

**FIXED INDEX UNIVERSAL LIFE (FIUL) INSURANCE AND FIXED INDEX ANNUITIES**

# What is hedging and why does it matter?

The benefits of helping to manage market volatility in real time  
 Because no one can predict the future, the ability to quickly react to changes in the market can be important. Hedging makes that possible.

Hedging is a way that Allianz Life Insurance Company of North America (Allianz Life) utilizes Allianz Investment Management U.S. LLC (AIM US), a wholly owned subsidiary of Allianz Life, to help manage the impact of market movements, managing assets in a way that helps us guarantee our promises to our policyholders. AIM US provides investment management and hedging services to the broader Allianz Group. AIM US uses a portion of your premium, invests it, and purchases hedges to credit interest to your policy or contract. Hedging helps manage risk and backs up the product guarantee, so it will be there for you when you need it.

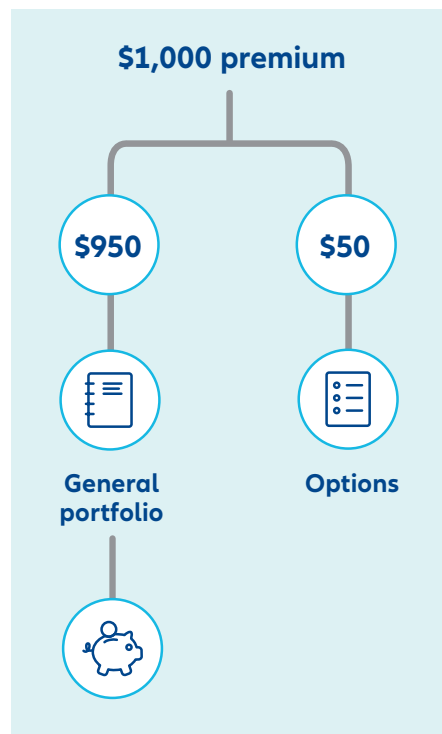
## How hedging works

Every time premium is received for one of our fixed index universal life insurance policies or FIA contracts, a small portion of that premium is placed into a hedge. **For example, if your premium is \$1,000, we separate it into two parts:**

We're one of the few who can leverage the power of **dynamic hedging**.

- 1 \$950 is invested in a general portfolio, which is made up of assets, predominantly high-grade bonds, where it is designed to grow back to \$1,000, thanks to the yield of the general portfolio.
- 2 The remaining \$50 is used to purchase hedges to help protect promises made to the policyholder.

At the end of the crediting period, your policy or contract values are credited with indexed interest, assuming a positive index change, according to the crediting method you've chosen.



Hypothetical example assumes 5.00% option budget, which is the rate Allianz Investment Management U.S. LLC uses to purchase hedges. This example is provided for illustrative purposes only and assumes any fees and charges are not deducted from the premium.

Though this example is highly simplified, it illustrates hedging on one life insurance policy or fixed index annuity contract. In reality, Allianz Investment Management U.S. LLC hedges at a group level with the total account value of many policies over time periods longer than one year.

Guarantees are backed by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

Product and feature availability may vary by state and broker/dealer.

# Most insurance companies use hedging to some degree, but we're one of the few who utilizes dynamic hedging.

## The two main types of hedging

**Static hedges** are set up, meaning the insurance company purchases assets from investment banks, and then they are left in place for a specific period of time without being rebalanced or adjusted. Most insurance companies rely on banks for their static hedging.

Since banks charge for this service, it adds cost for the insurance company – and for the client.

**Dynamic hedging** requires frequent adjustments (daily or even more often) as stock prices change.

Because of the size of our fixed index (life insurance and annuity) business, dynamic hedging can be more cost-effective.

## The advantages of a dynamic hedging platform.

With dynamic hedging, we can:

- Design innovative features and products to better support your goals.
- Purchase higher-grade bonds designed for a more stable, higher-quality investment portfolio.
- Allocate on a daily basis, and balancing daily helps stabilize the index performance in a volatile market.
- Be potentially less exposed to investment bank failure.



**Dynamic hedging is one of the ways we can help you achieve your financial goals. CONTACT YOUR FINANCIAL PROFESSIONAL TO FIND OUT MORE.**

Guarantees are backed by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

Products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. 800.950.1962  
www.allianzlife.com. This notice does not apply in the state of New York.

• Not FDIC insured • May lose value • No bank or credit union guarantee  
• Not a deposit • Not insured by any federal government agency or NCUA/NCUSIF

Product and feature availability may vary by state and broker/dealer.