

AllianzGI Convertible & Income Fund II

Form N-CSR

May 01, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number: 811-21338**

**AllianzGI Convertible & Income Fund II**

**(Exact name of registrant as specified in charter)**

**1633 Broadway, New York, NY 10019**

**(Address of principal executive offices) (Zip code)**

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**Scott Whisten 1633 Broadway, New York, New York 10019**

**(Name and address of agent for service)**

**Registrant's telephone number, including area code: 212-739-3367**

**Date of fiscal year end: February 28**

**Date of reporting period: February 28, 2018**

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Item 1. Report to Shareholders

AllianzGI Convertible & Income 2024 Target Term Fund

AllianzGI Convertible & Income Fund

AllianzGI Convertible & Income Fund II

**Annual Report**

**February 28, 2018**

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Letter from the President

Thomas J. Fuccillo

*President & Chief Executive Officer*

Dear Shareholder:

The US economy continued to expand during the twelve-month fiscal reporting period ended February 28, 2018. This trend also occurred outside the US, and global inflation remained well-contained. Against this backdrop, US and international equities generated very strong results. Elsewhere, the US bond market posted a modest gain during the reporting period.

For the period since its inception on June 30, 2017 through February 28, 2018:

AllianzGI Convertible & Income 2024 Target Term Fund returned 2.87% on net asset value ( NAV ) and -4.59% on market price.

For the twelve-month reporting period ended February 28, 2018:

AllianzGI Convertible & Income Fund returned 7.04% on NAV and 12.22% on market price.

AllianzGI Convertible & Income Fund II returned 7.33% on NAV and 10.84% on market price.

During the twelve-month period ended February 28, 2018, the Standard & Poor's ( S&P ) 500 Index, an unmanaged index generally representative of the US stock market, rose 17.09% and the ICE BofA Merrill Lynch High Yield Master II Index, an unmanaged index generally representative of the high yield bond market, gained 4.12%. Convertible securities, which share characteristics of both stocks and bonds, also generated strong results. The ICE BofA Merrill Lynch All Convertibles All Qualities Index, an unmanaged index generally representative of the convertible securities market, returned 10.77%.

Turning to the US economy, gross domestic product ( GDP ), the value of goods and services produced in the country, which is the broadest measure of economic activity and the principal indicator of economic performance, expanded at a 1.2% annualized pace during the first quarter of 2017. GDP growth then improved to an annual pace of 3.1% and 3.2% during the second and third quarters of 2017, respectively. Finally, the Commerce Department's third reading released after the reporting period had ended showed that GDP grew at an annual pace of 2.9% for the fourth quarter of 2017.

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The US Federal Reserve (the Fed) raised interest rates three times during the reporting period: in March 2017, June 2017 and December 2017. With the rate hike in December, the federal funds rate moved to a range between 1.25% and 1.50%. Meanwhile, in October 2017 the Fed started to gradually reduce its balance sheet a process that will likely take several years. The Fed's actions during the fiscal year were well telegraphed and there were minimal market disruptions. On March 21, 2018 after the reporting period had ended the Fed again raised rates, pushing the federal funds rate to a range between 1.50% and 1.75%.

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**Outlook**

Since the depths of the global financial crisis, central banks have supported financial markets and the economies they serve through expansionary monetary policies, increasing their balance sheets to previously unheard-of sizes. In our opinion, the strong growth in corporate profits and diminishing fears of deflation show that this approach has worked, and central banks will be careful not to stifle current gains.

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So, while we anticipate the scale of central bank support will diminish in 2018 led by the Fed we expect the overall shift to be slow and the precise actions to vary from one central bank to the next. In our view, interest rates will stay low overall in 2018. Consequently, we believe investors should continue to keep a careful eye on inflation, particularly because official data appear to understate rises in real-world costs. In addition to macroeconomic considerations, we feel several dominant investment themes, including geopolitical risk and business disruption, will persist in 2018.

Against this backdrop, we will continue to use our fundamental research and insights and our strong global network to help our clients balance risk and reward. Where appropriate, we will also seek to capitalize on volatility spikes and prepare to trim exposure to risky assets if cyclical data start to lose momentum.

For specific information on the Funds and their performance, please refer to the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, [us.allianzgi.com/en-us/products-solutions/closed-end-funds](http://us.allianzgi.com/en-us/products-solutions/closed-end-funds).

On behalf of Allianz Global Investors U.S. LLC, the Funds investment manager, thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Thomas J. Fuccillo  
*President & Chief Executive Officer*





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### **Fund Insights**

AllianzGI Convertible & Income 2024 Target Term Fund / AllianzGI Convertible & Income Fund /AllianzGI Convertible & Income Fund II

February 28, 2018 (unaudited)

### **AllianzGI Convertible & Income 2024 Target Term Fund**

For the period from inception on June 30, 2017 through February 28, 2018, as provided by Doug Forsyth, CFA, Portfolio Manager.

For the period since the Fund's inception through February 28, 2018, the AllianzGI Convertible & Income 2024 Target Term Fund (the Fund) returned 2.87% on net asset value (NAV) and -4.59% on market price.

### **Market Environment**

Several factors influenced convertible bonds, high-yield bonds, and senior secured loans throughout the reporting period, including constructive economic trends, corporate fundamentals, the US Federal Reserve's (the Fed) actions and commentary, tax reform and rising commodity prices.

Strong US economic trends supported the market over the reporting period. Key manufacturing and service surveys signaled ongoing expansion and housing prices rose. The unemployment rate continued to decline, consumer confidence remained elevated and inflation remained relatively stable.

Credit and profitability trends showed sustained improvement during the reporting period with most convertible, high-yield bond, and senior secured loan issuers reporting financial results that met or exceeded expectations. In particular, net leverage and interest coverage for the high-yield market were better quarter-over-quarter.

The Fed increased its benchmark interest rate three times in 2017, ending the year with a range of 1.25% to 1.50%. The Fed also began to

trim its balance sheet holdings, starting with a \$10 billion reduction in October 2017.

All three markets also benefited from optimism tied to tax reform progress and the resulting expectation of greater corporate profitability. The Tax Cuts and Jobs Act included several positive elements such as a reduction in the corporate tax rate and the immediate expensing of capital expenditures. However, the bill placed limits on the deductibility of interest expense. On balance, the prospect of US companies capturing tax savings lifted investor sentiment.

Crude oil prices rose during the reporting period and in January 2018 reached levels not seen since 2014, which benefited energy- and commodity-related issuers.

### **Portfolio Specifics**

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The Fund was a natural beneficiary of investors' increased appetite for risk assets. The convertible, high-yield bond, and senior secured loan asset classes all finished the reporting period higher. In addition to providing a strong total return, the Fund also provided a high level of income over the reporting period.

In the convertible bond sleeve, sectors that contributed positively to relative performance were energy, materials, and industrials. On the other hand, transportation, media, and utilities pressured relative performance.

In the high-yield bond sleeve, industry exposure that helped relative performance included healthcare, financial services, and technology and electronics. Conversely, the telecommunication, energy, and support-services industries hindered relative performance.

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In the senior secured loan sleeve, all industries were positive. The top-contributing industries included technology and electronics, healthcare, and trucking and delivery.

## **Outlook**

At the end of the reporting period, US stock markets were trading near all-time highs and interest rates were above their prior lows on an improving economic outlook. Historically, these factors have been positive indicators for both economic and corporate earnings growth and supportive of investments in risk assets.

We believe the US economy will expand at a moderate pace in 2018 given favorable economic indicators exiting 2017. We believe the impact of tax cuts, progress toward an infrastructure spending bill and continued deregulation efforts could result in even stronger US growth. Conversely, potential risks to the economy include geopolitical and US political missteps, monetary policy surprises by the Fed or unexpected high rates of inflation.

After bottoming in the second quarter of 2016, corporate profits have accelerated through the fourth quarter of 2017. Based on bottom-up estimates, we believe earnings are poised to trend higher throughout 2018.

## **AllianzGI Convertible & Income Fund / AllianzGI Convertible & Income Fund II**

For the period of March 1, 2017, through February 28, 2018, as provided by Doug Forsyth, CFA, Portfolio Manager.

For the twelve-month period ended February 28, 2018, the AllianzGI Convertible & Income Fund returned 7.04% on net asset value ( NAV ) and 12.22% on market price.

For the twelve-month period ended February 28, 2018, the AllianzGI Convertible & Income Fund II returned 7.33% on NAV and 10.84% on market price.

## **Market Environment**

Several factors influenced convertible bonds and high-yield bonds throughout the reporting period, including constructive economic trends, corporate fundamentals, the US Federal Reserve's (the Fed) actions and commentary, tax reform and rising commodity prices.

Strong US economic trends supported the market over the reporting period. Key manufacturing and service surveys signaled ongoing expansion and housing prices rose. The unemployment rate continued to decline, consumer confidence remained elevated and inflation remained relatively stable.

Credit and profitability trends showed sustained improvement during the reporting period with most convertible and high-yield bond issuers reported financial results that met or exceeded expectations. In particular, net leverage and interest coverage for the high-yield market were better quarter-over-quarter.

The Fed increased its benchmark interest rate three times in 2017, ending the year with a range of 1.25% to 1.50%. The Fed also began to trim its balance sheet holdings, starting with a \$10 billion reduction in October.

Both markets also benefited from optimism tied to tax reform progress and the resulting expectation of greater corporate profitability. The Tax Cuts and Jobs Act included several positive elements such as a reduction in the corporate tax rate and the immediate expensing of capital expenditures. However, the bill placed limits on the deductibility of interest expense. On balance, the prospect of US companies capturing tax savings lifted investor

sentiment.

Crude oil prices rose during the reporting period and in January reached levels not seen since 2014, which benefited energy- and commodity-related issuers.

### **Portfolio Specifics**

The Funds were natural beneficiaries of investors' increased risk appetite across the convertible and high-yield bond asset classes. In addition to providing a strong total return, the Funds also provided a high level of income over the reporting period.

In the convertible sleeve, sectors that contributed positively to relative performance were consumer discretionary, healthcare, and media. On the other hand, technology, telecommunication, and financials sectors pressured relative performance.

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In the high-yield bond sleeve, industries that aided relative performance were financial services, retail, and healthcare. In contrast, printing and publishing, telecommunications, and support-services hampered relative performance.

## **Outlook**

At the end of the reporting period, US stock markets were trading near all-time highs and interest rates were above their prior lows on an improving economic outlook. Historically, these factors have been positive indicators for both economic and corporate earnings growth and supportive of investments in risk assets.

We believe the US economy will expand at a moderate pace in 2018 given favorable economic indicators exiting 2017. Corporate profits have accelerated and based on bottom-up estimates, earnings are poised to trend higher throughout 2018.

In addition, US monetary policy continues to be modestly accommodative with the Fed and new Chair Jerome Powell expected to take a gradual approach toward policy adjustments.

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**Performance & Statistics**

AllianzGI Convertible & Income 2024 Target Term Fund

February 28, 2018 (unaudited)

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
Commencement of Operations (6/30/17) to 2/28/18	-4.59%	2.87%

**Market Price/NAV Performance:**

Commencement of Operations (6/30/17) to 2/28/18

**Market Price/NAV:**

Market Price	\$9.22
NAV <sup>(2)</sup>	\$9.79
Discount to NAV	-5.82%
Market Price Yield <sup>(3)</sup>	5.99%
Leverage <sup>(4)</sup>	28.05%

**S&P Global Ratings\***

(as a % of total investments)

See Notes to Performance & Statistics on page 10.

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**Performance & Statistics**

AllianzGI Convertible & Income Fund

February 28, 2018 (unaudited)

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
1 Year	12.22%	7.04%
5 Year	6.69%	6.44%
10 Year	7.28%	6.82%
Commencement of Operations (3/31/03) to 2/28/18	7.72%	7.77%

**Market Price/NAV Performance:**

Commencement of Operations (3/31/03) to 2/28/18

**Market Price/NAV:**

Market Price	\$6.93
NAV <sup>(2)</sup>	\$6.54
Premium to NAV	5.96%
Market Price Yield <sup>(3)</sup>	11.10%
Leverage <sup>(5)</sup>	38.07%

**S&P Global Ratings\***

(as a % of total investments)

See Notes to Performance & Statistics on page 10.

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**Performance & Statistics**

AllianzGI Convertible & Income Fund II

February 28, 2018 (unaudited)

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
1 Year	10.84%	7.33%
5 Year	5.67%	6.48%
10 Year	6.53%	6.17%
Commencement of Operations (7/31/03) to 2/28/18	6.51%	6.76%

**Market Price/NAV Performance:**

Commencement of Operations (7/31/03) to 2/28/18

**Market Price/NAV:**

Market Price	\$6.10
NAV <sup>(2)</sup>	\$5.87
Premium to NAV	3.92%
Market Price Yield <sup>(3)</sup>	10.01%
Leverage <sup>(5)</sup>	38.37%

**S&P Global Ratings\***

(as a % of total investments)

See Notes to Performance & Statistics on page 10.



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### Performance and Statistics

#### AllianzGI Convertible & Income Funds

February 28, 2018 (unaudited)

#### Notes to Performance & Statistics:

\* Credit ratings apply to the underlying holdings of the Funds and not the Funds themselves and are divided into categories ranging from highest to lowest credit quality, determined for purposes of presentations in this report by using ratings provided by S&P Global Ratings ( S&P ). Presentations of credit ratings information in this report use ratings provided by S&P for this purpose, among other reasons, because of the access to background information and other materials provided by S&P, as well as the Funds' considerations of industry practice. Securities not rated by S&P, or bonds that do not have a rating available from S&P, or bonds that had a rating withdrawn by S&P are designated as NR or NA, respectively. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change periodically, even as frequently as daily. Ratings assigned by S&P or another rating agency are not absolute standards of credit quality and do not evaluate market risk. Rating agencies may fail to make timely changes in credit ratings, and an issuer's current financial condition may be better or worse than a rating indicates. In formulating investment decisions for the Funds, Allianz Global Investors U.S. LLC develops its own analysis of the credit quality and risks associated with individual debt instruments, rather than relying exclusively on rating agencies or third-party research.

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return. Total return for a period of less than one year is not annualized.

Performance at market price will differ from results at NAV. Although market price returns tend to reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Funds, market conditions, supply and demand for each Fund's shares, or changes in each Fund's dividends.

An investment in each Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) The NAV disclosed in the Funds' financial statements may differ from this NAV due to accounting principles generally accepted in the United States of America.

(3) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at February 28, 2018.

(4) Represents amounts drawn under the short-term margin loan facility ( Leverage ) outstanding, as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

(5) Represents Preferred Shares ( Leverage ) outstanding, as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

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AllianzGI Convertible &amp; Income 2024 Target Term Fund

February 28, 2018

Principal Amount (000s)		Value
<b>Corporate Bonds &amp; Notes 58.9%</b>		
<b>Aerospace &amp; Defense 1.7%</b>		
\$1,500	KLX, Inc., 5.875%, 12/1/22 (a)(c)(d)	\$1,550,625
1,500	TransDigm, Inc., 6.50%, 7/15/24 (d)	1,550,625
		3,101,250
<b>Auto Components 0.9%</b>		
1,500	American Axle & Manufacturing, Inc., 6.625%, 10/15/22 (d)	1,552,500
<b>Building Materials 0.8%</b>		
1,500	Builders FirstSource, Inc., 5.625%, 9/1/24 (a)(c)(d)	1,531,875
<b>Chemicals 3.5%</b>		
1,500	Chemours Co., 6.625%, 5/15/23 (d)	1,584,375
1,500	Platform Specialty Products Corp., 6.50%, 2/1/22 (a)(c)(d)	1,543,125
1,500	Tronox Finance LLC, 7.50%, 3/15/22 (a)(c)(d)	1,560,000
1,500	Univar USA, Inc., 6.75%, 7/15/23 (a)(c)(d)	1,565,625
		6,253,125
<b>Computers 1.9%</b>		
1,500	Dell International LLC, 7.125%, 6/15/24 (a)(c)(d)	1,620,347
1,500	Western Digital Corp., 10.50%, 4/1/24 (d)	1,745,625
		3,365,972
<b>Diversified Financial Services 4.4%</b>		
2,000	Community Choice Financial, Inc., 10.75%, 5/1/19 (d)	1,905,000
1,500	Nationstar Mortgage LLC, 7.875%, 10/1/20 (d)	1,540,313
2,000	Navient Corp., 7.25%, 9/25/23 (d)	2,135,000
2,000	Springleaf Finance Corp., 8.25%, 10/1/23 (d)	2,210,000
		7,790,313
<b>Electric Utilities 0.9%</b>		
1,500	NRG Energy, Inc., 6.25%, 5/1/24 (d)	1,560,000
<b>Engineering &amp; Construction 0.9%</b>		
1,500	AECOM, 5.875%, 10/15/24 (d)	1,571,250
<b>Entertainment 0.9%</b>		
1,500	Cedar Fair L.P., 5.375%, 6/1/24 (d)	1,546,875
<b>Healthcare-Services 5.3%</b>		
1,500	Community Health Systems, Inc., 6.25%, 3/31/23 (d)	1,372,500
1,500	DaVita, Inc., 5.125%, 7/15/24 (d)	1,492,500
215	Encompass Health Corp., 5.75%, 11/1/24	218,762
1,500	Envision Healthcare Corp., 6.25%, 12/1/24 (a)(c)(d)	1,586,250
1,500	HCA, Inc., 7.50%, 2/15/22 (d)	1,663,125

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1,500	Kindred Healthcare, Inc., 8.75%, 1/15/23 (d)	1,612,500
1,500	Tenet Healthcare Corp., 8.125%, 4/1/22 (d)	1,584,375
		9,530,012
	<b>Home Builders 1.5%</b>	
1,000	Beazer Homes USA, Inc., 8.75%, 3/15/22 (d)	1,082,500
1,500	Lennar Corp., 5.875%, 11/15/24 (a)(c)	1,601,250
		2,683,750
	<b>Internet &amp; Catalog Retail 0.9%</b>	
1,500	Netflix, Inc., 5.875%, 2/15/25	1,588,665

See accompanying Notes to Financial Statements | February 28, 2018 | Annual Report **11**

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AllianzGI Convertible &amp; Income 2024 Target Term Fund

February 28, 2018 (continued)

Principal Amount (000s)		Value
	<b>Iron/Steel 1.6%</b>	
\$1,500	AK Steel Corp., 7.50%, 7/15/23 (d)	\$1,608,750
1,193	United States Steel Corp., 8.375%, 7/1/21 (a)(c)(d)	1,279,493
		2,888,243
	<b>Lodging 0.8%</b>	
1,500	Wynn Las Vegas LLC, 5.50%, 3/1/25 (a)(c)(d)	1,524,375
	<b>Machinery-Construction &amp; Mining 1.1%</b>	
2,000	Terex Corp., 5.625%, 2/1/25 (a)(c)(d)	