

AllianzGI Convertible & Income Fund II  
Form N-CSRS  
October 25, 2016  
Table of Contents

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

**10019**  
**(Zip code)**

Edgar Filing: AllianzGI Convertible & Income Fund II - Form N-CSRS

**Lawrence G. Altadonna 1633 Broadway, New York, New York 10019**

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

**Registrant's telephone number, including area code: 212-739-3371**

**Date of fiscal year end: February 28, 2017**

**Date of reporting period: August 31, 2016**

**Table of Contents**

Item 1. Report to Shareholders

AllianzGI Convertible & Income Fund

AllianzGI Convertible & Income Fund II

**Semi-Annual Report**

**August 31, 2016**

**Table of Contents**

Table of Contents

2	3	<u>Letter from the President</u>
4	5	<u>Fund Insights</u>
6	8	<u>Performance &amp; Statistics</u>
9	26	<u>Schedules of Investments</u>
	27	<u>Statements of Assets and Liabilities</u>
	28	<u>Statements of Operations</u>
29	30	<u>Statements of Changes in Net Assets</u>
31	41	<u>Notes to Financial Statements</u>
42	45	<u>Financial Highlights</u>
	46	<u>Annual Shareholder Meeting Results</u>
	47	<u>Changes to the Board of Trustees and Officers/Proxy Voting Policies &amp; Procedures</u>
48	52	<u>Matters Relating to the Trustees - Consideration of the Investment Management &amp; Portfolio Management Agreements</u>
53	54	<u>Privacy Policy</u>

**Table of Contents**

Letter from the President

Thomas J. Fuccillo

*President & CEO*

Dear Shareholder:

The US economy expanded at a moderate pace during the six-month reporting period ended August 31, 2016. Economic activity overseas was mixed and generally lackluster. Against this backdrop, US and international equities generated strong results. In addition, the US bond market posted a positive return during the reporting period.

**For the sixth-month reporting period ended August 31, 2016**

AllianzGI Convertible & Income Fund returned 29.24% on net asset value ( NAV ) and 44.00% on market price.

AllianzGI Convertible & Income Fund II returned 29.83% on NAV and 37.87% on market price. During the six-month period ended August 31, 2016, the Standard & Poor's ( S&P ) 500 Index, an unmanaged index generally representative of the US stock market, rose 13.60% and the BofA Merrill Lynch High Yield Master II Index, an unmanaged index generally representative of the high yield bond market, gained 15.88%. Convertible securities, which share characteristics of both stocks and bonds, also generated strong results. The BofA Merrill Lynch All Convertibles Index, an unmanaged index generally representative of the convertible securities market, returned 13.69%.

US gross domestic product ( GDP ), which is an approximation of the value of goods and services produced in a given country, the broadest measure of economic activity and a key indicator of economic performance, after expanding at a revised 0.9% annualized pace during the fourth quarter of 2015, decelerated to an annualized pace of 0.8% during the first quarter of 2016. The Commerce Department's final reading released after the reporting period had ended showed that GDP grew at an annualized pace of 1.4% for the second quarter of 2016.

At its meeting in December 2015 the US Federal Reserve (the Fed ) raised interest rates for the first time in nearly a decade. More specifically, the US central bank increased the federal funds rate from a range between 0% and 0.25% to a range between 0.25% and 0.50%. However, since that time the Fed has paused increases in interest rates and has downgraded its expectations for growth in the US for 2016. In its official statement following its meeting in July 2016 the Fed said, "The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run."

**Table of Contents**

**Outlook**

Nine years since the financial crisis started, monetary easing is continuing with few signs of an end in sight. This appears to be especially true in a post-Brexit world rife with economic uncertainty and generally weak growth around the world. Against this backdrop, we believe that investor sentiment is likely to be challenged at times. Other questions facing investors are the upcoming November elections in the US and a host of geopolitical issues.

Receive this report electronically and eliminate paper mailings.

To enroll, go to

[us.allianzgi.com/edelivery](http://us.allianzgi.com/edelivery).

In such an environment, we expect investors to be in for a choppy ride. However, in our view it won't be without opportunity, especially for those with long term outlooks, a healthy risk appetite and the latitude to invest actively. As always, we will continue to conduct extensive research and focus on quality and sustainability to help our shareholders navigate the many uncertainties around the globe.

Please note that on October 1, 2016, Allianz Global Investors Fund Management LLC ( AGIFM ), previously the Funds investment manager, merged with and into Allianz Global Investors U.S. LLC ( AllianzGI U.S. ), previously the Funds sub-adviser. In connection with this merger, AllianzGI U.S. succeeded AGIFM as the investment manager of the Funds. The merger did not result in any personnel changes and otherwise had no practical effect on the management of the Funds.

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 are available on our website, [us.allianzgi.com/closedendfunds](http://us.allianzgi.com/closedendfunds).

We thank you for investing with us and we remain dedicated to serving your investment needs.

Sincerely,

Thomas J. Fuccillo  
*President & Chief Executive Officer*

## **Table of Contents**

### **Fund Insights**

#### AllianzGI Convertible & Income Funds

August 31, 2016 (unaudited)

For the period of March 1, 2016 through August 31, 2016, as provided by Doug Forsyth, Portfolio Manager.

For the six-month period ended August 31, 2016, the AllianzGI Convertible & Income Fund and the AllianzGI Convertible & Income Fund II (the Funds ) returned 29.24% and 29.83% on net asset value ( NAV ) and 44.00% and 37.87% on market price, respectively.

### **Market Environment**

The path for the high-yield and convertible markets was higher over the reporting period, experiencing only a brief setback when the UK public voted to exit the European Union ( Brexit ). From an equity and credit perspective, the knee-jerk reaction was rapidly retraced due to the lack of direct impact on the US markets.

During the reporting period, investors gravitated toward riskier assets, and some of the greatest beneficiaries of this trade were high-yield and convertibles, both of which rallied alongside equities. In fact, high-yield (+15.9%, as measured by the BofA Merrill Lynch High Yield Master II Index) and convertible returns (+13.7%, as measured by the BofA Merrill Lynch All Convertibles Index) generally outpaced equity returns (+13.6%, as measured by the S&P 500 Index). In addition, August 2016 marked the seventh consecutive month of positive returns for the high-yield and convertible markets, as investors sought to take advantage of attractive valuations and a compelling total return profile.

Further evidence of the influence of this risk-on trade is apparent when examining the returns for bonds by their credit ratings within the high-yield asset class. The lowest-quality, most distressed issues substantially outperformed

higher-quality bonds. While a supportive fundamental backdrop centered on better-than-feared corporate earnings, and improving credit metrics bolstered demand for high-yield bonds, the outperformance of CCC-rated bonds was in part due to their oversold nature at the start of the first quarter of 2016. This credit dynamic was also evident in the convertible market. While yield-oriented or busted convertibles outperformed both total return convertibles, the lowest quality and most distressed issuers substantially outperformed higher quality bonds.

Strong US Treasury demand, driven by a weak global bond yield environment, also had a positive impact on high-yield and convertibles, as investors sought yield oriented assets.

Fed communications continued to influence sentiment throughout the reporting period as investors feverishly interpreted all of Fed Chair Janet Yellen's remarks, which wavered between hawkish and dovish depending on the month. Outside of the US, aggressive quantitative-easing measures by global central banks remained in place, with European monetary leaders pledging additional support post-Brexit. On balance, this accommodative environment helped support the performance of risk assets over the reporting period.

US economic data continued to be mixed, as certain business sectors profit more during certain stages of an economic cycle, thus causing sector rotations within the markets. Overall, the trend in economic data reinforced the favorable

conditions for high-yield bonds and convertibles.

Finally, improving industry dynamics helped lift the price of crude oil and aided in the stabilization of other commodity prices. This had a positive impact on many energy and materials companies.

4 Semi-Annual Report | August 31, 2016



## **Table of Contents**

### **Portfolio Review**

The Funds provided consistent distributions over the reporting period.

In the convertible sleeve of both funds, sectors that contributed positively to relative performance were consumer discretionary, energy and media. Issue selection was positive in consumer discretionary and media, and an overweight in energy was beneficial. On the other hand, consumer staples, technology and telecom pressured relative performance. Issue selection within all three sectors was the primary detractor.

In the high-yield sleeve of both funds, metals/mining ex steel, steel producers/products and diversified financial services industries helped

relative performance. All three industries exhibited positive issue selection, and an overweight in steel producers/products was beneficial. Conversely, the energy, aerospace/defense and theaters & entertainment hindered relative performance. In energy, an underweight detracted, but issue selection was partially offsetting. Both aerospace/defense and theaters & entertainment underperformed their respective peer group.

### **Outlook**

The short-term forecasts for high-yield and convertibles are challenging. The path for all these markets may be choppy and, at times, may require strong conviction. We believe that investors would be wise to take advantage of lower prices when they present themselves.

August 31, 2016 | Semi-Annual Report **5**

**Table of Contents**

**Performance & Statistics**

AllianzGI Convertible & Income Fund

August 31, 2016 (unaudited)

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	44.00%	29.24%
1 Year	5.11%	3.80%
5 Year	6.71%	8.56%
10 Year	4.15%	5.42%
Commencement of Operations (3/31/03) to 8/31/16	6.89%	7.42%

**Market Price/NAV Performance:**

Commencement of Operations (3/31/03) to 8/31/16

**Market Price/NAV:**

Market Price	\$6.65
NAV <sup>(2)</sup>	\$6.67
Discount to NAV	-0.30%
Market Price Yield <sup>(3)</sup>	11.73%
Leverage <sup>(4)</sup>	37.81%

**S&P Global Ratings\***

(as a % of total investments)

**Table of Contents**

**Performance & Statistics**

AllianzGI Convertible & Income Fund II

August 31, 2016 (unaudited)

<b>Total Return<sup>(1)</sup>:</b>	<b>Market Price</b>	<b>NAV</b>
Six Month	37.87%	29.83%
1 Year	-0.12%	4.11%
5 Year	4.91%	8.58%
10 Year	3.41%	4.68%
Commencement of Operations (7/31/03) to 8/31/16	5.43%	6.27%

**Market Price/NAV Performance:**

Commencement of Operations (7/31/03) to 8/31/16

**Market Price/NAV:**

Market Price	\$5.77
NAV <sup>(2)</sup>	\$5.96
Discount to NAV	-3.19%
Market Price Yield <sup>(3)</sup>	11.79%
Leverage <sup>(4)</sup>	38.23%

**S&P Global Ratings\***

(as a % of total investments)

August 31, 2016 | Semi-Annual Report 7

## Table of Contents

### Performance & Statistics

#### AllianzGI Convertible & Income Funds

August 31, 2016 (unaudited)

#### Notes to Performance & Statistics:

\* Bond 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. Bonds 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. Previous shareholder reports for the Funds displayed bond ratings provided by Moody's Investors Service, Inc.

(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 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 August 31, 2016.

(4) 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).

**8** Semi-Annual Report | August 31, 2016

**Table of Contents****Schedule of Investments**

AllianzGI Convertible &amp; Income Fund

August 31, 2016 (unaudited)

Principal Amount (000s)		Value
<b>Corporate Bonds &amp; Notes 39.3%</b>		
<b>Advertising 0.4%</b>		
\$5,650	Affinion Group, Inc., 7.875%, 12/15/18	\$3,700,750
<b>Aerospace &amp; Defense 1.3%</b>		
7,135	Erickson, Inc., 8.25%, 5/1/20	3,817,225
6,636	Kratos Defense & Security Solutions, Inc., 7.00%, 5/15/19	6,088,530
2,560	TransDigm, Inc., 6.50%, 5/15/25	2,659,200
		12,564,955
<b>Air Freight &amp; Logistics 1.1%</b>		
XPO Logistics, Inc. (a)(b),		
2,830	6.50%, 6/15/22	2,953,813
6,820	7.875%, 9/1/19	7,093,093
		10,046,906
<b>Chemicals 1.4%</b>		
7,500	Chemours Co., 6.625%, 5/15/23	7,237,500
5,745	OMNOVA Solutions, Inc., 7.875%, 11/1/18	5,802,163
		13,039,663
<b>Commercial Services 1.9%</b>		
8,050	Cenveo Corp., 6.00%, 5/15/24 (a)(b)	7,265,125
5,126	DynCorp International, Inc., 11.875%, 11/30/20	3,869,793
7,375	Monitronics International, Inc., 9.125%, 4/1/20	6,858,750
		17,993,668
<b>Commercial Services &amp; Supplies 0.6%</b>		
5,585	West Corp., 5.375%, 7/15/22 (a)(b)	5,466,319
<b>Construction Materials 0.6%</b>		
5,665	US Concrete, Inc., 6.375%, 6/1/24	5,919,925
<b>Consumer Finance 0.9%</b>		
3,210	Navient Corp., 8.45%, 6/15/18	3,506,925
4,935	Springleaf Finance Corp., 8.25%, 10/1/23	5,206,425
		8,713,350
<b>Diversified Financial Services 2.0%</b>		
1,992	Affinion International Holdings Ltd., 7.50%, 7/30/18 (a)(b)	1,802,676
Community Choice Financial, Inc.,		
10,085	10.75%, 5/1/19	5,092,925
7,130	12.75%, 5/1/20 (a)(b)	3,600,650
Nationstar Mortgage LLC / Nationstar Capital Corp.,		
2,500	7.875%, 10/1/20	2,531,250

Edgar Filing: AllianzGI Convertible & Income Fund II - Form N-CSRS

5,300	9.625%, 5/1/19	5,571,625
		18,599,126
	<b>Diversified Telecommunications Services 0.6%</b>	
5,290	Frontier Communications Corp., 10.50%, 9/15/22	5,776,019
	<b>Electrical Components &amp; Equipment 0.8%</b>	
6,980	WireCo WorldGroup, Inc., 9.50%, 5/15/17	7,036,712
	<b>Electronic Equipment, Instruments &amp; Components 0.8%</b>	
7,725	Kemet Corp., 10.50%, 5/1/18	7,763,625
	<b>Entertainment 0.5%</b>	
4,000	Cedar Fair LP / Canada's Wonderland Co. / Magnum Management Corp., 5.375%, 6/1/24	4,250,000

August 31, 2016 | Semi-Annual Report 9

**Table of Contents****Schedule of Investments**

AllianzGI Convertible &amp; Income Fund

August 31, 2016 (unaudited) (continued)

Principal Amount (000s)		Value
	<b>Health Care Providers &amp; Services 2.3%</b>	
\$5,430	DaVita HealthCare Partners, Inc., 5.125%, 7/15/24	\$5,616,656
7,955	Kindred Healthcare, Inc., 8.75%, 1/15/23	8,163,819
	Tenet Healthcare Corp.,	
3,500	5.00%, 3/1/19	3,421,250
4,530	8.125%, 4/1/22	4,609,275
		21,811,000
	<b>Healthcare-Products 1.0%</b>	
8,885	Kinetic Concepts, Inc./KCI USA, Inc., 10.50%, 11/1/18	9,173,762
	<b>Healthcare-Services 0.0%</b>	
300	HCA, Inc., 7.50%, 2/15/22	343,230
	<b>Holding Companies-Diversified 0.6%</b>	
5,865	Horizon Pharma, Inc., 6.625%, 5/1/23	5,821,013
	<b>Hotels, Restaurants &amp; Leisure 1.0%</b>	
8,405	MGM Resorts International, 11.375%, 3/1/18	9,518,662
	<b>Household Durables 0.8%</b>	
5,045	Beazer Homes USA, Inc., 9.125%, 5/15/19	5,114,369
1,800	Lennar Corp., 12.25%, 6/1/17	1,946,250
		7,060,619
	<b>Independent Power &amp; Renewable Electricity Producers 0.9%</b>	
5,585	NRG Energy, Inc., 6.25%, 5/1/24	5,571,037
2,865	TerraForm Power Operating LLC, 5.875%, 2/1/23 (a)(b)	2,890,069
		8,461,106
	<b>Internet &amp; Catalog Retail 0.3%</b>	
2,800	Netflix, Inc., 5.875%, 2/15/25	3,052,000
	<b>Internet Software &amp; Services 1.5%</b>	
	EarthLink Holdings Corp.,	
2,800	7.375%, 6/1/20	2,943,500
3,440	8.875%, 5/15/19	3,530,300
6,805	Rackspace Hosting, Inc., 6.50%, 1/15/24 (a)(b)	7,170,769
		13,644,569
	<b>Iron/Steel 0.9%</b>	
	AK Steel Corp.,	