

# Allianz RCM BRIC Stars Fund

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## Investment process

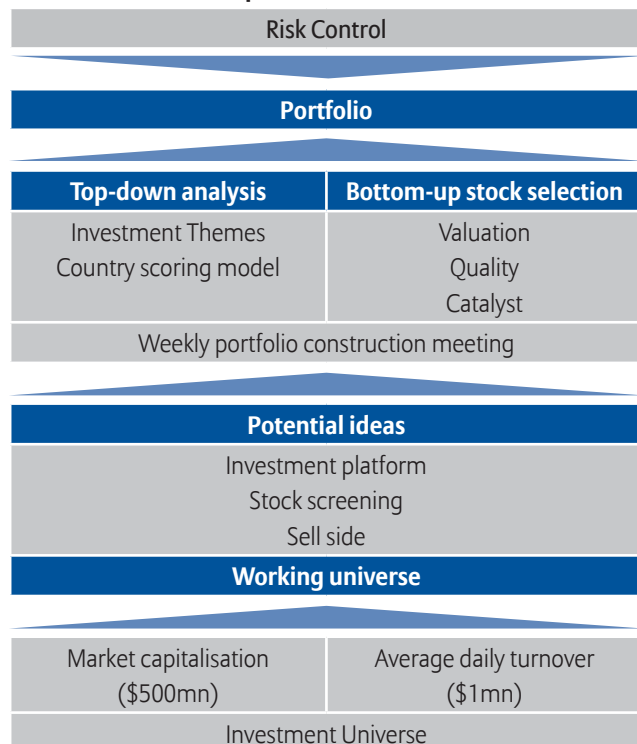
### Fund objective

To produce long-term capital growth by investing predominantly in the equity markets of Brazil, Russia, India and China. Up to a third of the Fund's assets may be invested in companies based in other countries including developed countries and/or other emerging markets that are likely to benefit from the BRIC phenomenon. The BRIC Stars Fund is managed by RCM, the dedicated global equity firm within Allianz Global Investors.

### Investment rationale and process

Our investment philosophy is implemented through a unique process combining systematic country allocation and bottom-up stock selection, providing a high quality portfolio that drives performance. This process is illustrated below:

#### Portfolio construction process



The investment process is based on the belief that the BRIC economies - Brazil, Russia, India and China - will develop as major economic superpowers within the next decade. The Fund is designed to take advantage of this potential by searching for companies which can benefit not only from growth within each of the four countries, but also from the synergies between them. There is increasing economic interaction between the countries, with India and China acting as the engines of growth, driving demand for commodities and energy supplied by Brazil and Russia. This enhances their position in the global economy and collectively makes them more attractive.



### Systematic country allocation

As there is evidence that country-specific factors have a greater influence on stock market performance in emerging markets than in developed markets, the Fund has a strong emphasis on the country component. It uses a unique country scoring model which ranks the relative attractiveness of countries within the emerging markets universe. The model is designed to support the manager's decision-making process, distilling complex data into an easily digestible format. It analyses the output of independent investment banks, covering both macroeconomic and market data, identifying current market environments and pinpointing emerging trends.

### Benchmark optimisation

As weightings which rely on market capitalisation can result in a high allocation to one or two countries, the Fund has a weighted benchmark strategy. This gives equal weight to each BRIC country, providing managers with a clear focus on allocation. Weightings are reviewed every year; this is mainly because individual emerging markets tend to outperform in cycles, typically for a nine to 12 month period, before reverting to their long-term average. Re-balancing can capture this excessive return and re-invest it into markets that have performed less well.

## Fundamental research

A lack of reliable broker research for the BRIC region makes strong in-house resources key to potentially achieving good returns. Managers use RCM's global research platform to identify investment opportunities. The RCM team of 75 researchers and analysts, located around the globe with units across Asia and links in Russia, provides first-hand information and advice on local companies and markets. Managers also have access to Grassroots®, a proprietary research tool which has been developed and continually enhanced since 1985. 12 full-time staff, 300 researchers and 50,000 industry contacts conduct on-the-ground research which supports fund manager conviction. It is particularly useful for making sense of cultural differences; sometimes cultural prejudices can influence decisions, and having access to local information can help overcome this.

## Bottom-up stock selection

Individual stock selection is an important part of the investment process. RCM's strong research support, as well as the country allocation information, allows the team to gather stock-specific ideas in order to build the portfolio. The team focuses on cash generative companies with strong management and positive margins. Commonly used metrics include earnings-per-share growth, sales growth, return on equity and earnings revisions.

## Portfolio Construction and risk controls

The portfolio is relatively concentrated. Although there is no limit on the number of holdings, the Fund aims to contain between 50-70 stocks, favouring mid cap companies. Not more than 20% in value of the Fund can be invested in any one holding. No limits are set at country or sector level, however up to one third of the portfolio can be invested in non-BRIC countries. Daily management and monitoring of the Fund is carried out by the portfolio manager, strongly supported by RCM's in-house performance and risk analysts and the input of risk management tools such as APT, Wilshire and Style Research.

## Currency hedging

One of the key components of the total return from a BRIC investment is predicted to be generated from currency appreciation. As a result, the currency exposure of the Fund is left unhedged.

## Portfolio management team

RCM is the specialist equity manager of Allianz Global Investors. The Fund is managed by Michael Konstantinov, portfolio manager, BRIC Strategies. With over 19 years experience in the field, he brings extensive emerging markets expertise to the Fund. He is supported by six portfolio managers, each with an average of 15 years experience and single country proficiency.

## Portfolio Management Team



**Dilek Capanoglu**  
Chief Investment Officer  
Global Emerging Markets  
14 years experience



**Michael Konstantinov**  
Latin America, BRIC  
19 years experience



**Guido Stiel**  
Asia, BRIC  
16 years experience



**Andrea Szabo-Kelly**  
EMEA  
18 years experience



**Thomas Orthen**  
EMEA  
5 years experience



**Alexandra Richter**  
EMEA  
19 years experience



**Carlos de Leon**  
Latin America  
17 years experience



**Andres Allende**  
Asia  
10 years experience

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**An investment for longer term investors prepared for higher risk**

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