Product Assessment

Report as at 07 Jun 2024

RECOMMENDED

Allianz Retire+ Allianz Guaranteed Income for Life (AGILE)

Rating issued on 07 Jun 2024 | APIR: -

Investment objective

To provide investors with the ability to access guaranteed retirement income for life, whilst managing risks to the sustainability and stability of an investor's retirement income and provides flexible access to savings during retirement, should an investor's needs change.

Manager	Allianz Retire+
Distributor	Allianz Retire+
Sector	Retirement Products \ Protection Products
Investment Style	N/A
RI Classification	-
Absolute Risk	Very Low
Relative Risk	Moderate
Benchmark	Not Applicable
Income Distribution	Monthly
Management Cost	0.80% p.a. Incl. GST
Inception Date	06 Mar 2023

Fund facts

- Ability to lock in income rate at the time of purchase
- Flexibility to select investment exposures and the amount of capital protection
- Provides unrestricted access to capital after 10 years or in the event of death

Viewpoint

AGILE, managed by Allianz Retire+, is a lifetime-guaranteed annuity product, which allows investors to grow their capital base in a protected (or partially protected) structure, receive a lifetime income stream and retain access to capital. In Zenith's opinion, AGILE is an innovative retirement income solution, with the flexibility to customise the asset mix, commencement date of income payments and the linking of income payments to increases in the Australian share market. Moreover, the product, provides access to the underlying Investment Value in the event of death or voluntary withdrawal (after ten years), addressing one of the key limitations of traditional annuity products.

Allianz Retire+, established in 2018, is a specialist retirement products business, which seeks to address the needs of Australia's growing retiree population. Zenith highlights that while the broader traction of Allianz Retire+ across the adviser market has been moderate, we believe that the demand for innovative retirement products is growing (both from a demographic and regulatory perspective), with the firm well-positioned to leverage its strong global capabilities.

AGILE is a flexible lifetime annuity that enables annuitants to grow their capital, in a capital protected (or partially protected) structure during the Growth Phase, whilst investing with the certainty of known future income levels (at the time of investment). At the time of purchase, annuitants are required to invest in a 'Growth Phase' period which is a minimum three year term, where no income is payable and capital is invested in one of four growth options including Australian and Global Equities and a full or partial protection option.

A key feature of each investment option is the Maximum Return, which represents the capped positive return that an investor receives over a twelve month period, based on a point-to-point crediting approach. The latter refers to the approach of locking in annual returns (or loss) at each anniversary date, irrespective of intra-period movements.

In Zenith's opinion, the combination of downside protection (or partial protection) and capping returns is a cost effective and efficient mechanism to generate market-linked returns. While we believe there is scope to increase the mix of asset classes and move beyond a point-to-point crediting approach, the product is functionally-sound to provide market-linked returns whilst providing drawdown protection.

At the end of the Growth Phase, investors transition to an Income Phase where a lifetime monthly income stream is payable. At the commencement of the Income Phase, investors are automatically placed in the Australian Equity Index - Total Protection option, and investors can elect to have their income payments indexed to positive movements in the Australian equity market, noting that payments remain unchanged if market returns are negative.

Zenith highlights the simplicity of the approach and the ability for investors to grow their income stream in line with the performance of the Australian equity market. Presently, there is no option for annuitants to link payments to increases in Consumer Price Index (CPI), thereby limiting the ability to directly protect against the effects of rising inflation. While this potentially reduces the attractiveness of the product, the ability to link payments to the Australian equity market is expected to provide a degree of inflation protection, noting the tendency of equities to outperform inflation over the long term.

All policyholder funds are invested in Allianz's Statutory Fund 2, which in turn is managed by PIMCO under an Investment Management Agreement (IMA) and in accordance with a Strategic Asset Allocation (SAA) which is set by Allianz Retire+ in consultation with Allianz Investment Management (AIM).

Fund analysis

Fund characteristics

Constraint	Value
Long Term SAA as at 31/3/2024	
Australian government bonds	39%
Semi-government bonds	9%
Corporate securities	25%
Cash	27%

Investment objective and philosophy

AGILE is a flexible lifetime annuity that enables annuitants to grow their capital, in a capital-protected (or partially protected) environment, whilst investing with the certainty of known future income levels (at the time of investment). In terms of the latter, fixed payment and market-linked options, also afford flexibility to tailor income levels and/or use the product in a broader portfolio construction framework.

Zenith highlights that the product is designed to support investors transitioning from pre-retirement to pension phase, offering the flexibility to grow capital, achieve income certainty, whilst maintaining access to capital in the event of death (or due to a change of circumstances). In our opinion, the innovative product design combines features of a range of fixed term and market-linked annuities, with more favourable capital access rules (notwithstanding the Pension Plus option).

AGILE is divided into Growth and Lifetime Income Phases, where investors initially grow their capital before commencing a lifetime income stream. The following section outlines each of the respective phases.

Growth phase

At the time of purchase, annuitants invest in the'Growth Phase' which is a minimum three year term, and capital is invested in one of four growth options (detailed below). Investors select the length of the period, based on their personal circumstances and/or their transition to retirement plans and can be as long as ten years (up to the age of 100).

Over this period, investors have the opportunity to grow their capital base, within a risk-managed structure and potentially increase their payments in the Income Phase. The following section outlines each of the investment options.

Australian Equity Index - Total Protection - allows investors to participate in the upside of the movement of the S&P/ASX 200 Total Return Index up to the relevant Maximum Return, with protection against negative index returns before fees, premiums and taxes.

Australian Equity Index - Partial Protection - is based on the movement of the S&P/ASX 200 Total Return Index up to the relevant Maximum Return (before fees, premiums and taxes)and investors are protected against the first -10% of negative index returns. For example, if the index declines by 15% (before fees and taxes), an investor's balance would decline by 5% over the period.

Global Equity Index - Total Protection - is a protected investment option based on the movement of the MSCI World Net Index TR (AUD) up to the Maximum Return and is protected against all negative index returns.

Global Equity Index - Partial Protection - provides investors with exposure to movements in the MSCI World Index TR (AUD) up to the relevant Maximum Return, with protection against the first 10% of market losses. Thus, under a scenario where the index declines by 20% in a 12-month period (from anniversary to anniversary date), an investor's balance would decline by 10% (before fees and taxes).

The Maximum Return represents the capped positive return that an investor can receives over a twelve month period, based on a point-to-point crediting approach. A Derivatives Overlay (DO) is used to generate the equity return and also provide the downside protection, with the process managed by AIM.

For example, for the Partial Protection option, AIM protects against the first 10% of losses, and then investors are fully exposed to any losses that exceed 10%.

In terms of upside, AIM purchases at-the-money call options on the relevant index (S&P/ASX 200 Total Return Index or MSCI World TR Index) and subject to the level of protection, sells OTM call options (or the upside), beyond the Maximum Return level. In effect this strategy means that investors are protected against the first 10% of losses, and then fully exposed to any losses that exceed 10%. On the upside, investors participate in moves in the index up to the level of the Maximum Return.

To illustrate the Maximum Return level, for the Australian Equity - Partial Protection option, investors can achieve a return of up to 13% for a 12-month period, based on April 2024 rates.

In Zenith's opinion, the combination of downside protection and capping returns is a cost effective and efficient mechanism to deliver capital certainty. While we believe there is scope to increase the mix of asset classes and move beyond a point-to-point crediting approach, the simplicity of the product design is a key attraction.

Income phase

At the end of the Growth Phase, investors transition to an Income Phase where a guaranteed lifetime monthly income stream is payable. While the income rate is based on the annuitant's age and locked in at the time of purchasing the annuity, the actual payment amount is a function of the Investment Value multiplied by the income rate and escalator.

In simple terms, the longer the deferral period, between purchasing the annuity and receiving income payments, the higher the payment rate over the remainder of the annuitant's life.

The deferral period length is reflected in the income escalator, which is the amount by which the income rate increases over the Growth Phase period, which is also a function of age at the commencement of the policy and the term of the Growth Phase period. In simple terms, if a Growth Phase period was five years and the annual escalator amount was 0.4% p.a., then the income rate increases by 2.0% (i.e. five years multiplied 0.4%).

Zenith highlights that the escalator rate is based on an arithmetic calculation approach which is simple and easy to understand. Notwithstanding, our preference is for a geometric approach, to maximise the level of income for annuitants.

At the commencement of the Income Phase, investors are automatically placed in the Australian Equity Index - Total Protection option, where they can benefit from positive movements in the Australian equity market, subject to the Maximum Return limit (detailed earlier), whilst being protected against any negative market performance.

Furthermore, investors can elect to have their income payments indexed to positive movements in the Australian Equity Index, noting that payments remain unchanged if the market performance is negative. Additionally, investors can select a Fixed Option, where income payments are fixed for the lifetime of the annuitant. For the Australian equity-linked option, the starting rate is lower (relative to the fixed option), reflecting the expectation that payments will increase over time.

Zenith highlights the simplicity of the approach and the ability for investors to grow their income stream in line with the performance of the Australian equity market. Nonetheless, we would prefer more flexibility in terms of tailoring the underlying asset class exposure, to include Global Equities and/or a mix of Australian and Global Equities.

Furthermore, there is no scope for annuitants to link payments to increases in Consumer Price Index (CPI), thereby limiting the ability of AGILE to provide 'real' income outcomes. While this potentially reduces the attractiveness of the product, the ability to link payments to the Australian equity market is expected to provide a degree of inflation immunisation, noting the ability of equities to outperform inflation over the long term.

Statutory Fund 2

At the time of investment, beneficiary funds are invested in the AALIL Statutory Fund 2 and pooled with all beneficiaries. This vehicle is regulated under the Life Insurance Act and supervised by APRA, which includes ensuring that sufficient capital is held to withstand a one in 200-year shock event.

The assets of the Statutory Fund are managed in accordance with a Strategic Asset Allocation (SAA) which is set by Allianz Retire+ in consultation with AIM. The underlying SAA changes over time to reflect a range of factors including available investment options, duration of liabilities and economic conditions. Further, Allianz maintains separate SAA's for the pool of liabilities in the Growth and Income Phases, with the underlying mix matched to the expected liability profile.

Based on the current SAA of Statutory Fund 2, the Growth portfolio comprises predominantly Australian government and corporate securities, with the current duration profile of approximately 10.8 years and a yield of 4.95% (as at 30 April 2024).

Zenith is supportive of the SAA setting process, most notably PIMCO's ability to manage a pool of assets which support longer-term liabilities.

Portfolio applications

AGILE is a flexible retirement income product, which offers the dual benefit of achieving income certainty in retirement and providing the opportunity for protected or partially-protected capital growth, prior to commencement of income.

In Zenith's opinion, a key attraction of the product is the full access to capital in the event of death (excluding the Age Pension Plus option), noting that the entire Investment Value will pass to the estate. This differs to many other annuity providers where there may not be a commutation value at the end of a pre-defined period.

Through the Income Phase, AGILE will pay either fixed monthly payments or payments linked to positive movements in the Australian share market up to the Maximum Return. While an inflation-linked option is not offered, over the long-term, Australian equities generally provide a positive real return, which should enable investors to protect against the effects of inflation.

The AGILE Product is designed to be held for long-term, however for those investors seeking to redeem early, Allianz Retire+ permits a free withdrawal amount of 5% p.a. of the account balance (at commencement) during the Growth Phase, which is referred to as the 'Free Withdrawal Amount'. Any withdrawals exceeding this amount will be subject to a Market Value Adjustment (MVA) which is payable in the first ten years and not applicable thereafter.

The MVA comprises a range of inputs including movements in interest rates, market volatility and the costs of selling assets, unwinding derivatives contracts and other ancillary costs. A key input to the MVA is the movement of a reference rate, which is a hybrid fixed income benchmark comprising government and corporate bonds.

For those investors that select the Pension Plus option, access to capital will be governed by the Capital Access Schedule (CAS), which effectively limits the amount that can be accessed as a lump sum commutation. In the first half of the annuitant's life, 100% of the purchase price is permitted upon death only, with the amount declining in a straight line value until the annuitant's life expectancy is reached, at which point, no amount can be commuted.

In terms of tax, AGILE is characterised as an annuity, therefore payments are divided into deductible and assessable amounts. The deductible amount represents the portion of a payment which is a return of capital, and the amount is tax free. Any amount in excess of this forms the assessable amount and is included in the policyholder's assessable income.

For the purposes of social security, AGILE is classified as an asset-tested income stream (lifetime) product, with its treatment determined by a range of factors, including age, selection of Pension Plus and whether it's held within accumulation or retirement phase. For example, a superannuation investor purchasing an annuity in retirement phase, the higher of (a) the death benefit, and (b) 60% of the purchase amount until age 84 or a minimum of 5 years, 30% thereafter is assessable under the Assets Test and 60% of Lifetime Income Payments under the Income Test.

Zenith recommends for investors to seek tax advice on your personal circumstances from a qualified tax adviser prior to investing.

Fund commentary

Fund risks

Zenith has identified the following key risks of the Product. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Early withdrawal risk: Investors withdrawing during the initial ten-year period will potentially be liable for punitive early withdrawal fees. Namely, during the Growth Phase, an investor that withdraws an amount in excess of the Free Withdrawal Amount (FWA) (approximately 5%), will be subject to a Market Value Adjustment (MVA), reducing the Investment Value received. For example, if an investor wishes to redeem at the end of year two and bond yields have increased by 2%,the MVA will be in excess of 20% (e.g. investors will lose more than 20% of their initial investment.

Maximum return risk: Given the Maximum Returns are reset on the anniversary date of each policy, there is a risk that they change over the term of the product, resulting in less competitive return outcomes.

Mandate risk: Given the tight investment mandate under which PIMCO manages the assets of the Statutory Fund, there is limited scope to generate excess returns, potentially impacting the yield available to purchase index exposure therefore the Maximum Return. Further, there is a risk that the current investment arrangements do not leverage the strength or quality of views from PIMCO's Global Investment Committee (GIC).

Point-to-point crediting risk: Based on the product's design, Allianz Retire+ only locks in gains on each policyholder's anniversary date. Therefore, it is possible that equity markets increase by more than 20% during the first part of the year and may retrace by the same amount in the second part of the year, resulting in zero capital appreciation. Accordingly, investors are subject to point-to-point crediting risk.

Inflation risk: Given the product does not offer a CPI indexation option, there is a risk that investors' 'real' income decreases, particularly if equity markets lag inflation over an extended period.

Security/asset selection

Investment management responsibility for the underlying fixed interest portfolio has been outsourced to PIMCO under a traditional investment management agreement (IMA) arrangement. The following section outlines PIMCO’s investment philosophy and approach to security selection.

PIMCO's investment process is anchored to the belief that the first and most important step in constructing the portfolio is to establish robust, long-term macro-economic forecasts. This provides a common framework to draw upon when constructing all portfolios managed by PIMCO, irrespective of strategy. These long-term forecasts are formally reviewed and refined annually at a three-day event, termed the Secular Forum, attended by senior PIMCO investment personnel. This event culminates in a holistic view of structural trends, key issues and their implications over a three to five-year forward timeframe.

Bottom-up credit analysis is conducted by specialist teams, covering a range of sub-sectors, such as investment grade credit, mortgages and bank loans. Although the credit analysts focus on bottom-up analysis, the credit selection process is guided by PIMCO's top-down views. This ensures that analysts focus their attention on sectors, regions and industries that have been highlighted by the GIC as attractive, rather than those sectors, regions and industries that are deemed less attractive.

The credit research focuses on both the issuer and the underlying specific issues. At the issuer level the analysts assess business and financial metrics, such as industry dynamics, management quality, leverage and cashflow. A prerequisite of this assessment is access to and a meeting with company management. At the security level analysts evaluate capital structure, covenants, liquidity as well as relative value.

Analysts utilise a standardised internal, one-page template to convey a prospective issuers' independent credit rating, business outlook, risk rating and relative value and conclude by providing a buy/sell recommendation (including a suggested holding period).

PIMCO's internal risk rating system (Green, Yellow and Red traffic light system) is utilised to assess credit risk.

- **Green** - Requires an ongoing review of the bond issue with the risk relative to the rating being stable to improving. Operational and event risk is unlikely to lead to a significant credit risk.
- **Yellow** - The bond issue is closely monitored for a potential up/downgrade. The presence of an operating or event risk that could lead to a significantly weaker credit profile.
- **Red** - Analysts investigate and communicate the firm-wide risk position in the issue. Viability of the issuer as a going concern is in serious question. Portfolio Managers require CIO sign-off to purchase these securities.

In determining valuations, the specialists teams also utilise PIMCO's extensive library of proprietary analytical software in order to quantify risk and relative value. The teams will research and identify best ideas, provide the GIC with sector analysis, intelligence and implement the trades once instructed.

In addition to PIMCO's standard credit research process, companies are formally scored based on a range of Environmental, Social and Governance (ESG) metrics, which is reflected in an ESG score of one to five, with five indicating best practice. The score includes a peer relative assessment and a measure of the direction of a firm's ESG profile (i.e. improving, stable or deteriorating) and is a formal input to the security selection decision.

All research is stored in a credit research repository, which includes changes in rating and opinions. As a further check, analysts are asked to examine a different client portfolio each week and re-affirm their opinions on all relevant holdings.

An interesting feature of the credit research process is that on a monthly basis, analysts are required to produce their top buys and sells within their respective sectors. This list is then reviewed by the Head of Credit Research and disseminated to the credit portfolio management team for consideration of implementation into portfolios.

Zenith views PIMCO's credit security selection process as well-structured, effectively leveraging the top-down views of the GIC whilst combining sound bottom-up analysis.

Responsible investment approach

Given the nature of the product and the use of underlying passive index exposures, there is limited scope for Allianz to incorporate Environmental, Social and Governance (ESG) factors into the product's design. Therefore, Zenith has elected not to assign a Responsible Investment classification.

As part of Allianz Group's approach to responsible investing, Allianz Retire+ considers labour standards, environmental aspects, social issues and ethical factors in selecting, retaining and selling investments. Allianz Australia Life (AA Life) applies the broader group's investment restrictions which either prohibit or require additional screening and ESG assessment over investments in certain countries and/or business areas or industries.

The investment restrictions of Allianz Group considers areas such as human rights, environmental impact (climate change,natural resources, pollution and waste), social impact (human capital, product liability, stakeholder opposition and social opportunities) and governance (corporate governance and corporate behaviour).

In terms of managing the underlying assets of the Statutory Fund, PIMCO has an established Environmental, Social & Governance (ESG) Investment Policy Statement, which has been developed to be consistent with a number of the globally recognised bodies such as the UN Global Compact Principles, the UN Guiding Principles on Business and Human Rights, and the International Labor Organisation Conventions.

At a firm level, the primary body responsible for leading PIMCO's RI platform is the Ethical & Social Governance (ESG) Leadership Team which comprises Senior representatives from across the firm. Collectively, the team is responsible for setting the firm's ESG strategic direction, managing ESG work streams and monitoring the performance of ESG portfolios.

PIMCO's ESG policies are developed by the ESG Strategy Group, which meets on a monthly basis and includes employees from across the PIMCO business ranging from investment & product strategists, portfolio managers and analysts.

Further, an ESG Portfolio Management team has been formed which sits as a conduit between the GIC and the other speciality desks from across the PIMCO business. The team comprises global portfolio managers and specialist ESG personnel that are responsible for discrete elements of the investment process.

In Zenith's opinion, PIMCO's ESG framework is comprehensive and well-implemented across its global research platform.

Portfolio construction

The underlying assets of the Statutory Fund are managed by PIMCO and invested in accordance with an SAA, which ultimately generates the returns, which support the income payments over an annuitant's life.

The SAA is determined by Allianz Retire+ with strategic input from AIM and to a lesser extent PIMCO. The process is managed by Martin Wilkinson, Head of Investments from Allianz, who draws on key inputs across each organisation to derive the optimal asset allocation to maximise the product's income rates and at the same time, ensure that Allianz Retire+ can meet its liabilities.

Wilkinson is supported by a separate Finance Committee (FiCo) and Rate Committee,which provides input on a range of investment related matters including the appetite for credit risk and calibrating the investment strategy to match the Fund's liability profile.

In terms of the underlying portfolio, PIMCO invests in a mix of government bonds, investment grade securities and cash investments. To maximise the yield profile of the portfolio, s limited range of active security selection strategies are employed to generate incremental returns.

Both the investment manager PIMCO and AIM have investment guidelines setting out respective investment parameters and constraints. This includes asset sector limits, credit limits, duration and derivative exposures.

The index participation feature is managed by AIM and is achieved by investing in derivative contracts, predominately put and call options, which deliver economic returns consistent with the movement of the appropriate index within the bounds of the Maximum Return and level of protection.

Derivatives are used to ensure that obligations with respect to each protected investment option can be met by Allianz Retire+. Note however, the derivatives strategy entered into generally means that Allianz Retire+ does not have market exposure beyond the Maximum Returns or level of protection provided to investors.

In sum, Zenith considers the portfolio construction approach to be sound, leveraging the strengths of PIMCO and AIM, with further governance support from the FiCo and Rate Committees. In our opinion, as AGILE gains critical mass, there will be further scope to expand PIMCO's investment mandate, introducing additional active management strategies and complementary asset classes.

Risk management

Risk management is a groupwide responsibility, reflecting Allianz Retire+'s approach to risk mitigation coupled with the tight regulatory framework under which the product is offered.

As detailed earlier, AGILE is classified as a asset-tested income stream (lifetime) product by APRA, and as such is regulated under the terms of the Life Insurance Act. Under the Act, a number of controls are in place which outline statutory capital and solvency requirements, issuer financial strength rating (as assessed by S&P), and economic capital requirements.

The Act prescribes a minimum level of regulatory capital for AGILE (or the Statutory Fund) and also sets out the requirements in terms of the composition of the capital base. Minimum capital levels are risk based and therefore contingent on the level and types of asset risks held by the Fund.

The Allianz Retire+ Board has the ultimate responsibility for risk management within the firm and has appointed a number of Board Committees to meet its obligations. The principal body includes a Board Risk Committee which meets on a quarterly basis and receives regular briefings from senior management with respect to enterprise risk management matters. Further, Allianz Retire+ has established a number of management sub-committees which address specific areas of risk such as; enterprise risk; investment and capital adequacy; and underwriting and pricing.

From a day-to-day perspective, Petar Andric, Chief RIsk Officer is responsible for designing and implementing the risk management and compliance framework. This extends across providing advice and support to the business and reporting on risk and compliance matters to the Executive and Board.

In addition, AALIL has a number of hardwired systems controls which monitor market risk and cash positions which are calculated daily and compared to the relevant limits. AGILE's custodian, NAB Asset Servicing (NAS) provides daily valuation of assets, including derivatives and monthly performance reports, which are reconciled with AIM and PIMCO.

The risk team monitors portfolio positions relative to the pre-specified targets on a daily basis, with system-generated reports flagging outliers, dispersion and changes. If a breach is identified, the risk team works with the respective portfolio managers to resolve, escalating any unresolved breaches to the desk head, GIC or CIO.

Zenith believes PIMCO has a comprehensive risk management framework in place, noting the strong risk management culture ingrained in the organisation.

About the fund manager

Organisation

Allianz Retire+ (the business name for Allianz Australia Life Insurance Limited (AALIL)) is a majority-owned subsidiary of Allianz SE (Allianz), a global insurance and asset management business headquartered in Munich, Germany. Allianz is listed on the Frankfurt Stock Exchange and employs over 159,000 personnel.

Allianz Retire+ was established in 2018 to develop a suite of financial retirement products to address the needs of Australia’s growing retiree population. The business was launched in collaboration with PIMCO Australia Limited (PIMCO), who provides a range of investment management and support services (including underlying investment management). PIMCO is majority owned by Allianz SE, managing approximately $US 1.9 trillion globally across a range of strategies (as at 31 March 2024).

AGILE leverages the product design and structuring capabilities of the broader Allianz Group, which manages a range of similar products offered across multiple jurisdictions. Allianz Investment Management (AIM) is the principal body for managing AGILE's underlying market-linked exposures and derivatives hedging.

In our opinion, the partnership between Allianz and PIMCO creates a strong platform to build a sustainable retirement products business. In particular, the latter’s investment management capabilities augment Allianz’s expertise in managing and structuring retirement products. Further, the Allianz Retire+ business has been funded with patient and long-term capital, which extends over a multi-year investment horizon.

WARNING: Information regarding credit ratings is intended to be only for persons who are "wholesale clients" within the meaning of section 761G of the

Corporations Act 2001 (Cth). Allianz currently has an issuer financial strength credit rating from Standard & Poor’s (S&P) issued in March 2023 and is current as at the date this report was issued. The S&P rating for Allianz is AA (Stable Outlook). Readers should be aware that while the S&P credit rating implies ‘Investment Grade’ creditworthiness (as viewed by market participants), such a view is only held over the short to medium term and may change without warning.

The continued creditworthiness of AALIL as a guarantor to AGILE, while currently positive, is not assured on an ongoing basis. Under the Life Insurance Act (1995) (Clth), APRA has a rigorous set of requirements in place to ensure that AALIL holds a minimum amount of statutory capital in its management operations and investment portfolios.

APRA regularly monitors solvency and capital, requiring AALIL to hold an additional buffer of capital reserves in excess of minimum requirements. This is to provide for capital movements which may arise through market movements. APRA's stringent regulation of the Life Act provides a safeguard against AALIL’s credit risk.

In terms of the AGILE product, the product was launched in March 2023 and is yet to gain critical scale.

Zenith highlights that the level of traction across the advisory market for the Allianz Retirement Products is expected to increase, as the demand for innovative retirement products increases (both from a demographic and regulatory perspective).

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Martin Wilkinson	Head of Investments	19	1	Sydney, Australia
Petar Andric	Chief Risk Officer	23	6	Sydney, Australia

Responsibility for the performance of AGILE rests with the AALIL Board, which comprises both internal and external, non-executive directors. The Board is chaired by David Plumb and includes three independent directors (including Plumb). While the Board performs an important oversight role, a Management Committee provides operational and strategic leadership on a day-to-day basis. The Committee comprises Adrian Stewart, Managing Director; Sandrine De Bonhome, Chief Financial Officer (CFO) and the heads of the major business functions.

Further, specialist sub-committees have been established to oversee a range of financial and non-financial risk functions, including: Senior Leadership Team; Finance; Customer and Product; Risk and a Rate Committee.

Zenith is supportive of the strong governance framework underpinning the AGILE product. In particular, the composition of the AALIL board coupled with clear terms of reference for each committee, ensures the product is managed in accordance with the best interests of policyholders.

In terms of key investment personnel, Sydney-based, Martin Wilkinson, Head of Investments, is responsible for managing the Strategic Asset Allocation (SAA) setting process and working with PIMCO to develop the underlying investment strategy of the Statutory Fund 2 (which ultimately supports Allianz's ability to meet the obligations of its policyholders). Wilkinson's remit is relatively broad, including liaising with AIM and PIMCO to generate the SAA for the Statutory Fund, mandate design, and modelling the product’s caps and floors.

Peter Andric, Chief Risk Officer oversees the risk function and is responsible for designing and administering the firm’s risk management process. Andric assumed the role in November 2020 and prior to joining Allianz Retire+, provided risk advisory services at Ernst Young and also spent a decade at the Australian Prudential Regulatory Authority (APRA) supervising banks, insurers and super funds.

In terms of managing the assets of the Statutory Fund, PIMCO has been appointed as the underlying investment manager. The PIMCO Australian investment team is led by Robert Mead who is Co-Head of Asia-Pacific Portfolio Management and ultimately responsible for the performance of the mandate. Prior to joining PIMCO in 2003, Mead was the Head of Non U.S. High Grade Fund Management at Citigroup Asset Management. With over 31 years of industry experience,Zenith considers Mead to be a high-quality fixed interest investor, with sound credentials to manage a conservative fixed interest mandate.

In sum, Zenith is supportive of the investment arrangements underpinning AGILE. The structure leverages Allianz’s global expertise in managing annuity products and at the same time, benefits from PIMCO’s experience in managing life insurance assets.

About the sector

Sector characteristics

Retirement products encompass a wide range of strategies. Most commonly, Zenith’s universe of Retirement products involve either protection or income strategies.

Protection strategies typically involve market linked products with an insurance overlay or some form of guarantee to provide certainty of outcome. Such strategies typically facilitate protection on either an investor’s income, capital or both. They can also include the generations of lifetime income streams. It is important to note that Zenith does not include complex structured products using reference assets with capital guarantees or protection in this category.

Income strategies typically encompass annuities and account based pensions. While investment structures and terms vary, generally most income strategies are designed to produce stable income streams over a defined period. They also tend to be structured to provide pre-determined outcomes regarding the investment principal although this will not always imply a guaranteed return of capital (Note: This does not apply to account based pensions).

Annuities have set levels of income yield determined at the outset of an investment and this income is contractually obligated by the provider. Annuities tend to be the least flexible type of retirement income products but also tend to carry less risk. They generally also provide different levels of protection against longevity risk.

Account based pensions tend to be more flexible regarding income levels and also underlying investment choice. However they also tend to be exposed to market fluctuations in the underlying investments and adding longevity protection can be difficult to implement.

Sector risks

Funds within the "Retirement Products" sector are generally exposed to the following broad risks:

GUARANTEE/INSURANCE RISK: Any guarantees of capital or income offered by issuers of retirement income products are reliant on the issuer's (or relevant statutory entity's) ability to meet financial obligations as and when they fall due. As such investors in such products are exposed to credit risk.

REGULATORY RISK: Changes in government policies, regulations and laws can affect the value, and/or tax treatment, of investments in retirement income products.

The ASIC Regulatory Guide 97 ‘Disclosing Fees and Costs in PDSs and Periodic Statements' came into effect on 1 October 2017, and seeks to establish a common framework for disclosing fees with respect to registered managed investment schemes issued to retail investors. The guide is currently under review by ASIC, with final recommendations expected to be made before the end of 2018.

In its current form, RG97 is not expected to impact the actual costs (or net returns) on existing investments. Rather, the guide is focused on providing increased transparency with respect to the costs of management. Given this, it is feasible that under RG97, investors become more sensitive to the costs charged and seek lower cost alternatives, potentially leading to fund outflows.

MANAGEMENT RISK: Management risks can encompass a wide range of factors relating to personnel (key man risk), counterparty risk (risk of management not being able to fulfil their duties due to insolvency etc.) and skillset (ability to effectively and efficiently carry out strategies).

ILLIQUIDITY RISK: Many retirement income products have fixed investment terms, making them unsuitable for investors who may require access to capital.

SOCIAL SECURITY RISKS: Investment into retirement income products may impact eligibility for social security benefits. Specialist advice should be sought in this regard.

Zenith rating

Report certification

Date of issue: 07 Jun 2024

Role	Analyst	Title
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Role	Analyst	Title
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Association & relationship

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Rating history

As At	Rating
07 Jun 2024	Recommended
28 Apr 2023	Recommended

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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