INDEXED UNIVERSAL LIFE (IUL) 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 and contract owners. 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 indexed 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:**

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 or contract owner.

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.

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

$1,000 premium

$950   **$50**

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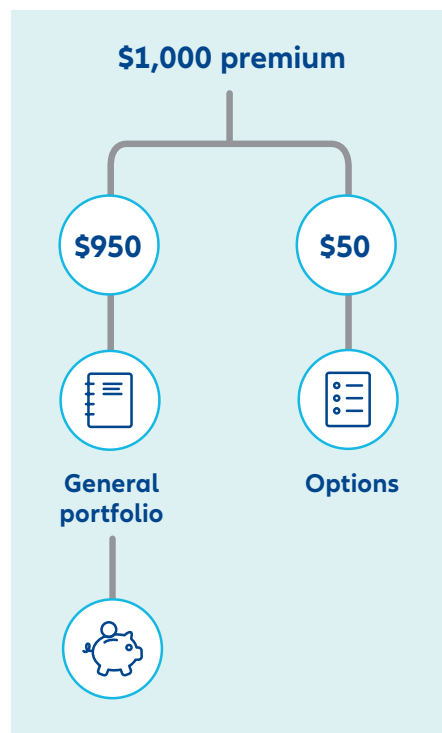
Hypothetical example assumes 5.00% option budget, which is the rate Allianz Investment Management U.S. LLC uses to purchase hedges. This example is provided for illustrative purposes only and assumes any fees and charges are not deducted from the premium.

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.

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 dynamic hedging is less dependent on investment banks (and the fees they charge), our hedging can be more cost-effective than static hedging.

The advantages of a dynamic hedging platform.

With dynamic hedging, we can:
- Design innovative features and products to support your goals.
- Purchase higher-grade bonds to achieve a more stable, higher-quality investment portfolio.
- Rebalance our hedges daily to be more cost-effective.
- 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.