Investing in Trade Finance

Allianz Working Capital Fund

JANUARY 2021

For professional investors only

The Allianz Working Capital Fund (ALWOCA) is an ultra-short term open-ended credit fund investing in illiquid obligations financing the working capital and commercial trade contracts for both small and medium enterprises to large corporates. The strategy aims to generate stable returns even in volatile market periods.

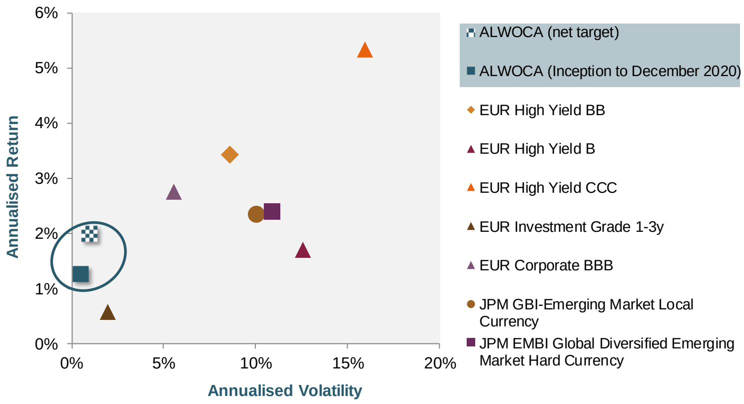
The opportunity

Companies and their relationship banks have financed the payment terms under commercial contracts for centuries, and traditionally this risk has sat on corporate balance sheets or with their bank. The constraint on bank capital and increasing economic activity has created a funding gap.

Financial technology (FinTech) and market standardisation have allowed invertors access to documentary credits, invoice discounting, and supply chain finance structures. However, this remains a non-traditional asset class, with structural barriers to entry, so the attractive risk return profile is expected to persist.

ALWOCA showed remarkable stability during the COVID-19 crisis and can serve as a diversifying, ultra-short allocation within any investor's portfolio.

Risk/Return Profile over 3 years



Source: Allianz Global Investors, Bloomberg, based on 3y monthly historic performance in EUR to 30 December 2020 except where otherwise indicated.
Performance of the strategy is not guaranteed and losses remain possible. Past performance is not a reliable indicator of future results.

Key benefits

- Attractive risk return-return profile and ultra-short duration. The strategy has low volatility and an attractive Sharpe ratio
- Low correlation to traditional asset classes, providing diversification benefits
- Assets are linked to the borrower's cash conversion cycle, so are self-liquidating, and repayment is less dependent on capital markets

AllianzGI's strategy

The ALWOCA fund is uniquely positioned to provide access to the varied investment opportunities within the trade and working capital universe.

- AllianzGI has created a platform that invests in a broad range of Trade Finance instruments, including invoices, receivables backed loans, factoring, documentary credits, structured notes, bonds and other instruments
- Multiple sourcing partnership model
  - expands the fund's investible universe,
  - increases portfolio diversification
  - reduces reliance on a single sourcing partner or instrument type
- The average credit quality of the portfolio using long term unsecured ratings or equivalents is comparable to a BB rating (which is very conservative since it gives no credit to the assets' structural seniority or short duration)
- The fund targets a net return of 3m Euribor + 200 bps
- Portfolio maturity is targeted to around 90-150 days
- Investments are sourced through a number of partners to achieve a stable and diverse flow of transactions

Value. Shared.

Allianz Global Investors

What is Trade Finance?

In all production and distribution chains, there is a financing gap between the delivery of product and payment. Trade Finance bridges this gap, allowing suppliers to reduce Days Sales Outstanding (DSO) and buyers to maximise Days Payable Outstanding (DPO). The four main trade finance categories are:

- Payable Finance: acting alongside a buyer, by making payments to their suppliers when invoices are raised. Suppliers receive discounted invoice amounts, and the financier gets repaid under the invoice.
- Receivable Finance: providing money to a single supplier in advance of it receiving invoice payments from several customers. These buyers pay invoices directly to the financier.
- Working Capital Facilities: providing loans to one supplier repaid by receivables from several customers.
- Documentary Credits: common instruments used by companies to finance specific trade flows and payments under commercial contracts. These include Letters of Credit, Bills of Exchange, and Trade Loans.

Advantages of Trade Finance

- Attractive return with ultra-short duration vs. comparable corporate bonds. The strategy is less volatile and has an attractive Sharpe ratio
- Low correlation to other asset classes, providing diversification benefits
- Self-liquidating, short maturity assets, making the strategy less dependent on capital market financing and allows portfolio adjustments if market conditions change
- Trade receivables are often structurally senior to capital markets instruments and some independent studies[1] have shown superior default experience vs. similar quality public instruments
- Compelling return on risk capital for Solvency II investors

Mitigation of Risks specific to Trade Finance

- Payment delay: We analyse historic payment behaviour. If required, the purchase price is reduced to factor in any adjustments for delays.
- Dilution: Relates to returned or faulty goods, and partial payment by the buyer. Dilution is a contingent risk borne by the seller. We analyse historical dilution rates and, where necessary, apply haircuts when purchasing invoices.
- Fraud: We assess fraud and financial crime risk on multiple levels including analysis of the buyer-seller relationship, provenance, due diligence, and documentary review.
- Commingling: The structure relating to payments and flow of funds is crucial. If necessary, we require segregated payment accounts to ring-fence payments of our purchased invoices from other cash flows.

Why Allianz Global Investors?

AllianzGI takes a unique approach to Trade Finance:

1. Multiple sourcing partners: Sourcing suitable assets is crucial to a sustainable approach and our platform has the flexibility to connect to any sourcing partner. Currently we are sourcing from 14 partners without reliance on any single partner
2. Diversified portfolio: We seek to build a robust portfolio diversified across trade finance products, sectors, countries and company sizes
3. Selective, hands-on investment process: We are involved in every step of the investment process. We can be highly selective and will decline any transaction we do not like
4. Active portfolio management: We seek to find relative value opportunities and adapt the portfolio to market conditions
5. Fundamental research capabilities: Our trade strategy is a collaboration between AllianzGI's renowned Fixed Income and Private Credit teams. We can also access the world-leading credit services of Euler Hermes
6. Experienced portfolio management team: The portfolio team includes extensive knowledge of the trade finance market and combines both public and private market knowledge with deep credit analysis skills. The five portfolio managers have an average of 18 years' investment experience

ALWOCA fund terms	
Name	Allianz Working Capital Fund a subfund of Allianz Trade Finance Funds SA,SICAV-RAIF
Domicile - launch date	Luxembourg - 30 April 2019
Legal form	Open ended, S.A. SICAV RAIF
Currencies	Euro fully hedged
Investment universe	All Trade Finance products.
Regional orientation	Global
Target Volume	>EUR 500 million
Redemption[2]	Monthly with 1 month notice period and size limits: 5% of the NAV after 1 month, additional 5% after the second month and additional 12% after the third month; otherwise up to 12 months
Valuation	Monthly on subscription and redemption dates
Duration (target)	c. 120 days
Credit quality (target)	Equivalent to a BB rating
Net yield (target)[3]	3-month Libor + 200 bps (after FX hedging & costs)
Management fee	40 bp. p.a.
Administration expenses	At expected volume c. 20 bp. p.a.
Performance fee	25% of the excess return over 3m Libor+200bp (after costs and fees)

[1] Example: *Why Trade Gets Paid*, Deutsche Bank, 2017
[2] Simplified illustration of redemption rule. Please read prospectus for more details.
[3] Net return after fees, expenses and hedging. This is an indication that illustrates which transactions the manager intends to select. It is not a return guarantee. Performance of the strategy is not guaranteed and losses remain possible.