Allianz Life Insurance Company of North America

INDEX ALLOCATION

Score the benefits of a diversified lineup

Covering multiple bases can help you seek the results you need.

M-7305 (R-2/2024) | Must be accompanied by the "Understanding fixed index universal life insurance" brochure (M-3959) or the appropriate product brochure.

Contents

THE PLAYBOOK

Review your allocation options.

A baseball team is usually composed of a variety of hitters. The typical player is expected to get on base, and may occasionally hit a home run, or even a grand slam. And although the home run hitters are more likely to hit the ball out of the park, they also have a higher probability of striking out.

The same can be said about the different allocation options within a fixed index universal life (FIUL) insurance policy. An allocation option is a combination of an external index and a crediting method that determines how much interest you may receive in a given year. **Some allocation options may offer the potential for more interest – in this case, a "grand slam" – but may provide less consistency and more volatility.** Others may have a lower interest potential – the "getting on base" – but may provide more consistency.

As an alternative to indexed interest, you also have the option of allocating part or all of your accumulation value to a fixed interest account that provides a predictable interest credit each year.

Regardless of which allocation option you choose, the **accumulation value is always protected from negative index performance (although policy fees and charges will reduce values).**

Because it's impossible to predict the environment and which allocation option will be the home run hitter at any given time, it's important to focus on the potential for consistency and "getting on base." Diversifying your allocation options can provide more opportunities to make that happen – though it does not guarantee your policy will earn interest in every policy year.

THE CHALLENGE

Choose your allocation lineup.

Knowing you have choices, which allocation option should you choose? Will you swing for the fences – or aim for consistency? The answer depends on your financial goals and your risk tolerance.

With so many options, it can be tough to know what may be suitable for your situation, especially because each option is going to react differently in any given economic environment. Let's walk through a few examples and see what may have performed the best – or been the home run hitter – in select market environments.

ECONOMIC SCENARIO:

Lead-up to 1Q 2007 – bull market before the financial crisis
In the second half of 2006, equity markets had a great run, with the Dow increasing over 15% in the last six months of 2006. This momentum looked to carry forward into 2007, even though there were some signs of issues in the future.

Potential home run hitter: PIMCO Tactical Balanced ER Index with annual point-to-point
The first half of 2007 saw relatively low volatility and moderate equity returns, which PIMCO Tactical Balanced ER Index would have capitalized on by being allocated about 50/50 between the equity component and the bond component.
The second half of 2007 and early 2008 saw the start of the financial crisis as equities tumbled and volatility spiked. PIMCO Tactical Balanced ER Index would have capitalized on this by shifting allocation away from the equity component and into the bond component, which was seeing good returns due to falling interest rates.
As equities continued to fall and volatility remained high, the PIMCO Tactical Balanced ER Index would have shifted allocation to its cash component to protect against volatility even further.

Although all the indexes in these examples were not in existence during this time, and caps and rates would have varied, it is assumed this is how the index allocations could have reacted based on the market environment and index allocation design.

ECONOMIC SCENARIO:

Early 2015 – market rebound

Things were looking up at the start of 2015. In 2014, equities were returning over 10% and were expected to continue rising. Which option could have been a home run hitter?

Potential home run hitter: Fixed interest
Growth did not continue.
Both equities and interest rates remained relatively level. A decrease in equities at the start of 2016 would have wiped out any index returns that may have been present for that year.
This means that the fixed account would have been an effective allocation.

ECONOMIC SCENARIO:

Beginning of a global disruption

Throughout much of 2019, the market saw steady increases. By the end of 2019 and into 2020, however, concerns in the market grew over the dramatic volatility caused by several events, including the coronavirus global pandemic.

Potential home run hitter: Bloomberg US Dynamic Balance II ER Index with annual point-to-point
Equities tumbled, which would have wiped out the returns of the other allocation options.
The Bloomberg US Aggregate Custom RBI Unfunded Index (an underlying component of the index) portion performed very well due to tumbling interest rates.
The volatility control functionality moved the index to be allocated away from volatile equities and more toward bonds.

Which will be the most effective index allocation option?



Now that we've reviewed a few different economic environments, is there a clear path to knowing the economic outlook and which allocation option may have been the most effective? **As you may have guessed, the answer is no.** Even the best market analysts cannot predict what next year's environment result will be.
So, what can you do?

Add the power of diversification to your lineup.

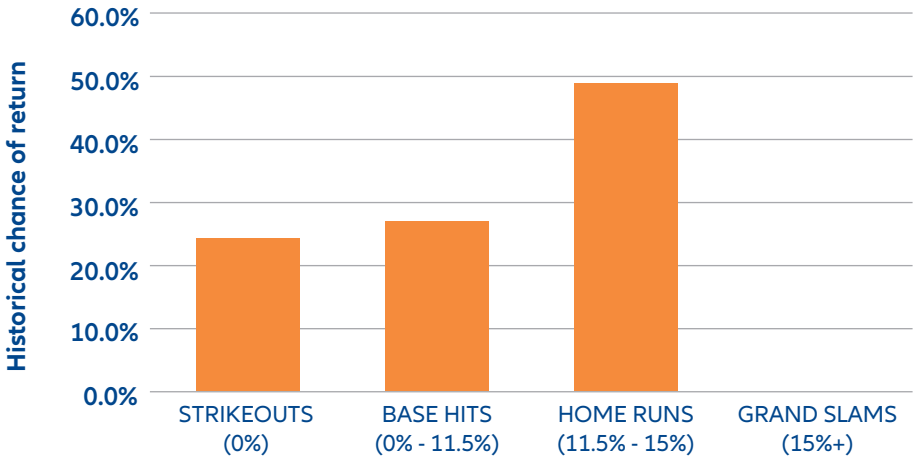
Diversification among allocation options could help you cover more bases consistently regardless of market environment, and may help you better align your financial goals and risk tolerance.

To get started, let's consider what your options could have been when FIUL products entered the marketplace. The S&P 500® Index with annual point-to-point (APP) crediting was likely the only option to choose from, so building your allocation lineup would have been more limited because the innovative allocation options of today were not available.

Intent: This is a hypothetical historical example of an index that produces the potential for both home runs and strikeouts, and that would have been available when FIUL products first became available. While it provides the opportunity for home runs, it also limits the potential of any grand slams because of the cap on any credited interest. The current average cap for the S&P 500® Index for the top independent distribution carriers that offer this option is 9.50%.[1] In addition to home runs, we are assuming about one-fifth of the returns will be strikeouts – meaning in one out of every five years, you could expect a zero return.

Hypothetical historical chance of return:

Strikeouts (0%)	24.2%
Base hits (0% - 11.5%)	27.0%
Home runs (11.5% - 15%)	48.8%
Grand slams (15%+)	0.00%
AVERAGE ANNUAL INTEREST CREDIT	**7.8%**



Hypothetical example assumes the product and index allocation options were available during the following time period: 1/1/1996 – 12/31/2023.

This chart represents past hypothetical results only and is based on: S&P 500® Index APP 12.50% cap. Actual caps and rates that could have been applied over this time frame would have been different from the figures shown in this example and, in some cases, significantly higher or lower depending on a number of factors, including market conditions. These examples are not intended to reflect actual results that would be realized in a policy, and are provided to show how certain policy features work. They are not a promise of future results. No single crediting method consistently delivers the most interest under all market conditions.

[1] LifeTrends, April 2022.

What is your risk tolerance?

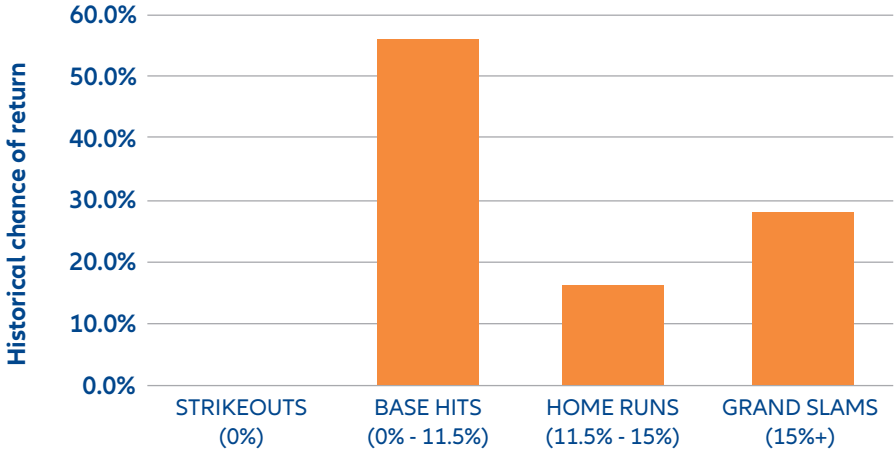
Now let's take a look at how diversification could play into your lineup to help seek a level of consistency, with three different diversified strategies. Allocation options have evolved since FIUL was first introduced. In fact, we take pride in the innovative index allocation options we offer that provide you the opportunity to diversify within your FIUL policy.

All of the following diversified strategies use index allocations that have an underlying bond and equity component within the index and are designed to help stabilize risk and volatility within your FIUL. Having both bond and equity components within an index allocation can be attractive, because the accumulation potential offered by equities and the relative safety of bonds can help provide a balance within the index. Each strategy also highlights how our different bonus opportunities could impact potential interest returns.

Conservative: "Get on base"
50% Bloomberg US Dynamic Balance II ER Index / 50% PIMCO Tactical Balanced ER Index / Classic allocations
"Get on base" seeks to eliminate a zero credit by leveraging the Classic bonus and the guaranteed 0.90% bonus credited to the policy's annual accumulation value. It focuses on getting more "base hits" and no "strikeouts."

Hypothetical historical chance of potential interest credits (based on assumptions detailed below):

Strikeouts (0%)	0.00%
Base hits (0% - 11.5%)	56.1%
Home runs (11.5% - 15%)	16.1%
Grand slams (15%+)	27.9%
AVERAGE ANNUAL INTEREST CREDIT	**10.6%**



Hypothetical example assumes the product and index allocation options were available during the following time period: 1/1/2005 – 12/31/2023. The time period represents the longest common period of historical data available for the index.

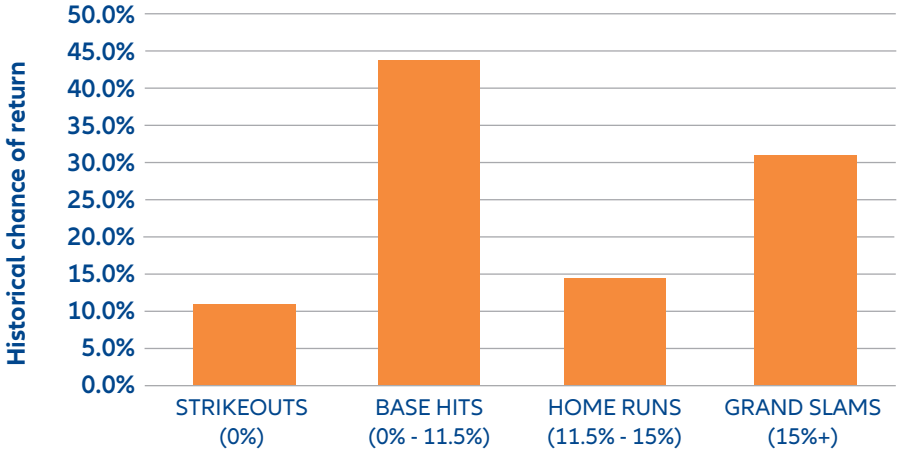
These charts represent past hypothetical results only and are based on current rates: PIMCO Tactical Balanced ER Index APP 190% participation rate, Bloomberg US Dynamic Balance II ER Index APP 195% participation rate, and with a .90% bonus. No single crediting method consistently delivers the most interest under all market conditions. These illustrations are hypothetical in nature. Because the life insurance product and indexes did not exist during the entire time frame illustrated, this chart represents hypothetical historical information only and reflects current participation and annual floor rates which are not guaranteed. Actual participation rates that could have been applied over this time frame would have been different from the figures shown here, and in some cases could have been dramatically different depending on a number of factors, including market conditions. These figures represent hypothetical historical results only, are not indicative of future results, and may not be used to predict future results.

Bonused products may include higher surrender charges, longer surrender periods, lower caps, or other restrictions that are not included in similar products that don't offer a bonus. The index allocations that offer the interest bonus will generally have lower caps and participation rates. Not all bonuses guarantee that a policy will be credited with an interest bonus every year as some are based on the growth of an index.

Moderate: "Limit strikeouts"
50% Bloomberg US Dynamic Balance II ER Index / 50% PIMCO Tactical Balanced ER Index / Bonused allocations
Based on assumptions detailed below, this allocation could limit the potential for strikeouts to 10.9%, while still providing the potential to hit grand slams about 30.9% of the time. This specific strategy seeks to provide a level of consistency in potential interest credits whether it's base hits, home runs, or grand slams. It also captures the additional opportunity provided with the 15% annual bonus.

Hypothetical historical chance of potential interest credits:

Strikeouts (0%)	10.9%
Base hits (0% - 11.5%)	43.7%
Home runs (11.5% - 15%)	14.6%
Grand slams (15%+)	30.9%
AVERAGE ANNUAL INTEREST CREDIT	**10.8%**



Hypothetical example assumes the product and index allocation options were available during the following time period: 1/1/2005 – 12/31/2023. The time period represents the longest common period of historical data available for the index.

These charts represent past hypothetical results only and are based on current rates: PIMCO Tactical Balanced ER Index APP 185% participation rate, and Bloomberg US Dynamic Balance II ER Index APP 190% participation rate with 15% bonus. No single crediting method consistently delivers the most interest under all market conditions. These illustrations are hypothetical in nature. Because the life insurance product and indexes did not exist during the entire time frame illustrated, this chart represents hypothetical historical information only and reflects current participation and annual floor rates which are not guaranteed. Actual participation rates that could have been applied over this time frame would have been different from the figures shown here, and in some cases could have been dramatically different depending on a number of factors, including market conditions. These figures represent hypothetical historical results only, are not indicative of future results, and may not be used to predict future results.

What is your risk tolerance? *continued ...*

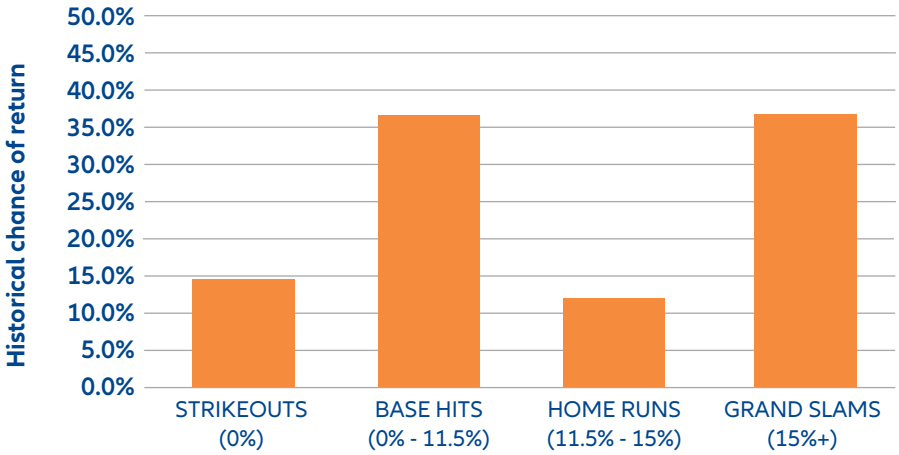
Aggressive: "Swing for the fences"

50% Bloomberg US Dynamic Balance II ER Index / 50% PIMCO Tactical Balanced ER Index / Select allocations

"Swing for the fences" is designed to help provide the potential for higher interest credits with the Select bonus opportunity, but may have higher potential for strikeouts. You take the added risk with the 1% annual asset charge; however, you have greater accumulation potential with a 40% annual bonus. You need to be comfortable with the possibility of more zeros, but you have the opportunity for more home runs and grand slams.

Hypothetical historical chance of potential interest credit:

Strikeouts (0%)	14.5%
Base hits (0% - 11.5%)	36.6%
Home runs (11.5% - 15%)	12.1%
Grand slams (15%+)	36.8%
AVERAGE ANNUAL INTEREST CREDIT	**11.7%**



About hypothetical historical depictions

The PIMCO Tactical Balanced ER Index was launched on August 2, 2018 and the Bloomberg US Dynamic II ER Index was launched on August 9, 2018. All information presented prior to these launch dates is hypothetical (back-tested), and back-tested performance is not actual performance. The back-tested performance is based on the methodology and mechanics of the index retroactively applied to historical market data, as if the index had previously existed, to generate hypothetical performance during the periods of time depicted. This back-tested performance for any constituent that makes up the index may have actual performance and history, and it will also have back-tested data for any period prior to its inception. Back-tested performance may not be a reliable indicator of future results. Prospective application of the methodology and mechanics of the index may not result in performance commensurate with the back-tested returns shown.

In an effort to help the Bloomberg US Dynamic II ER Index achieve the target volatility, the index was changed as of April 21, 2020 so that the index weights may not add up to 100% in times of extreme volatility; therefore, any historical depictions including index weights and hypothetical returns will not include this change for data prior to April 21, 2020.

Hypothetical example assumes the product and index allocation options were available during the following time period: 1/1/2005 – 12/31/2023.

These charts represent past hypothetical results only and are based on current rates: Bloomberg US Dynamic II ER Index 180% participation rate, PIMCO Tactical Balanced ER Index 180% participation rate with a 40% bonus and 1% annual asset charge. No single crediting method consistently delivers the most interest under all market conditions. These illustrations are hypothetical in nature. Because the life insurance product and indexes did not exist during the entire time frame illustrated, this chart represents hypothetical historical information only and reflects current participation and annual floor rates which are not guaranteed. Actual participation rates that could have been applied over this time frame would have been different from the figures shown here, and in some cases could have been dramatically different depending on a number of factors, including market conditions. These figures represent hypothetical historical results only, are not indicative of future results, and may not be used to predict future results.

ASK YOUR FINANCIAL PROFESSIONAL for help in creating a diversified strategy within your FIUL policy.

FIUL requires qualification through health and financial underwriting.

The indexes available within the policy are constructed to keep track of diverse segments of the U.S. or international markets, or specific market sectors. These indexes are benchmarks only. Indexes can have different constituents and weighting methodologies. Some indexes have multiple versions that can weight components or may track the impact of dividends differently. Although an index may affect your interest credited, you cannot buy, directly participate in, or receive dividend payments from any of them through the policy.

The S&P 500® Index is comprised of 500 stocks representing major U.S. industrial sectors. The Dow Jones Industrial Average is a popular indicator of the stock market based on the average closing prices of 30 active U.S. stocks representative of the overall economy.

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The PIMCO Tactical Balanced ER Index is comprised of the U.S. Equity Futures Custom Index and a bond component comprised of the PIMCO Synthetic Bond ER Index and a duration overlay; the index shifts weighting between them daily based on historical realized volatility of the components. The U.S. Equity Futures Custom Index provides exposure to large cap U.S. stocks in excess of a benchmark rate. The PIMCO Synthetic Bond ER Index is comprised of a small number of derivative instruments designed to provide exposure to U.S. Investment-grade and Treasury bond markets in excess of a benchmark rate.

The "PIMCO Tactical Balanced ER Index" (the "Index") is a rules-based index that tactically allocates across U.S. equity and fixed income markets using quantitative signals. The Index is a trademark of Pacific Investment Management Company LLC ("PIMCO") and has been licensed for use for certain purposes by Allianz Life Insurance Company of North America (the "Company" or "Allianz") with respect to this Allianz product (the "Product"). The Index is the exclusive property of PIMCO and is made and compiled without regard to the needs, including, but not limited to, the suitability or appropriateness needs, as applicable, of the Company, the Product, or any Product owners. The Product is not sold, sponsored, endorsed, or promoted by PIMCO or any other party involved in, or related to, making or compiling the Index.

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PIMCO disclaims all warranties, express or implied, including all warranties of merchantability or fitness for a particular purpose or use. PIMCO shall have no responsibility or liability with respect to the Product.

The Index is comprised of a number of constituents, some of which are owned by entities other than PIMCO. All disclaimers referenced in the Agreement relative to PIMCO also apply separately to those entities that are owners of the constituents of the Index.

The Bloomberg US Dynamic Balance II ER Index is comprised of the Bloomberg US Aggregate Custom RBI Unfunded Index and the Bloomberg US Equity Custom Futures ER Index and shifts weighting daily between them based on realized market volatility. The Bloomberg US Aggregate Custom RBI Unfunded Index is comprised of a portfolio of derivative instruments that are designed to provide exposure to U.S. Investment-grade and Treasury bond markets in excess of a benchmark rate. The Bloomberg US Equity Custom Futures ER Index is designed to provide exposure to large-cap U.S. stocks in excess of a benchmark rate.

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True to our promises so you can be true to yours®

A leading provider of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) bases each decision on a philosophy of being true: **True to our strength** as a key part of a leading global financial organization. **True to our passion** for making wise investment decisions. **True to building a culture** where everyone feels welcomed, included, and valued. And **true to the people we serve,** each and every day.

Through a line of innovative products and a network of trusted financial professionals, and with 3.9 million contracts issued, Allianz helps people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

While we are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises, we believe we make a real difference for our clients. It's why so many people rely on Allianz today and count on us for tomorrow – when they need us most.

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