealing spread costs applicable to purchases and sales. However additionally there are indirect transaction costs suffered in those underlying sub-funds, throughout the holding period for the instruments, which are not separately identifiable and do not form part of the analysis above.

Dealing spread costs suffered by the sub-fund vary considerably for the different asset / instrument types depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.89% (2016 - 0.79%).

# Allianz UK Mid-Cap Fund

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# Fund Information

## Investment Objective and 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 Share 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.

## Fund Details

<b>Fund Manager</b>	Andrew Neville and Matthew Hall (since 01/06/2017)	
<b>Benchmark</b>	FTSE Mid 250 Share Index	
<b>Income allocation date</b>	31 August	
<b>Income pay date</b>	31 October	
<b>Launch date</b>	Fund	20 June 2002
	A Shares	20 June 2002
	C Shares	13 February 2013
<b>ISA status</b>	Yes	
<b>Share Classes and types of Shares</b>	A (Accumulation Shares) C (Accumulation Shares)	
<b>Minimum investment</b>	A Shares	Lump sum £500 Monthly saving £50
	C Shares	Lump sum £500 Monthly saving £50
<b>Initial charge</b>	A Shares	4%
	C Shares	Nil
<b>Annual ACD fee</b>	A Shares	1.50%
	C Shares	0.75%

# Comparative Tables

For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>A Shares (Accumulation)</b>			
Opening net asset value per share	4,351.39	3,955.59	3,543.65
Return before operating charges	570.40	462.77	474.71
Operating charges	(76.07)	(66.97)	(62.77)
Return after operating charges	494.33	395.80	411.94
Distributions	(6.49)	(15.56)	(43.19)
Retained distributions on accumulation shares	6.49	15.56	43.19
Closing net asset value per share	4,845.72	4,351.39	3,955.59
After direct transaction costs of <sup>1</sup>	(13.38)	(13.66)	(10.66)
Return after operating charges	11.36%	10.01%	11.62%
Closing net asset value (£'000)	28,883	29,916	43,398
Closing number of shares	596,049	687,504	1,097,131
Operating charges	1.67%	1.66%	1.65%
Direct transaction costs	0.29%	0.34%	0.28%
<b>Prices</b>			
Highest share price	4,904.89	4,473.36	4,231.80
Lowest share price	4,243.46	3,638.43	3,172.55

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

## Comparative Tables continued

## For the year ended 31 August

	2017 Pence per Share	2016 Pence per Share	2015 Pence per Share
<b>C Shares (Accumulation)</b>			
Opening net asset value per share	4,475.86	4,034.59	3,586.15
Return before operating charges	589.41	475.98	481.30
Operating charges	(39.52)	(34.71)	(32.86)
Return after operating charges	549.89	441.27	448.44
Distributions	(45.96)	(50.26)	(74.68)
Retained distributions on accumulation shares	45.96	50.26	74.68
Closing net asset value per share	5,025.75	4,475.86	4,034.59
After transaction costs of <sup>1</sup>	(13.82)	(13.99)	(10.83)
Return after operating charges	12.29%	10.94%	12.50%
Closing net asset value (£'000)	22,045	20,536	10,352
Closing number of shares	438,647	458,817	256,581
Operating charges	0.84%	0.84%	0.85%
Direct transaction costs	0.29%	0.34%	0.28%
<b>Prices</b>			
Highest share price	5,075.79	4,601.48	4,308.22
Lowest share price	4,371.22	3,725.35	3,213.99

<sup>1</sup> Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Shareholders should note that additionally there are other transaction costs such as dealing spread and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the sub-fund and share class returns before operating charges.

Operating charges 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 sub-fund.

# Distribution Table

For the year ended 31 August 2017

Final

Group 1: Shares purchased prior to 1 September 2016

Group 2: Shares purchased on or after 1 September 2016 to 31 August 2017

Share Class	Net Distribution 31 October 2017 per Share (p)	Equalisation 31 October 2017 per Share (p)	Distribution payable 31 October 2017 per Share (p)	Distribution paid 31 October 2016 per Share (p)
<b>Accumulation Shares</b>				
<b>A Shares</b>				
Group 1	6.4920	0.0000	6.4920	15.5641
Group 2	4.8670	1.6250	6.4920	15.5641
<b>Accumulation Shares</b>				
<b>C Shares</b>				
Group 1	45.9627	0.0000	45.9627	50.2601
Group 2	26.1693	19.7934	45.9627	50.2601

Investors are reminded that distribution is not guaranteed.

# Investment Review

## Performance Summary

Over the 1-year period under review, 1 September 2016 to 31 August 2017, the Fund's 'C' class produced a total return of 12.31% and the Fund's 'A' class produced a total return of 11.38%. The Fund's benchmark, the FTSE Mid 250 Share Index, produced a total return of 14.15%.\*

The key reason for this underperformance was stock selection, with strong performance from Keywords Studios, Fevertree and Hostelworld more than offset by weak performance from Telit, Tullow Oil and IG Group.

## Market Background

For most of this cycle since the 2008 financial crisis, markets have been witness to volatile economic growth, falling inflation, low income yields and falling commodity prices. Throughout the period, a reversal in these trends was observable, with improving economic growth, rising inflation, rising income yields and rising commodity prices.

One consequence of improved economic growth is less need for monetary support. In the US, interest rates were raised three times, and in Europe there is increasing discussion regarding a reduction in the level of asset purchases. This reduction in monetary support led to an increase in income yields early on in the period, which stabilised at these levels as the period progressed.

In Europe, which is a key end-market for UK companies, the economic recovery gathered momentum, supported by improvements in both domestic and export activity. Political volatility was also noticeably lower in the period in Europe, as immigration, nationalism, and budgetary challenges all eased. These factors, coupled with the possibility of a reduction in quantitative easing in Europe, led to a sharp appreciation in the Euro against major global currencies.

Improving economic activity in Europe, combined with strong economic activity in the US and China, were supportive for global equity markets, which performed well in the period. Although episodes of increased political volatility were apparent, in part due to the recent administration change in the US, this did not noticeably detract from economic growth, and had little lasting impact on financial markets.

In the UK, the economy showed increased signs of declining activity. Although employment levels in the UK are still improving, the on-going Brexit negotiations, combined with a general election where the conservative party lost their majority, have led to increased political uncertainty, and declining consumer and business confidence. In this environment domestically exposed companies performed poorly, especially those which are exposed to rising cost inflation as a result of the national living wage, and increasing raw material costs from international markets as a result of the weak pound. In contrast, internationally exposed companies performed well, as a result of the weak pound boosting overseas earnings, and the global economic outlook improving.

## 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 within the framework of being aware of where we are and where we are going in the stock market cycle, the economic cycle and the company's earnings cycle.

Stock selection was the main driver of Fund performance in the period. Although Keywords, Fevertree and Hostelworld all performed well in the period, there were material detractors from Telit, Tullow Oil and IG Group. Telit underperformed following a poor trading update and the CEO unexpectedly departing, whilst IG Group underperformed after increased regulation in key end-markets decreased demand for their services. We sold Telit and IG Group, due to impairment of the original investment case.

In the period we increased our exposure to international companies benefitting from economic growth and increasing income yields. We started positions in Vesuvius, a manufacturer of ceramic products into the steel and foundry industry; TP ICAP, the world's largest interdealer voice broker; and Kaz Minerals, a producer of copper in Kazakhstan.

\* 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. Performance per comparative table based on bid market price portfolio valuation at close of business on the last day of the accounting period and with related accounting adjustments. Benchmark performance based on end of day prices.

## Investment Review continued

We also started positions in international companies with attractive structural trends, including Keywords Studios, an outsourcer for video games design and production; First Derivatives, a market leader in big data analysis; and Taptica, a mobile advertising platform.

Whilst increasing our exposure to international companies, we reduced our exposure to companies exposed to the UK economy. This included Dunelm, Pets at Home, Derwent London, Bellway and Hansteen. We did start a position in Capita, however, which although primarily a domestic company, is a market leader in business process outsourcing, on a low valuation, with an attractive restructuring story. We also sold positions in Fevertree, Just Eat, Hostelworld, Xlmedia, Booker, DCC, Exova and DS Smith after strong performances.

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

### Outlook

The UK economy has experienced years of rising employment, falling inflation, low interest rates, and a stable political environment. These factors are all beneficial for the UK consumer, whose high levels of confidence and increased consumption have driven the strength of the UK economy.

The outlook for the UK economy is more uncertain than for many years. Although the UK consumer has remained resilient post the Brexit referendum, the political environment is volatile, inflation is increasing, and employment growth is moderating. In this environment the UK economy may find it difficult to deliver growth at similar levels to that which it has achieved in the past. In this uncertain environment, interest rates are likely to remain low, despite increasing inflation.

If the UK economic environment weakens, domestic-orientated stocks, including financials, real estate and consumer discretionary stocks, could well suffer. Indeed, domestically orientated companies which have seen a negative impact on their business as a result of the Brexit referendum have underperformed. Whilst the valuations of some domestically orientated stocks are becoming more attractive, the outlook for these businesses remains uncertain.

In contrast, UK Mid-Sized companies which are exposed to international economies, and benefit from the weak pound, continue to look attractive. Although it is harder to find new investment candidates here, given increased valuations, attractive opportunities still exist.

21 September 2017

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.



# Portfolio Statement

As at 31 August 2017

Holding	Market Value £000s	% of Net Assets
<b>UNITED KINGDOM EQUITIES - 90.25% (2016 - 96.69%)</b>		
<b>Aerospace &amp; Defence - 5.08% (2016 - 3.29%)</b>		
942,553 Senior	2,585	5.08
<b>Beverages - 0.00% (2016 - 3.57%)</b>		
<b>Electronic &amp; Electrical Equipment - 9.58% (2016 - 8.53%)</b>		
110,996 Halma	1,213	2.38
187,181 Oxford Instruments	1,956	3.84
74,000 Spectris	1,712	3.36
	<b>4,881</b>	<b>9.58</b>
<b>Financial Services - 10.85% (2016 - 6.38%)</b>		
400,000 Ashmore	1,474	2.89
262,010 Intermediate Capital	2,323	4.56
350,000 TP ICAP	1,728	3.40
	<b>5,525</b>	<b>10.85</b>
<b>Food &amp; Drug Retailers - 0.00% (2016 - 3.35%)</b>		
<b>General Industrials - 9.99% (2016 - 10.73%)</b>		
278,467 RPC	2,580	5.06
435,000 Vesuvius	2,510	4.93
	<b>5,090</b>	<b>9.99</b>
<b>General Retailers - 9.08% (2016 - 20.21%)</b>		
37,825 ASOS <sup>1</sup>	2,144	4.21
701,292 Auto Trader	2,478	4.87
	<b>4,622</b>	<b>9.08</b>
<b>Household Goods &amp; Home Construction - 3.18% (2016 - 2.22%)</b>		
780,000 Up Global Sourcing	1,622	3.18
<b>Industrial Engineering - 4.57% (2016 - 5.76%)</b>		
41,388 Spirax-Sarco Engineering	2,326	4.57
<b>Media - 2.31% (2016 - 3.53%)</b>		
28,500 Rightmove	1,175	2.31
<b>Mining - 3.30% (2016 - 0.00%)</b>		
200,000 KAZ Minerals	1,681	3.30

## Portfolio Statement continued

Holding	Market Value £000s	% of Net Assets
<b>Mobile Telecommunications - 0.00% (2016 - 5.15%)</b>		
<b>Oil &amp; Gas Producers - 5.29% (2016 - 5.29%)</b>		
1,726,908 Tullow Oil	2,696	5.29
<b>Personal Goods - 6.97% (2016 - 4.50%)</b>		
144,075 SuperGroup	2,288	4.49
50,562 Ted Baker	1,261	2.48
	<b>3,549</b>	<b>6.97</b>
<b>Pharmaceuticals &amp; Biotechnology - 6.20% (2016 - 5.88%)</b>		
137,210 Genus	2,555	5.02
48,307 Hikma Pharmaceuticals	604	1.18
	<b>3,159</b>	<b>6.20</b>
<b>Real Estate Investment Trusts - 2.16% (2016 - 4.79%)</b>		
830,000 Hansteen	1,099	2.16
<b>Software &amp; Computer Services - 9.27% (2016 - 0.93%)</b>		
145,012 Accesso Technology <sup>1</sup>	2,284	4.48
44,610 First Derivative	1,227	2.41
655,000 NCC	1,212	2.38
	<b>4,723</b>	<b>9.27</b>
<b>Support Services - 2.42 % (2016 - 0.00%)</b>		
190,000 Capita	1,231	2.42
<b>Travel &amp; Leisure - 0.00% (2016 - 2.58%)</b>		
<b>OVERSEAS EQUITIES - 8.50% (2016 - 1.91%)</b>		
<b>Ireland Equities - 5.68% (2016 - 1.91%)</b>		
203,000 Keywords <sup>1</sup>	2,891	5.68
<b>Israel Equities - 2.82% (2016 - 0.00%)</b>		
387,692 Taptica International <sup>1</sup>	1,434	2.82
Investment assets	50,289	98.75
Net other assets	639	1.25
<b>Net assets</b>	<b>50,928</b>	<b>100.00</b>

<sup>1</sup>Securities listed on the Alternative Investments Market

Unless otherwise stated, all investments are approved securities being either officially listed in a member state or traded on or under the rules of an eligible securities market.

Note: Comparative figures show percentages for each category of holding at 31 August 2016.

# Statement of Total Return

For the year ended to 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
Income					
Net capital gains	2		5,368		4,613
Revenue	3	913		1,094	
Expenses	4	(663)		(731)	
Interest payable and similar charges	6	0		0	
Net revenue before taxation		250		363	
Taxation	5	0		0	
Net revenue after taxation			250		363
<b>Total return before distributions</b>			<b>5,618</b>		<b>4,976</b>
Distributions	7		(252)		(388)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>5,366</b>		<b>4,588</b>

# Statement of Change in Net Assets Attributable to Shareholders

For the year ended to 31 August 2017

	2017 £000s	2017 £000s	2016 £000s	2016 £000s
<b>Opening net assets attributable to shareholders</b>		<b>50,452</b>		<b>53,750</b>
Amounts receivable on creation of shares	2,116		5,948	
Less: Amounts payable on cancellation of shares	(7,246)		(14,180)	
		(5,130)		(8,232)
Dilution levy		0		8
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		5,366		4,588
Retained distributions on accumulation shares		240		338
<b>Closing net assets attributable to shareholders</b>		<b>50,928</b>		<b>50,452</b>

Notes to the final report and financial statements are from page 164 to 171.

# Balance Sheet

As at 31 August 2017

	Notes	2017 £000s	2017 £000s	2016 £000s	2016 £000s
<b>Assets</b>					
Fixed assets			50,289		49,746
Investments					
Current assets					
Debtors	8	177		478	
Cash and bank balances	9	564		948	
<b>Total other assets</b>			<b>741</b>		<b>1,426</b>
<b>Total assets</b>			<b>51,030</b>		<b>51,172</b>
<b>Liabilities</b>					
Creditors					
Other creditors	10	(102)		(720)	
<b>Total liabilities</b>			<b>(102)</b>		<b>(720)</b>
<b>Net assets attributable to shareholders</b>			<b>50,928</b>		<b>50,452</b>

Notes to the final report and financial statements are from page 164 to 171.

# Notes to the Final Report and Financial Statements

## 1. Accounting policies

The applicable accounting policies adopted by the Allianz UK Mid-Cap Fund are included on pages 9 and 10 of the Collective Notes to the Final Report and Financial Statements.

## 2. Net capital gains

	2017 £000s	2016 £000s
Gains on non-derivative securities	5,373	4,619
Handling charges	(5)	(6)
<b>Net capital gains</b>	<b>5,368</b>	<b>4,613</b>

## 3. Revenue

	2017 £000s	2016 £000s
Franked UK dividends	834	976
Overseas dividends - non-taxable	34	26
Unfranked UK dividends	45	92
<b>Total revenue</b>	<b>913</b>	<b>1,094</b>

## Notes to the Final Report and Financial Statements continued

**4. Expenses**

	2017 £000s	2016 £000s
<b>Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director and agents of either of them:</b>		
ACD's annual fee	596	663
Company secretarial costs	1	1
	597	664
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fees	18	18
Safe custody fees	3	2
	21	20
<b>Other expenses:</b>		
Audit fee	13	12
Distribution costs	3	3
Printing costs	4	5
Registration fees	23	25
Taxation advice	2	2
	45	47
<b>Total expenses</b>	<b>663</b>	<b>731</b>

All expenditure stated above is inclusive of VAT where applicable.

The Audit fee for the year, excluding VAT, was £10,570 (2016 - £9,797).

## Notes to the Final Report and Financial Statements continued

## 5. Taxation

	2017 £000s	2016 £000s
<b>a. Analysis of taxation charge for the year:</b>		
Overseas tax suffered	0	0
<b>Total taxation for the year (see Note 5(b))</b>	<b>0</b>	<b>0</b>

**b. Factors affecting taxation charge for the year:**

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK for a sub-fund of an Open Ended Investment Company (20%) (2016 - 20%).

**The differences are explained below:**

Net revenue before taxation	250	363
Corporation tax at 20% (2016 - 20%)	50	73
<b>Effects of:</b>		
Overseas dividends - non-taxable	(7)	(5)
Surplus allowable expenses arising in the year	124	128
UK dividends not subject to corporation tax	(167)	(196)
<b>Total taxation charge for the year (see Note 5(a))</b>	<b>0</b>	<b>0</b>

OEICs are exempt from tax on capital gains, therefore capital returns are not included in the above reconciliation.

**c. Deferred tax**

The sub-fund has not recognised a deferred tax asset of £3,827,000 (2016 - £3,703,000) arising as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

## 6. Interest payable and similar charges

	2017 £000s	2016 £000s
<b>Interest</b>	<b>0</b>	<b>0</b>

## Notes to the Final Report and Financial Statements continued

**7. Distributions**

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares and comprise:

	2017 £000s	2016 £000s
Final	240	338
Add: Revenue deducted on cancellation of shares	17	73
Less: Revenue received on creation of shares	(5)	(23)
<b>Net distributions for the year</b>	<b>252</b>	<b>388</b>
<b>Reconciliation of net revenue after taxation to net distributions for the year:</b>		
Net revenue after taxation	250	363
Net equalisation on conversions	2	25
<b>Net distributions for the year</b>	<b>252</b>	<b>388</b>

**8. Debtors**

	2017 £000s	2016 £000s
Accrued revenue	151	104
Amounts receivable on creation of shares	20	327
Overseas tax recoverable	6	0
Sales awaiting settlement	0	47
	<b>177</b>	<b>478</b>

**9. Cash and bank balances**

	2017 £000s	2016 £000s
Cash and bank balances	564	948

**10. Other creditors**

	2017 £000s	2016 £000s
Accrued ACD's annual fee	51	51
Amounts payable on cancellation of shares	23	640
Other accrued expenses	28	29
	<b>102</b>	<b>720</b>



## Notes to the Final Report and Financial Statements continued

### 11. Related party transactions

The ACD is deemed to be a related party under the definition of Financial Reporting Standard 102, which requires the disclosure of details of material transactions between the sub-fund and any related party.

Details of any related party transactions occurring during the year, including commissions paid and any balances due at the year end are disclosed in the Balance Sheet, the Statement of Change in Net Assets Attributable to Shareholders and Notes 4, 7, 8 and 10 to the financial statements. All creations and cancellations of shares were transacted with the ACD.

### 12. Equalisation

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of net revenue included in the purchase price of all Group 2 shares. In the case of Accumulation shares, it is automatically reinvested in the sub-fund at the first distribution payment date after the shares were purchased. Being a capital repayment it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes

### 13. Shareholders funds

The sub-fund currently has two classes of share, A and C. The ACD's annual fee on these share classes are as follows:

Class A: 1.50%

Class C: 0.75%

The net asset value per share and the number of shares in issue are given in the Comparative Tables on pages 155 to 156. The distribution per share is given in the Distribution Table on page 157.

Revenue available for allocation will be allocated between the share classes based on the respective proportionate interests represented by those share classes on a daily basis and taxation is computed by reference to the net revenue after expenses attributable to each class. All share classes have the same rights on winding up.

### 14. Contingent liabilities and commitments

As at 31 August 2017 there were no contingent liabilities (2016 - £Nil).

### 15. Derivatives and other financial instruments

The narrative on pages 4 to 5 explains the different types of risks the sub-fund may face.

#### a. Currency exposure

As at 31 August 2017 the sub-fund had no significant exposure to currencies other than Sterling (2016 - no significant exposure).

#### b. Interest rate risk profile

The sub-fund did not hold any interest bearing financial instruments other than its cash and bank balances as at the balance sheet date (2016 - same).

#### c. Sensitivity analysis

##### Market price sensitivity

The value of the sub-fund's listed equities, which were exposed to market price risk as at 31 August was as follows:

	2017 £000s	2016 £000s
Listed equity investments held at fair value through profit or loss	50,289	49,746

## Notes to the Final Report and Financial Statements continued

**15. Derivatives and other financial instruments continued**

The following illustrates the sensitivity of the net return and the net assets to an increase or decrease of 20% (2016 - 20%) in the fair values of the sub-fund's listed investments. This level of change is considered to be reasonably possible based on observation of market conditions in the year. The sensitivity analysis is based on the impact of a change to the value of the sub-fund's listed equity investments at each balance sheet date.

	2017 20% Increase in fair value £000s	2017 20% Decrease in fair value £000s	2016 20% Increase in fair value £000s	2016 20% Decrease in fair value £000s
<b>Capital Return</b>				
Net gains (losses) on investments at fair value	10,058	(10,058)	9,949	(9,949)

**Foreign Currency Risk Sensitivity**

The sub-fund does not have significant exposure to currency risk hence no sensitivity analysis has been presented.

**d. Leverage**

The sub-fund did not employ significant leverage during the year (2016 - same).

**e. Fair value hierarchy**

An analysis of the portfolio in accordance with the fair value hierarchy is shown below:

	Assets 31 August 2017 £000s	Liabilities 31 August 2017 £000s	Assets 31 August 2016 £000s	Liabilities 31 August 2016 £000s
Level 1: Quoted	50,289	0	49,746	0
Level 2: Observable	0	0	0	0
Level 3: Unobservable	0	0	0	0

The fair value as at the reporting date has been estimated using the following fair value hierarchy:

**Level (1) Quoted prices for identical instruments in active markets**

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Level (2) Valuation techniques that use:**

Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

**Level (3) Valuation techniques that use:**

Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

When the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate, the fair value is estimated by using an alternative valuation technique. Such valuation techniques will, where possible, maximise the use of observable market data inputs as opposed to non-observable entity determined data inputs.

The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

## Notes to the Final Report and Financial Statements continued

### 15. Derivatives and other financial instruments continued

#### f. Maturity of financial liabilities

All liabilities are due in one year or less or on demand (2016 - same).

#### g. Fair value disclosure

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair value.

### 16. Share movement

For the year ended 31 August 2017:

	Class A Shares (Accumulation)	Class C Shares (Accumulation)
Opening shares	687,504	458,817
Shares created	18,446	28,088
Shares cancelled	(98,512)	(59,293)
Shares converted	(11,389)	11,035
Closing shares	596,049	438,647

## Notes to the Final Report and Financial Statements continued

**17. Portfolio transaction costs**

For the year ending 31 August

	Transaction					Transaction				
	Value	Commissions	Taxes	Taxes		Value	Commissions	Taxes	Taxes	
	2017	2017	2017	2017	2017	2016	2016	2016	2016	2016
	£000s	£000s	%	£000s	%	£000s	£000s	%	£000s	%
<b>Purchases</b>										
Equity instruments (direct)	30,674	24	0.08	97	0.32	30,244	23	0.08	127	0.42
Total purchases	30,674	24		97		30,244	23		127	
Total purchases including transaction costs	30,795					30,394				
<b>Sales</b>										
Equity instruments (direct)	35,651	28	0.08	0	-	37,706	29	0.08	0	-
Total sales	35,651	28		0		37,706	29		0	
Total sales net of transaction costs	35,623					37,677				
<b>Total transaction costs</b>		<b>52</b>		<b>97</b>			<b>52</b>		<b>127</b>	
<b>Total transaction costs as a % of average net assets</b>		<b>0.10%</b>		<b>0.19%</b>			<b>0.10%</b>		<b>0.24%</b>	

The above analysis covers any direct transaction costs suffered by the sub-fund during the year. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

Separately identifiable direct transaction costs (commissions & taxes etc) are attributable to the sub-fund's purchase and sale of equity shares. Additionally for equity shares there is a dealing spread cost (the difference between the buying and selling prices) which will be suffered on purchase and sale transactions.

Dealing spread costs suffered by the sub-fund vary considerably for the different asset / instrument types depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.13% (2016 - 0.15%)



# Authorised Corporate Director's Report to the Shareholders

REPORT OF THE AUTHORISED CORPORATE DIRECTOR TO THE SHAREHOLDERS OF THE ALLIANZ UK & EUROPEAN FUNDS For the year ended 31 August 2017.

In accordance with the requirements of the Regulations, we hereby certify the report on behalf of Allianz Global Investors GmbH, UK Branch.

K. Hewitson  
Authorised signatory  
26 October 2017

L. Clark  
Authorised signatory

## Depositary's Report to the Shareholders

REPORT OF THE DEPOSITARY TO THE SHAREHOLDERS OF THE ALLIANZ UK & EUROPEAN INVESTMENT FUNDS ("the Company") For the year ended 31 August 2017.

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed by the Authorised Corporate Director in accordance with the Financial Conduct Authority's Collective Investment Scheme Sourcebook ("the COLL sourcebook"), the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) ("the OEIC Regulations") and the Company's Instrument of Incorporation and Prospectus, as appropriate, in relation to the pricing of, and dealings in, shares in the Company; the application of revenue of the Company; and the investment and borrowing powers of the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Authorised Corporate Director:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's revenue in accordance with the COLL sourcebook and where applicable, the OEIC Regulations and the Company's Instrument of Incorporation and Prospectus; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

Bournemouth  
26 October 2017

**J.P. Morgan Europe Limited**  
Depositary

# Independent Auditors' Report to the Shareholders of Allianz UK & European Investment Funds

## Report on the audit of the financial statements

### OPINION

In our opinion, Allianz UK & European Investment Funds' financial statements:

- give a true and fair view of the financial position of the Company and each of the sub-funds as at 31 August 2017 and of the net revenue and the net capital gains/ (losses) on the scheme property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

Allianz UK & European Investment Funds (the "company") is an Open Ended Investment Company ('OEIC') with seven sub-funds. The financial statements of the company comprise the financial statements of each of the sub-funds. We have audited the financial statements, included within the Final Report & Financial Statements (the "Annual Report"), which comprise: the balance sheets as at 31 August 2017; the statement of total return, and the statement of change in net assets attributable to shareholders for the year then ended; the distribution tables; the collective notes to the final report and financial statements; and the notes to the financial statements.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Authorised Corporate Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Authorised Corporate Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's or any of the sub-funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's or any of the sub-funds' ability to continue as a going concern.

### REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Authorised Corporate Director is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

### Authorised Corporate Director's Report

In our opinion, the information given in the Authorised Corporate Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent Auditors' Report to the Shareholders of Allianz UK & European Investment Funds continued

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### Responsibilities of the Authorised Corporate Director for the financial statements

As explained more fully in the Statement of the Authorised Corporate Director's Responsibilities set out on page 8, the Authorised Corporate Director is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Authorised Corporate Director is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Authorised Corporate Director is responsible for assessing the company's and each of the sub-funds ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Authorised Corporate Director either intends to wind up or terminate the company or individual sub-fund, or has no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's shareholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Other required reporting

#### OPINION ON MATTER REQUIRED BY THE COLLECTIVE INVESTMENT SCHEMES SOURCEBOOK

In our opinion, we have obtained all the information and explanations we consider necessary for the purposes of the audit.

#### COLLECTIVE INVESTMENT SCHEMES SOURCEBOOK EXCEPTION REPORTING

Under the Collective Investment Schemes sourcebook we are also required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

#### PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
London  
26 October 2017



## Additional Information

### How will I be kept informed of my investment?

You will receive a full statement of your investments as at 5 April and 5 October sent to you at the end of April and end of October respectively. You can also request a valuation at any time by calling 0800 073 2001.

In addition, the share prices are published daily on our website at [www.allianzglobalinvestors.co.uk](http://www.allianzglobalinvestors.co.uk).

Interim and audited annual long form reports as at 28 February and 31 August can be obtained from our website or by calling the number above.

### Taxation

#### Capital gains tax

Investors are only liable to capital gains tax if their total chargeable gains (net of allowable losses) in the year exceed the annual exemption (£11,300 for the 2017/2018 year, £11,100 for the 2016/2017 year). If gains in excess of this exemption are realised the excess is taxable at the rate of UK capital gains tax applicable to the investor, being either 10% (18% prior to April 2016) or (for higher & additional rate taxpayers) 20% (28% prior to April 2016).

#### Income tax

Distributions, whether they are paid out or accumulated, are treated as income for tax purposes.

#### Dividend distributions (Equity Funds)

From 6 April 2016, the 10% tax credit was abolished and a £5,000 tax free dividend allowance was introduced. Dividends above this level will be taxed at 7.5% (basic rate), 32.5% (higher rate) and 38.1% (additional rate). Dividend income will be treated as the top band of income. Dividends received by Pensions and ISAs will be unaffected.

#### Interest distributions (Bond Funds)

From 6 April 2016, an interest tax-free allowance was introduced. The allowance is dependent on the Income Tax band of the investor, £1,000 (basic rate), £500 (higher rate) and £0 (additional rate).

The Finance Act 2017 has abolished the requirement for OEICs to deduct income tax from interest distributions to Shareholders with effect from 6 April 2017.

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.

### Risk warning

Investors are reminded that the value of shares of a sub-fund and the income from the shares may go down as well as up and is not guaranteed. An investor may not get back the amount he/she has invested. The past is no guide to future performance. Details of the risk factors are published in the full prospectus which may be accessed at [www.allianzglobalinvestors.co.uk](http://www.allianzglobalinvestors.co.uk). Alternatively, call our Investor Services team on 0800 317 573 to request a copy free of charge.

### Complaints

A copy of our leaflet, "Allianz Global Investors Complaints Process", is available on request. Any eligible complainant having any complaint in respect of the Fund should inform Allianz Global Investors GmbH, UK Branch, in writing of the details of the complaint. This will then be investigated and a reply provided as soon as possible and any appropriate remedial action taken. In addition, eligible complainants will have a right of complaint directly to the Financial Ombudsman Service if he/she is not satisfied with the outcome of the investigation into the complaint. Details of the Financial Services Compensation Scheme established under the Financial Services and Market Act 2000, under which an investor may be entitled to receive compensation if the ACD is unable to meet any of its liabilities to the investor are available on written request from the ACD.

### Telephones

For our mutual protection, calls are recorded and may be used for quality control and training purposes, however, Allianz Global Investors GmbH, UK Branch, reserves the right to use such recordings in the event of a dispute.



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