

A photograph of the Allianz Arena stadium in Munich, Germany, featuring its iconic translucent, diamond-shaped facade. The stadium is illuminated from within, and the name "Allianz Arena" is visible on the upper part of the structure.

Allianz  Arena

Allianz Investment Funds

Market Focus

April 2009

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Value after volatility?

During the past six months (6 October 2008 to 5 April 2009), global markets suffered severe volatility in the face of a worldwide, synchronised slowing of growth.

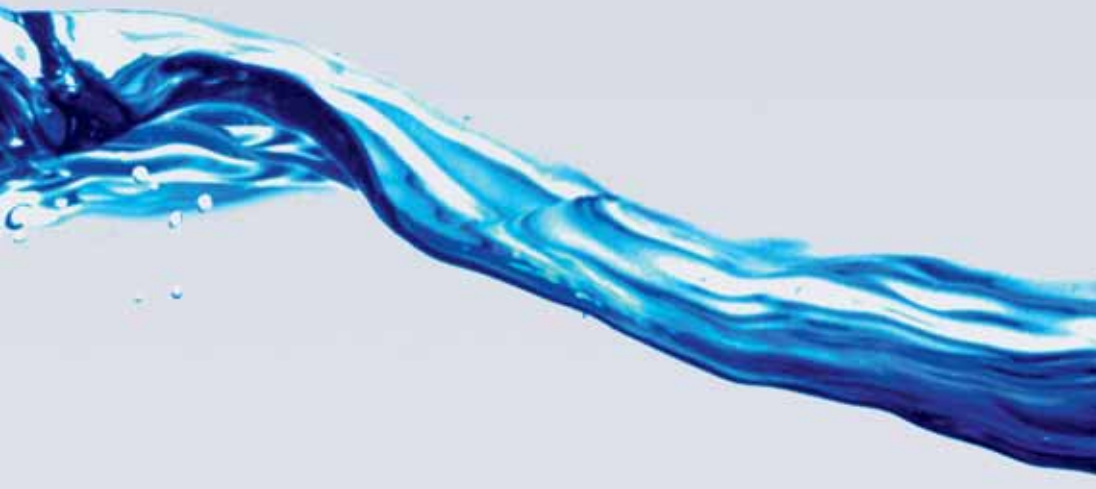
The world's stockmarkets remained tempestuous in the wake of the credit crisis, and the damaging shockwaves that have rippled across the world.

The last six months saw a series of coordinated and extraordinary measures to

stabilise the system and enhance liquidity, executed by governments and central banks to limit the damage from global recession. These included: fiscal stimulus packages; zero interest rate policies; quantitative easing measures; and the G20 summit

with the announcement of a trillion dollar package to mitigate the crisis.

These have staved off much of the damage, with hopes that the groundwork has successfully been put in place for a new financial world.



A host of banking and brokerage institutions have encountered severe difficulties, and there are likely to be more subprime related shakeouts to come. In the UK, there was further emergency funding for Royal Bank of Scotland and an orchestrated takeover of HBOS by Lloyds TSB.

Despite recent rallies, there are likely to be more surprises in store – but we believe that patience will be rewarded when markets begin to recover, which history shows they will.

UK

UK equities remained weak and persistently volatile, although this culminated in a brief rally in March, with the market wanting to believe that governments will effect a rescue from the current crisis.

Over the last six months the FTSE All-Share Index fell 16.9%. Within this, the FTSE 100 fell 17.2% and the FTSE 250 fell 10.2% as it anticipated ongoing turbulent times for the UK economy and balance sheets.

Gross Domestic Product (GDP) fell by 1.5% in the fourth quarter of 2008; the biggest

downturn since 1980. The IMF forecasts that the UK will suffer the deepest macro contraction among the G7 nations, with GDP growth in 2009 expected to be -2.8%.

This is despite dramatic cuts in interest rates to 0.5% by the Bank of England and the implementation of a number of measures to shore up the financial system.

While the deterioration in economic data has unnerved investors, the key problem has remained in the financial sector. The Royal Bank of Scotland (RBS) required a

further bailout package from the government.

The drying up of credit has persisted to be a problem for consumers and businesses. Meanwhile, the labour market is deteriorating, with unemployment expected to burst through the 2 million barrier by the end of this year.

Turning to sectors, manufacturing, construction and services suffered over the period, while economically defensive areas such as pharmaceuticals, telecoms and consumer staples were the best performers. A relatively weak sterling should help exports going forward.

The oil price has fallen to around \$50 a barrel from a peak of \$147 last July. This has helped to reduce inflation and the government to cut interest rates, as well as adding disposable income to the household budget. Consumers were also aided by rock-bottom mortgage rates, but like banks, kept hold of their cash and remained unwilling to spend on the high street.

The swift and extreme actions taken by the government recently should begin to bite during 2009. This is a time when some bargains can be picked up by equity investors. It is sensible to take advantage of these opportunities, and we are

confident that this will generate significant performance for share holders over the coming years. Over the month to 5 April, markets rallied; the FTSE All-Share Index rose by 15.1%, the FTSE 100 by 14.6% and the FTSE 250 by 20.8%.

United States

The US has done more than most to assuage the grave problems that their economy faces, with substantial budgetary intervention from the Obama administration.

Yet despite The Federal Reserve's (Fed) aggressive policy having some early success, notably in interbank lending and US mortgage rates, poor sentiment continues to plague investors. The impact of the G20 summit remains to be seen.

During the period under review markets have continued to weaken, with the S&P Index falling by 6.7%, compared to a fall of 8.9% over the previous six months. However, performance was buoyed by a strong rally in March on the back of the announcement of the \$1 trillion toxic asset plan. Over the month to 5 April, the S&P Index rose a hefty 18%

In the broader economy, a spectrum of indicators pointed to a continued downward

trend. Employment, industrial output, new construction starts and new home sales fell sharply. Sales of existing homes climbed in December, but foreclosure sales accounted for nearly half of this volume. Unemployment has risen to 8.5% over the past six months.

The US authorities announced extensive and expensive measures to mitigate the recession and stabilise the financial system, including a \$787bn fiscal package aimed at creating 3.5 million jobs. The Federal Reserve Bank (Fed) slashed interest rates to 0-0.25% as it implemented its Zero Interest Rate Policy (Zerp), and announced quantitative easing measures.

There was some positive news as overnight interbank lending spreads fell to pre-crisis lows, and consumers are now able to refinance their mortgages at the lowest rates seen in more than 20 years. There is also a view that the US will recover first and thereby lead a global recovery, as corporate management is navigating the crisis well and preparing for the inevitable upturn. They are focusing on recapitalisation and rebuilding of balance sheets.

The US equity market is likely to be volatile for some months

to come. However, the market is now selling at attractive valuations, providing some excellent investment opportunities to buy stocks with very attractive risk/reward profiles. It is vital to take a longer-term view and use the market volatility to your advantage.

UK corporate bonds and gilts

Corporate bonds generally produced negative returns over the period, as company earnings deteriorated and investment bonds were downgraded. Worsening economic data exerted downward pressure on future expectations and prompted fears of defaults in the sector.

The gilt market has been heading in the opposite direction to corporate bonds. The Merrill Lynch Sterling Non-Gilts Index fell by 4.0%, compared a fall of 2.8% over the previous period. In contrast, the FTSE A British Government All-Stocks Index rose by 6.6%, on the back of a rise of 2.5% over the previous period. Gilts remain a beneficiary of a deteriorating outlook for the economy.

The Bank of England's Asset Purchase Facility means that up to £75bn of medium to long dated gilts will have been purchased on the open market

between March and May this year. Combined with the stated gilt supply intentions from the pre budget report, a decrease in yields for longer-dated gilts is expected.

Continental Europe

The FTSE Eurofirst 300 (ex UK) fell by 15.6% over the six months under review. This compares to a fall of 17.3% over the previous period.

The economic downturn in Europe has been deepened by delayed policy response from central banks and major imbalances in the housing market in many countries. Large financial exposure to crisis plagued Central and Eastern Europe is also weighing down on the region. The IMF is now forecasting for Eurozone GDP to contract by 2.0% in 2009.

Political leaders and the European Central Bank (ECB) have been slow to admit the danger of this crisis, and the recession is expected to be prolonged and painful. The ECB cut its main interest rate to 1.25%, but it remained cautious, with many commentators agreeing a more aggressive stance should be taken.

The need for broad stimulus became apparent in recent months in the export-focused

region. For example, the German government, which rejected bailout measures early last autumn, delivered a second stimulus package in late January. The packages put in place so far are equivalent to around 3.5% of German GDP.

Individual stock selection is vitally important at this time, but after such large stock market falls there are always excellent investment opportunities, and means of maximising gains from any rallies. The FTSE Eurofirst 300 (ex UK) index rose by 20.2% over the past month to 5 April. As the stimulus packages start to take effect, and if the ECB begins to take a more aggressive approach to the global slowdown, prospects in the region should start to improve.

Asia

The MSCI AC Far East (ex Japan) Index rose by 5.3% over the period. This compares to a fall of 24.4% over the previous six months. We believe this region is well positioned globally to offer investors attractive returns over the long-term.

Asia's tiger economies have already been hit by the collapse in global demand, with China, Korea, and Taiwan all seeing output slump, but they have a stronger foundation than

many of their debt-laden peers. The high levels of liquidity in the region should see it stage a solid recovery, and has helped the performance of the market.

China is the bedrock of this continent and its fiscal stimulus plan to tackle the crisis has been well-received, boosting investor returns. It is also creating 9 million new jobs this year and is keeping its currency weak to support exports. The growing power of the consumer and high levels of infrastructure expenditure, particularly in India and China, are also aiding the region, and

it should make a swift and steady recovery when conditions are more favourable. Over the month to 5 April, the MSCI AC Far East (ex Japan) rose by 19.0%.

Asian consumers have been financially prudent and have a long tradition of savings, in contrast to their counterparts in the western world who have embraced the doctrine of 'borrow and spend'. Also, governments recognise that their economies need to be more balanced with a greater contribution from consumer spending.

Japan

The TOPIX Index rose by 2.3%, compared to a fall of 11.5% over the previous period.

The yen rose 34.0% against sterling in the six months to the end of March, benefitting sterling investors despite many of the underlying investments performing poorly. Manufacturing was hit by the slowdown, while defence sectors produced more positive results.

Japan is suffering one of the worst recessions, as exports and industrial production data



has shown. Deflation has been confirmed in the country, evidencing a further collapse in spending. It is also stuck in a political limbo, as Prime Minister Aso's popularity has plummeted and an election looms.

The economy has not coped well with the sharp appreciation of the yen and sagging export markets. Japanese economic data was full of negative surprises, including weak January exports, down 45.7% year-on-year, and industrial production, down 30.8%.

The IMF is forecasting Japan's GDP to contract by 2.6% this year, while the Bank of Japan has resumed its quantitative easing measures in an effort to stave off deflation. It has announced it would spend up to ¥1 trillion to purchase shares held by commercial banks to provide additional liquidity and stabilise the financial system.

However, the Japanese market delivered a positive return over the month to 5 April, rising by 9.3%. Although Japanese exports are slowing, over the long term this sector can be expected to recover well given its leading technologies and strong global brands.

Outlook

Global economies have slowed, but there are unprecedented stimulus policies being put into place that are designed to aid recovery and inject enough liquidity into the system to alleviate recession, but markets remain rocky until these take hold.

While the US was the epicentre of the turmoil, the mechanisms by which the crisis has spread have revealed weaknesses and adjustments needed on a wider scale. Political intervention is intensifying at various levels, and unconventional methods will continue to replace traditional economic policy.

The bottom of this cycle may not have been reached; conditions will likely deteriorate further in 2009 before they improve, and the markets are currently priced for a pessimistic scenario.

However, falling interest rates, commodity prices and government spending packages will buoy GDP over the next two years, and equity markets are the first to adjust to the recovery. Then, any market rally could prove every bit as spectacular as the fall for investors – and there remain excellent pockets of value for those wishing to dip a toe into equities.

Allianz RCM BRIC Stars Fund update

Please remember this Fund is designed for long term investors willing to take a higher degree of risk. BRIC stockmarkets can be much more volatile than established markets such as Europe and the United States.

The past six months saw performance in BRIC markets improve slightly, largely due to the positive returns from China and its direct government intervention and anticipated swift recovery from world recession. The MSCI BRIC Index rose by 3.5%, compared to a fall of 30.9% over the previous six months. Over the past month to 5 April it soared by 20.8%, prompting hopes that a swift and strong recovery is on the horizon. There remain vital differences between BRIC economies and the rest of the world that will continue to boost growth in these countries. They were not subject to mortgage lending excess, or property bubbles, and as a result do not hold toxic assets or over stretched balance sheets.

Fundamentally, a large amount of global demand is created from inside BRICs. In 2001 investment bank Goldman

Sachs predicted that BRIC economies would account for 10% of global GDP by the end of the decade, and last year their share was already 14%. Experts say this trend will not be broken by the current slowdown.

The current account positions and fiscal balances of BRIC markets are superior to many developed markets. We believe that these markets remain attractive for investors, as while volatility has been high their economies remain in a healthy state with burgeoning populations and rapid infrastructure growth.

Brazil

Over the past six months the MSCI Brazil Index rose by 10.5%, compared to a fall of 33.9% over the previous period. The fall in commodity prices has affected producers and weakened domestic demand. However, consumer confidence will

reappear once the global crisis eases, and the economy remains in a good position for attractive long-term growth. Brazil was able to bring down its debt levels over recent years as a result of the commodity boom.

Analysts expect further weakening this year, but Brazil should benefit from their leveraged role as exporters or manufacturers of primary goods to the developed world. We remain positive about this market going forward because we believe that it has underperformed, and is simply suffering from global headwinds.

Russia

Russia's fortunes are inextricably bound up with commodity prices, so its economy has come under pressure as the oil price slumped to record lows over the past six months.

During the period, the MSCI Russia Index fell by 20.6%, compared to a fall of 41.2% over the previous six months. Even so, the country is in a much more stable situation than during the previous market crisis in 1997-98, and the economic drivers shaping the broader economic environment such as domestic consumption and demand remain intact.

The country was in a comfortable position as a result of the oil glut over the last few years meaning it was

able to pay back any debt. As a commodity-producing country, Russia should be a primary beneficiary of the growing demand for resources going forwards.

The long-term economic environment favours domestic demand related stocks such as telecoms, retailers and industrials, with valuations close to historic lows. While economic fundamentals remain weak at present, the potential for investors to pick up some bargains is great.

India

Over the six months the MSCI India Index fell by 7.8%, compared to a fall of 23.9% over the previous six month period. Although prospects for long-term economic growth are positive, the economy has been affected by the global slowdown.

India remains under significant financial pressure through its account deficits, and due to its large public sector budget deficit, which is expected to climb above 8% of GDP. The unstable political



climate has also not helped investor confidence.

The country's companies have borrowed heavily abroad in recent years and a tough global credit environment is now making financing difficult. India's currency has also fallen sharply during the past six months but is now tending to stabilise close to the central bank's 'pain threshold' of 50 Rupees per USD.

However, like China, its focus on infrastructure should help drive growth going forwards, as should its demographics, with 60% of the population under 30 years old providing a talented workforce pool.

India has earmarked \$475 billion to meet the country's transport and power requirements, with its 2007-2012 five-year plan almost doubling the proportion of GDP allocated to infrastructure.

China

Over the six months the MSCI China Index rose by 14.8%, aided by a sharp bounce over the month to 5 April. Its performance proved that countries with healthy balance sheets should recover quickly from the global turmoil, and chief among these is China.

Large-scale fiscal stimulus measures are being enacted. China's November package –

which emphasises infrastructure – is equivalent to 7% of Chinese GDP per year in 2009-10, and there are already positive results from this. For example, auto sales have been picking up over the last three months. This is encouraging,

but not yet fully reflected in the equity market.

China appears to be using capital sensibly by implementing necessary infrastructure projects and by spending on vital sectors such as healthcare. Whilst the US is



also doing this, there is one big difference; China has the money. It is expected to emerge from this downturn better balanced.

However, last autumn's export-led slowdown has led to difficult conditions. Labour markets are expected to weaken further, with GDP at around 8% this year, down from an expected 9.2% in the previous quarter. China's fourth quarter 2008 growth rate of 6.8% was its weakest in seven years. Yet China has a healthy public debt/GDP ratio of only 18%.

Export growth cooled to 5% and year-on-year imports slid nearly 10%. Chinese inflation is expected to hover around zero this year, with earlier risks of wage-driven inflation having vanished.

In summary, China has the money (\$2trn) to boost their economy, and is on track to kick-start growth. Large parts of the country need infrastructure building, and the country is in the middle of a five-year plan to develop this. This is expected to continue and the de-stocking China suffered as a consequence of the collapse in global demand last year is now over.

The Chinese economy is slowing along with the rest of the world, but the country is

still growing at a healthy rate and can continue to do so for the foreseeable future. The slowdown is a temporary cyclical phenomenon, not a structural one.

Outlook

BRIC equities could still experience strong headwinds in the coming quarters from negative growth across the western world. However, there are cushions in place in these economies that prevent their growth from dropping into negative territory.

While their slowdown was sparked by the developed economies, which are all expected to deliver negative GDP growth in 2009, emerging markets are expected to show positive growth on average – in particular China and India.

This will help ease the large imbalances in world trade that have characterised this past decade, and improve the potential for more balanced and sustained economic growth with supply and demand in the BRIC economies playing a key role as a global economic engine. Going forward, their share of global demand will start to move towards that of all the G7 group of seven leading industrialised nations.

The general risk for the BRIC markets is a further significant contraction of global growth and therefore trade flows. Yet these markets will be among the first to grapple free of the global slowdown as fiscal stimulus measures are working and financial systems are strong.

Given economic fundamentals are much improved over recent years and the significant potential for long term growth in these economies we believe the BRIC markets are still very attractively valued for investors. Long-term growth prospects remain favourable.

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Source of market index figures: Lipper in GBP. Source of all other data Bloomberg, April 2009.

Details of the specific and general risks associated with our funds are contained within the simplified prospectus. You should always read this before investing. For a copy visit www.allianzgi.co.uk or telephone 0800 84 84 94. Past performance is not a reliable indicator of future performance. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

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