

Script - Credit Rating of Convertible Bonds

12/2015

In the convertible bond market, the share of non-rated issuers has made up 46%* of the total market. This has more than doubled over the last 10 years. As many of these companies do not have complex capital structures, they therefore, do not want to pay Moody's and Standard & Poor's to rate their securities. Companies can avoid unnecessary costs.

To determine the credit worthiness of the non-rated convertible bonds, the investment team utilizes their proprietary Upgrade Alert Model to generate an internal credit quality rating. The team uses the model to analyse a company's operating performance. Data is sourced from the issuer's SEC filings and is manually entered into the model. The income statement, cash-flow statement and balance sheet are projected out for five years on a pro-forma basis to gain perspective of a company's ability to service its debt obligations over time.

Both current and forecasted financial data are used to generate over sixty operating statistics in order to provide an objective rating. By comparing internally generated credit ratings to those external ratings, the team is able to identify market opportunities through rating inefficiencies. The team also uses the model to identify deteriorating credits. In addition, external debt analysts' research, equity analyst research and meetings with company management are also incorporated into the investment process to evaluate an issuer's ability.

It should be noted that the majority of non-rated convertible bonds in the portfolio are investment grade#.

* Source: Bloomberg, as at 30 September 2015.

Source: Allianz Global Investors, as at October 2015. This information is based on the securities in the portfolio. There is no guarantee that this information and processes will be effective under all market conditions.

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Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance. Investors should read the fund prospectus for further details, including the risk factors, before investing.

There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

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