

This document contains a Notice of Meeting of Shareholders which is being convened in respect of the Allianz RCM Global Equity Fund, a sub-fund of Allianz International Investment Funds. The Meeting is to be held at the office of Allianz Global Investors (UK) Limited, 155 Bishopsgate, London EC2M 3AD on 10 February 2010 at 10.00 a.m. and you are requested to return the enclosed form of proxy and the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) in the reply-paid envelope provided to arrive no later than 48 hours before the time of the Meeting.

**This document is important and requires your immediate attention.**

If you do not understand it, you should consult your financial adviser immediately.

**Proposal to change the investment objective, investment policy, investment and borrowing powers and name of Allianz RCM Global Equity Fund (a sub-fund of Allianz International Investment Funds, a UK authorised open ended investment company)**

**Allianz** 

Global Investors

# To: shareholders in the Allianz RCM Global Equity Fund

Dear Shareholder,

**Proposal to change the investment objective, investment policy, investment and borrowing powers and name of Allianz RCM Global Equity Fund (the "Fund"), a sub-fund of Allianz International Investment Funds (the "Company").**

As you are a shareholder in the Fund, I am writing to you to explain our proposals to change the investment objective and policy of the Fund (as detailed below in paragraph 1) and to expand its investment powers. The change of investment objective and policy, and the extension of the investment powers, requires the passing of an Extraordinary Resolution by shareholders in the Fund. Implementation of the proposals will also require a change of investment manager to Allianz Global Investors Kapitalanlagegesellschaft mbH. I am also writing to notify you of our related proposal to change the name of the Fund (as detailed below in paragraph 2), which does not require shareholder approval and changes to the annual management charge (as detailed in paragraph 3).

The proposals have been approved by the Financial Services Authority (the "FSA"). Implementation of the proposal to change the investment objective and policy of the Fund (and thus the investment powers of the Fund) are conditional upon the passing of an Extraordinary Resolution of shareholders at the meeting of the Fund to be held on 10 February 2010 at the time set out in the notice of the meeting at Appendix 3.

In the event that the proposed changes to the investment objective and policy, and the extension of the investment powers are approved, the Prospectus will be amended to reflect the new investment objective and policy (and change of name) with effect from 22 February 2010 (the "Effective Date").

We would also like to take this opportunity to alter the investment objectives and policies and investment borrowing powers of the Fund in order that it may take up the full investment powers available to it under the FSA's rules governing collective investment schemes. As presently drafted, the investment and borrowing powers of the Fund are not wide enough to allow it to take full advantage of these powers. In particular, we would like to utilise the wider investment powers available under the FSA rules which permit investment in derivative instruments.

**IMPORTANT NOTE: the risk profile of the Fund will increase through investment in derivative instruments and you should therefore consider the derivatives specific risk warnings in Appendix 4.** We are satisfied that Allianz Global Investors Kapitalanlagegesellschaft mbH, the proposed new investment adviser to the Fund, has the requisite experience to utilise derivatives in multi-asset funds to enhance returns while controlling any additional risk.

The Fund will also be able to gain exposure to alternative asset classes via investment in collective investment schemes ("CIS") (including CIS operated by the Allianz Group) and in particular exchange traded funds ("ETFs"). **Please consider the ETF specific risk warnings set out in Appendix 4.**

Part A of Appendix 1 contains an overview comparison of the investment and borrowing powers currently permitted for the Fund (under its current investment objective and policy) with those permitted if the proposals to change the investment objectives and policies, and extend the investment powers are approved. The current and proposed new investment objective and policy of the Fund are set out in Part B of Appendix 1.

## **1. Change in investment objective and policy of the Fund and widening of investment powers**

Our proposal is to enhance the investment focus of the Fund not only to invest directly in global equities and bonds, but also to gain exposure to a broader mix of asset classes by investing indirectly in emerging market indices and alternative asset class indices such as private equity, commodities, real estate and hedge funds through the use of ETFs.

Derivatives such as index based total return swaps, equity based total return swaps and currency forward contracts may also be used to enhance the asset allocation strategies. Additionally, the investment manager may use options in order to generate synthetic cash positions. Synthetic cash positions are generated using a basket of options on the same underlying asset which deliver money market returns without the risk of counterparty default. Options contain a yield component and this yield will provide the money market returns. For implementation it is intended that highly liquid options, such as options on the Euro Stoxx 50 Index, will be used.

The revised objective of the investment manager would be to aim to provide equity like returns over the long term with lower volatility than would be achieved by investing in global equities alone. The diversified range of assets within the restated portfolio would be intended to deliver an attractive risk reward profile for investors but, as was evidenced by market events in 2008, diversification alone is not sufficient to prevent capital erosion. The proposals envisage a degree of downside protection which means that during market turmoil the investment manager may switch from the various asset classes to cash and near cash in order to manage the risk of capital erosion. The downside protective measures may, however, constrain capital gain in certain circumstances.

By way of explanation, dynamic asset allocation means that the portfolio will not remain static and that allocation between the asset classes will vary over time according to an approach that captures trends in the market. Tactical asset allocation describes the investment manager's judgemental allocation views which are aimed at capturing turning points in the market. The investment manager's dynamic growth strategy is therefore based on the belief that in order to meet the objective there is a need to include both dynamic and tactical asset allocation coupled with sophisticated total return risk management tools for downside protection. The investment manager believes that market inefficiencies can be exploited systematically by using well researched and disciplined investment processes that combine fundamental knowledge and advanced risk management skills.

In order to maintain flexibility, the investment manager has chosen not to manage against any particular benchmark thus there will be no official benchmark for the Fund from the Effective Date.

In order to change the investment focus of the Fund, as described above, it is necessary to change the investment objective and policy of the Fund and to extend the investment powers of the Fund, all of which must be approved by shareholders. If shareholders vote in favour of the proposals, the Fund will be managed by the investment manager's systematic team based in Frankfurt who currently manage €30bn\* of assets in systematic equity and multi-asset strategies. This specialised and experienced asset management team was established in 1996 and currently has 39 dedicated investment professionals.

An extraordinary general meeting will be called for the Fund in order that the relevant shareholders may have the opportunity to vote on the proposals. If the proposed resolution is passed, the Fund will realign its portfolio to comply with the new investment objective and policy with effect from the Effective Date.

The ACD will pay for the costs of implementing the proposals except for the costs associated with restructuring the portfolio which will be borne by the Fund. It is not anticipated that these latter costs will exceed £1,500 (or 0.01% based on the Fund's net asset value as at 6 January 2010).

\*Source – RCM as at 30th September 2009

## **2. Change of name of Fund**

If the proposals are approved, the name of the Fund be changed to "Allianz RCM Dynamic Growth Fund" to better reflect the new investment objective and policy, with effect again from the Effective Date. The change of name does not require shareholders to vote but it will only be implemented if the change of investment objective and policy and widening of investment powers is approved by shareholders.

## **3. Changes to the Annual Management Charge**

Shareholders of Class A Shares currently pay a 1% annual management charge and if the proposals are approved the fee will increase to 1.25% for the retail share classes. (This is in line with the other actively managed funds diversified growth strategies in the Allianz Global Investors fund range).

Shareholders of Class C Shares currently pay a 0.60% annual management charge and if the proposals are approved the fee will be reduced to 0.50%, in order to attract further institutional investment.

#### Associated risks

If shareholders vote in favour of the proposals, some additional risks may be applicable to the Fund. These are described in Appendix 4 and shareholders should consider these risks carefully prior to voting.

#### 4. Procedure

Details of the procedure for the meeting are contained in Appendix 2 of this document. Implementation of the proposals to change the investment objective and policy and widening of the investment powers of the Fund is conditional on the passing of the Extraordinary Resolution set out in the notice of meeting of shareholders in the Fund which is set out in Appendix 3.

Implementation of the change of name of the Fund will, if the Extraordinary Resolution is approved, take place without further action from shareholders. The number of shares you have in the Fund and the share class will remain unchanged.

The details of the relevant FSA approval and a list of the documents relating to the proposals which are available for inspection, are set out in Appendix 2 of this document. The ACD will pay the costs of convening and holding the meeting.

#### 5. Switch to another Fund

Please note that you may choose at any time to exchange your shares in the Fund for shares in another Allianz Global Investors fund and the usual discounted initial charge of 1% in that event would apply, except for the Allianz RCM UK Index Fund which does not have an initial charge. Please note that (except for ISA investors) a switch into another fund will be treated as a disposal of your shares for capital gains tax purposes, which might give rise to a liability to capital gains tax depending on your circumstances. Please contact us for further details.

If you wish to take advantage of the opportunity to switch into another Allianz Global Investors fund, please contact the Investor Services Team on 08457 127128 at any time prior to the Effective Date.

#### 6. Timetable for implementation of the proposals

Action	Date
Qualification date for shareholders	18 January 2010
Despatch documentation to shareholders	25 January 2010
Forms of Proxy to be returned by	10.00 a.m. on 8 February 2010
Meeting of shareholders in the Fund	10.00 a.m. on 10 February 2010
If there is no quorum at the meeting on 10 February 2010	
Despatch notice of Adjourned Meeting to shareholders	10 February 2010
Adjourned Meeting of shareholders in the Fund	10.00 a.m. on 17 February 2010

Subject to the approval of shareholders at the meeting on 10 February 2010 (or at the Adjourned Meeting on 17 February 2010):

<ul style="list-style-type: none"> <li>Effective date of the proposals - changes to the investment objective and policy and investment powers of the Fund and a change of name of the Fund</li> </ul>	22 February 2010
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## 7. Action to be taken

To be passed, the Extraordinary Resolution requires a majority in favour of not less than 75% of the votes cast, so it is important that you exercise your voting rights. If you do not vote then you will still be bound by the votes as cast by the remaining shareholders.

If you are unable to attend the meeting of shareholders in person, please complete and return the enclosed Form of Proxy in the reply-paid envelope provided. Your Form of Proxy should arrive no later than 10.00 a.m. on 8 February 2010.

Completing and returning the Form of Proxy will not prevent you from attending and voting at the relevant meeting in person if you wish. If you are an ISA investor and have returned the Form of Proxy you may attend the meeting in person but you may not vote.

## 8. Further information

If you require advice on the proposals please contact your financial adviser. If you require further information in relation to the meeting, please contact our Investor Services team on 08457 127 128 between 9.00 a.m. and 5.00 p.m. (Monday to Friday).

Yours sincerely

A handwritten signature in black ink, appearing to be 'N. P. ...', is written over a horizontal line. The signature is contained within a light yellow rectangular area.

for and on behalf of  
**Allianz Global Investors (UK) Limited**  
(as Authorised Corporate Director of Allianz International Investment Funds)

25 January 2010

## Part A: Comparison of the current and proposed investment powers of the Fund

The following table sets out the key differences between the permitted investment powers and restrictions which currently apply to the Fund, and those which will apply if the proposals to change the investment objective and policy outlined above are approved by shareholders.

	Existing investment powers and restrictions applicable to the Fund	New investment powers and restrictions that will apply to the Fund (if approved by shareholders)
Transferable securities	Yes	Yes
Transferable but not approved securities	10%	10%
Government and public securities	Yes, under 35%	Yes, under 35%
Shares in other collective investment schemes (including ETF's)	5%	100%
Investment in collective investment schemes of the ACD or an Associate of the ACD	Yes	Yes
Money market instruments	No	Yes
Warrants	5%	5%
Investment Trusts	Yes	Yes
Deposits	No (except within near cash)	Yes (not more than 20% with a single body)
Efficient Portfolio Management ("EPM")	Yes	Yes
Derivatives for investment purposes	Restricted to EPM only	Yes
Immovables (including property)	No	No (but indirect exposure to indices possible through collective investment schemes and exchange traded funds)
Gold	No	No (but indirect exposure to indices possible through collective investment schemes and exchange traded funds)
Stocklending	Yes	Yes
Underwriting	Yes	Yes
Borrowing	10% Temporary only	10% Temporary only
Significant influence	No, the Company may not exercise or control 20% or more of the voting rights in any body corporate	No, the Company may not exercise or control 20% or more of the voting rights in any body corporate

Concentration

	Existing investment powers and restrictions applicable to the Fund	New investment powers and restrictions that will apply to the Fund (if approved by shareholders)
Transferable Securities	10%	10%
Debt Securities	10%	10%
Collective Investment Schemes (including ETF's)	10%	25%
Money Market Instruments	N/A	10%

## Appendix 1

# Part B: Comparison of the current and proposed new investment objective and policy of the Fund

Existing investment objective and policy	Proposed new investment objective and policy
<p>The Allianz RCM Global Equity Fund aims to achieve capital growth principally through investment in international equity markets including the United Kingdom. The ACD aims to achieve the objective through holding a diversified portfolio of overseas and UK companies selected from a cross-section of both geographical areas and economic sectors. The Fund may also have holdings in preference shares, convertibles and loan stock. The Fund will follow a bottom up approach to stock selection. The Fund will have holdings in companies which the ACD regards as having strong growth prospects.</p>	<p>The Allianz RCM Dynamic Growth Fund aims to achieve long term capital growth through active asset allocation and seeks to manage the risks of capital loss resulting from excessive market volatility.</p> <p>The ACD aims to achieve the objective by investing in any economic sector internationally and by holding cash and/or near cash when considered appropriate.</p> <p>The Fund may invest in collective investment schemes as well as directly in equities, fixed income securities (issued by corporate, government and/or supranational institutions) and money market instruments.</p> <p>The ACD intends to gain indirect exposure to emerging market indices and alternative asset class indices including, but not limited to, private equity, commodities, hedge funds and real estate by investing in collective investment schemes, including exchange traded funds.</p> <p>The Fund may also invest in derivative instruments such as futures, options, options on swaps, swap agreements (including equity and/or index based total return swaps, interest rate swaps and/or credit default swaps) and currency forward contracts. The Fund may use options in order to generate synthetic cash positions.</p> <p>In particularly adverse market conditions the Fund may also hold cash deposits up to 80% of the portfolio.</p>

## Appendix 2

# Procedure for the Shareholder meetings

The notice convening the meeting of shareholders in the Fund setting out the extraordinary resolution to be approved at the meeting is set out in Appendix 3.

### **Chairman**

J.P. Morgan Trustee and Depositary Company Limited, the depositary of Allianz International Investment Funds (“the Company”), has appointed Joy Doran or failing her any other duly authorised representative of the ACD to be chairman of the meeting.

### **Quorum**

The quorum for the meeting is two shareholders in the Fund present in person or by proxy.

### **Extraordinary Resolutions and Voting**

A resolution proposed as an “Extraordinary Resolution” must be carried by a majority in favour of not less than 75% of the votes validly cast for or against the resolution at the meeting. Those persons who are shareholders on the date seven days before the Notice is sent out, but excluding persons who are known to the ACD not to be shareholders at the time of the meeting, are entitled to vote and be counted in the quorum. Once passed, a resolution is binding on all shareholders in the Fund.

In view of the importance of the proposal, the chairman of the meeting will order a poll to be taken in respect of the resolution. On a poll, each shareholder present in person or by proxy has one vote for every share (including smaller denominations shares) of which he/she is the holder. A shareholder is entitled to more than one vote on a poll and need not, if he/she votes, use all his/her votes or cast all the votes he/she uses in the same way. For shares held jointly, the vote of the senior shareholder who votes must be accepted to the exclusion of the other joint shareholder. For this purpose seniority is determined by the order in which the names stand in the register of shareholders.

### **Appointment of Proxy**

A shareholder is entitled to appoint a proxy to attend and vote at the meeting instead of him or her. Please read the notes printed on the Form of Proxy enclosed with this document, which will help shareholders to complete it. Please return the relevant Form of Proxy in the reply-paid envelope provided as soon as possible. To be valid, an appointment of proxy must be received no later than 48 hours before the time appointed for the meeting in question. Shareholders may attend and vote at the meeting even if they have previously appointed a proxy.

### **The ACD and Associates**

The ACD is only entitled to be counted in the quorum and vote at the meeting in respect of shares which it holds on behalf of or jointly with a person who, if himself/herself the sole registered shareholder, would be entitled to vote and from whom the ACD has received voting instructions.

Associates of the ACD are entitled to be counted in a quorum. They may vote at the meeting in respect of shares which they hold on behalf of or jointly with a person who, if himself/herself the registered holder, would be entitled to vote and from whom they have received voting instructions.

# Consents and Clearances

## **The Depositary**

J.P. Morgan Trustee and Depositary Company Limited has informed Allianz Global Investors (UK) Limited that it consents to the references made to it in this document in the form and context in which they appear.

## **Financial Services Authority**

The FSA has confirmed by letter to Eversheds LLP, solicitors to the ACD, that implementation of the proposal will not affect the authorisation of the Company under the Open-Ended Investment Companies Regulations 2001.

## **Documents Available for Inspection**

Copies of the following documents are available for inspection at the offices of Allianz Global Investors (UK) Limited, 155 Bishopsgate, London EC2M 3AD during normal business hours on weekdays (excluding bank holidays) until the date of the meeting (or any adjournment).

1. the instrument of incorporation of the Company;
2. the current prospectus of the Company;
3. the letter from the Financial Services Authority to Eversheds LLP;
4. the simplified prospectus relating to the Company; and
5. the latest Report and Accounts for the Fund.

# Allianz RCM Global Equity Fund (to be renamed Allianz RCM Dynamic Growth Fund)

## Notice Of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that a meeting of the shareholders of Allianz RCM Global Equity Fund (the “Fund”), a sub-fund of Allianz International Investment Funds (the “Company”) will be held on 10 February 2010 at 10.00 a.m. at the offices of Allianz Global Investors (UK) Limited at 155 Bishopsgate, London EC2M 3AD to consider and vote on the following resolution which will be proposed as an **EXTRAORDINARY RESOLUTION**:

### RESOLUTION

#### THAT

the shareholders approve the extension of Fund’s investment and borrowing powers and approve the restatement of the investment objective and policy of the Fund in the Prospectus and Instrument of Incorporation of the Company, as follows:

#### **Current investment objective and policy:**

“The Allianz RCM Global Equity Fund aims to achieve capital growth principally through investment in international equity markets including the United Kingdom. The ACD aims to achieve the objective through holding a diversified portfolio of overseas and UK companies selected from a cross-section of both geographical areas and economic sectors. The Fund may also have holdings in preference shares, convertibles and loan stock. The Fund will follow a bottom up approach to stock selection. The Fund will have holdings in companies which the ACD regards as having strong growth prospects.”

#### **New investment objective and policy:**

“The Allianz RCM Dynamic Growth Fund aims to achieve long term capital growth through active asset allocation and seeks to manage the risks of capital loss resulting from excessive market volatility.

The ACD aims to achieve the objective by investing in any economic sector internationally and by holding cash and/or near cash when considered appropriate.

The Fund may invest in collective investment schemes as well as directly in equities, fixed income securities (issued by corporate, government and/or supranational institutions) and money market instruments.

The ACD intends to gain indirect exposure to emerging market indices and alternative asset class indices including, but not limited to, private equity, commodities, hedge funds and real estate by investing in collective investment schemes, including exchange traded funds.

The Fund may also invest in derivative instruments such as futures, options, options on swaps, swap agreements (including equity and/or index based total return swaps, interest rate swaps and/or credit default swaps) and currency forward contracts. The Fund may use options in order to generate synthetic cash positions.

In particularly adverse market conditions the Fund may also hold cash deposits up to 80% of the portfolio.”

is hereby approved.



Nick Smith

for and on behalf of  
Allianz Global Investors (UK) Limited  
(as Authorised Corporate Director of Allianz International Investment Funds)  
155 Bishopsgate  
London  
EC2M 3AD

25 January 2010

#### Notes

1. A Shareholder entitled to attend and vote may appoint a proxy, who need not be another Shareholder of the Fund, to attend and vote on their behalf. To be valid forms of proxy and the power of attorney or other authority (if any) under which they are signed (or a notarially certified copy thereof) must be deposited with Allianz Global Investor (UK) Limited at 155 Bishopsgate, London EC2M 3AD not later than 48 hours before the time of the meeting. Please use the reply-paid envelope provided.
2. To be passed, the Extraordinary Resolution must be carried by a majority in favour of 75% or more of the votes validly cast for and against the resolution at the meeting. On a poll, votes may be given personally or by proxy, and the voting rights attached to each share shall be such proportion of the voting rights attached to all of the shares in issue as the price of the share bears to the aggregate price(s) of all the shares (and fractions of a share) in issue on the date seven days before the notice of meeting is deemed to have been served.
3. On a poll, votes may be given personally or by proxy, and the voting rights attached to each share shall be such proportion of the voting rights attached to all of the shares in issue as the price of the share bears to the aggregate price(s) of all the shares (and fractions of a share) in issue on the date seven days before the notice of meeting is deemed to have been served.
4. The quorum for the meeting is two shareholders present in person or by proxy. If a quorum is not present within half an hour after the time appointed for the meeting, the meeting will be adjourned to a date and time at least seven days later. Notice will be given of the adjourned meeting and if at such adjourned meeting a quorum is not present within fifteen minutes from the time appointed for the meeting, one person entitled to be counted in a quorum at the meeting shall be a quorum.
5. In notes 1 to 4 above the expression “Shareholder” means persons who were shareholders in the Fund on the date seven days before the Notice concerning the meeting was sent out but excluding persons who are known to Allianz Global Investors (UK) Limited not to be shareholders in the Fund at the time of the meeting and the expression “Shareholder” should be construed accordingly.

# Risk factors

The following additional risk factors will apply to the Fund if the proposal to change the investment objective and policy of the Fund is approved by shareholders.

### Exchange Traded Funds (ETF) Specific Risk Warnings

**Investment in Private Equity** – Investment in private equity is highly speculative and carries a high degree of risk. The Fund may gain indirect exposure to private equity indices through investment in ETFs. The Fund may be exposed to market fluctuations of the relevant indices (upward or downward) and counterparty risk where over the counter derivatives are utilised by the ETF.

**Investment in Commodities** – Exchange traded commodities are investments that allow the investor to track the underlying performance of a commodity index, including total return indices. Exchange traded commodities themselves will focus on a single commodity or an index. The risks associated with commodities include contingent liability, margin requirements, emerging market risk and sudden fluctuations in global demand which will immediately impact share prices. The Fund may gain indirect exposure to commodities indices through investment in ETFs. The Fund may be exposed to market fluctuations of the relevant indices (upward or downward) and counterparty risk where over the counter derivatives are utilised by the ETF.

**Investment in Real Estate** – The property market has not always performed in line with equity or bond markets and frequently fluctuates without any correlation to the equity or bond markets. The risks associated with the real estate industry include: liquidity risk; risks related to general and local economic conditions; overbuilding and competition; cyclical nature of property values; increases in property taxes; demographic trends and variations in rental income; increases in interest rates; and other real estate capital market influences. The Fund may gain indirect exposure to real estate indices through investment in ETFs. The Fund may be exposed to market fluctuations of the relevant indices (upward or downward) and counterparty risk where over the counter derivatives are utilised by the ETF.

**Investment in Hedge Funds** – a hedge fund may use exchange traded derivatives and over the counter derivatives as part of its investment policy (see also Derivatives Specific Risk Warnings below). A hedge fund may also sell covered and uncovered options on securities. To the extent that such options are uncovered, the hedge fund could incur an unlimited loss although investors would not be required to contribute more than the value of their investment in the Fund. The Fund may gain indirect exposure to hedge fund indices through investment in ETFs. The Fund may be exposed to market fluctuations of the relevant indices (upward or downward) and counterparty risk where over the counter derivatives are utilised by the ETF.

**Investment in Emerging Markets** – investment in emerging markets may be more volatile than investments in more developed markets. Some of these markets may have relatively unstable governments, economies based on only a few industries and securities markets that only trade a limited number of securities. Many emerging markets do not have well developed regulatory systems and disclosure standards may be less stringent than those of developed markets. Consequently there is a greater risk of the Fund not receiving back/all or any of the investments allocated to those markets. The Fund may gain indirect exposure to emerging markets indices through investment in ETFs. The Fund may be exposed to market fluctuations of the relevant indices (upward or downward) and counterparty risk where over the counter derivatives are utilised by the ETF.

### Bond specific risk warnings

**Interest rate risk** – changes in interest rates will cause changes to the values of bonds and other debt instruments. A fall in interest rates will generally increase the value of existing debt instruments and a rise in interest rate will generally reduce the value of existing debt instruments. Interest risk is normally greater for fixed interest securities with long durations or maturities.

### Cash

Shareholders should note that holding a large portion of the Fund in cash or near cash should reduce the effects of falls in the value of securities. Equally, it could reduce the potential for gains if there are rises in the value of securities.

## Derivative specific risk warnings

### Futures

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle your position with cash. They carry a high degree of risk. The “gearing” or “leverage” often obtainable in futures trading means that a small deposit or down-payment can lead to large losses as well as gains. It also means that a relatively small market movement can lead to a proportionately much larger movement in the value of the Fund. Futures transactions have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements, which are set out below.

### Options

There are many different types of options with different characteristics subject to different conditions:

- Buying options:

Buying options involves less risk than selling options because, if the price of the underlying asset moves against the Fund, the Fund can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if the Fund buys a call option on a futures contract and later exercises the option, the Fund will acquire the future. This will expose the Fund to the risks described under “futures” and “contingent liability transactions”.

- Writing options:

If the Fund writes an option, the risks involved are considerably greater than buying options. The Fund may be liable for margin to maintain its position and a loss may be sustained well in excess of any premium received. By writing an option, the Fund accepts a legal obligation to purchase or sell the underlying asset if the option is exercised against the Fund, however far the market price has moved away from the exercise price. If the Fund already owns the underlying asset that it has contracted to sell (known as “covered call options”) the risk is reduced. If the Fund does not own the underlying asset (known as “uncovered call options”) the risk can be unlimited.

### Contracts for differences

Futures and options contracts can also be referred to as “contracts for differences”. These can be options and futures on the FTSE 100 index or any other index, as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and you should be aware of these as set out above. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications of this as set out further below.

### Over the Counter or OTC transactions

It may not always be apparent whether or not a particular derivative is on or off-exchange.

While some off-exchange markets are highly liquid, transactions in off-exchange or “non-transferable” derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

### Counterparty risk

Derivatives transactions are carried out through or with counterparties, clearing houses, market counterparties and other agents. Whilst the investment manager will carry out due diligence on all counterparties there is a risk that a counterparty may default whether due to insolvency, bankruptcy or other causes. The risk to any one counterparty is, however, limited as the net counterparty exposure of the Fund is subject to a limit of 10% of the net asset value on a single counterparty under the FSA regulations.

### Foreign markets

Foreign markets will involve different risks from UK markets. In some cases the risks will be greater. The potential for profit or loss

from transactions on foreign markets or in foreign denominated contracts will also be affected by fluctuations in foreign exchange rates.

### **Contingent liability transactions**

Contingent liability transactions which are margined require the Fund to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If the Fund trades in futures, contracts for differences or sell options it may sustain a total loss of the margin deposited with the counterparty to establish or maintain a position. If the market moves against the Fund, the Fund may be called upon to pay substantial additional margin at short notice to maintain the position. If the Fund fails to do so within the time required, its position may be liquidated at a loss and the Fund will be liable for any resulting deficit.

Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when the Fund entered the contract.

Contingent liability transactions which are not traded on or under the rules of a recognised or designated investment exchange may expose the Fund to substantially greater risks than those which are so traded.

### **Collateral**

If the Fund deposits collateral as security with a counterparty, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of the collateral depending on whether the Fund is trading on a recognised or designated investment exchange, with the rules of that exchange (and associated clearing house) applying, or trading off exchange. Deposited collateral may lose its identity as the Fund's property once dealings on the Fund's behalf are undertaken. Even if the Fund's dealings should ultimately prove profitable, the Fund may not get back the same assets which were deposited and may have to accept payment in cash.

### **Suspensions of trading**

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit the Fund's losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

### **Clearing House protections**

On many exchanges, the performance of a transaction by a counterparty (or the third party with whom they are dealing on the Fund's behalf) is "guaranteed" by the exchange or its clearing house. However, this guarantee is unlikely in most circumstances to cover the Fund and may not protect the Fund if another party defaults on its obligations to the Fund. There is no clearing house normally for over the counter instruments which are not traded under the rules of a recognised or designated investment exchange.

### **Liquidation of position**

Positions may be liquidated or closed out without the Fund's consent in the event the Fund fails to meet a margin call. Additionally, the insolvency or default of any counterparty involved in the Fund's transaction may lead to positions being liquidated or closed out without the Fund's consent. In certain circumstances, the Fund may not get back the actual assets which were lodged as collateral and the Fund may have to accept any available payment in cash.

### **Valuation of Underlying Assets and the Fund's Assets**

The Fund's assets, the underlying asset or the derivative techniques used to link the two may be complex and specialist in nature. Valuations for such assets or derivatives techniques will only usually be available from a limited number of market professionals which frequently act as counterparties to the transactions to be valued. Such valuations are often subjective and there may be substantial differences between any available valuations.

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