

KVH INDUSTRIES INC \DE\
Form 10-Q
May 08, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-28082

KVH Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

50 Enterprise Center, Middletown, RI 02842

(Address of principal executive offices)

05-0420589
(IRS Employer

Identification Number)

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(401) 847-3327

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Date	Class	Outstanding shares
May 7, 2007	Common Stock, par value \$0.01 per share	14,996,261

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KVH INDUSTRIES, INC. AND SUBSIDIARY

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****KVH INDUSTRIES, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts, unaudited)

	March 31, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 14,366	\$ 15,781
Marketable securities	39,471	38,958
Accounts receivable, net of allowance for doubtful accounts of \$693 in 2007 and 2006	12,574	10,556
Inventories	8,937	9,043
Prepaid expenses and other assets	584	680
Costs and estimated earnings in excess of billings on uncompleted contracts	128	183
Deferred income taxes	165	165
Total current assets	76,225	75,366
Property and equipment, net	9,989	9,569
Other non-current assets	283	155
Deferred income taxes	3,334	3,334
Total assets	\$ 89,831	\$ 88,424
Current liabilities:		
Accounts payable	\$ 3,452	\$ 2,639
Accrued compensation and employee-related expenses	1,732	2,783
Accrued other	2,398	1,748
Accrued product warranty costs	604	539
Accrued professional fees	419	539
Current portion of long-term debt	125	123
Total current liabilities	8,730	8,371
Long-term debt excluding current portion	2,126	2,158
Deferred revenue	102	99
Total liabilities	10,958	10,628
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 1,000,000 shares; none issued.		
Common stock, \$0.01 par value. Authorized 20,000,000 shares; issued and outstanding 14,986,198 as of March 31, 2007 and 14,866,212 as of December 31, 2006.	150	149
Additional paid-in capital	89,516	88,511
Accumulated deficit	(10,773)	(10,830)
Accumulated other comprehensive loss	(20)	(34)

Total stockholders equity	78,873	77,796
Total liabilities and stockholders equity	\$ 89,831	\$ 88,424

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**ITEM 1. Financial Statements (continued)****KVH INDUSTRIES, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share amounts, unaudited)

	Three months ended March 31,	
	2007	2006
Net sales	\$ 20,397	\$ 20,289
Costs of sales	12,804	11,469
Gross profit	7,593	8,820
Operating expenses:		
Sales, marketing and support	4,012	3,845
Research and development	2,198	2,170
General and administrative	1,784	1,895
(Loss) income from operations	(401)	910
Other income (expense):		
Interest income, net	649	454
Other expense	(13)	(21)
Income before income taxes	235	1,343
Income tax expense	178	89
Net income	\$ 57	\$ 1,254
Per share information:		
Net income per share		
Basic	\$ 0.00	\$ 0.09
Diluted	\$ 0.00	\$ 0.08
Number of shares used in per share calculation:		
Basic	14,908	14,685
Diluted	14,966	14,827

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**ITEM 1. Financial Statements (continued)****KVH INDUSTRIES, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands, unaudited)

	Three months ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 57	\$ 1,254
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	521	480
Deferred income tax		39
Compensation expense related to options and employee stock purchase plan	213	233
Loss (gain) on foreign currency forward exchange contracts	63	(15)
Provision (recovery) for doubtful accounts, net	13	(10)
Changes in operating assets and liabilities:		
Accounts receivable	(2,031)	601
Costs and estimated earnings in excess of billings on uncompleted contracts	55	91
Inventories	106	(1,039)
Prepaid expenses and other assets	96	245
Accounts payable	813	(928)
Accrued expenses	(936)	(621)
Deferred revenue	3	71
Net cash (used in) provided by operating activities	(1,027)	401
Cash flows from investing activities:		
Purchase of marketable securities	(17,713)	(9,159)
Maturities and sales of marketable securities	17,214	8,801
Capital expenditures	(540)	(974)
Other long-term assets	(128)	8
Net cash used in investing activities	(1,167)	(1,324)
Cash flows from financing activities:		
Repayments of long-term debt	(30)	(28)
Proceeds from stock option and employee stock purchase plan	809	761
Net cash provided by financing activities	779	733
Net decrease in cash and cash equivalents	(1,415)	(190)
Cash and cash equivalents at beginning of period	15,781	14,160
Cash and cash equivalents at end of period	\$ 14,366	\$ 13,970
Supplemental disclosure of noncash activity:		
Change in accrued expenses related to contracted building additions	\$ 401	\$
Employee stock purchase plan activity	\$ 7	\$

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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ITEM 1. Financial Statements (continued)

KVH INDUSTRIES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements

(Unaudited, all tabular amounts in thousands except share and per share amounts)

(1) Description of Business

KVH Industries, Inc. (the Company or KVH) develops, manufactures and markets mobile communications products for the land mobile and marine markets, and navigation, guidance and stabilization products for both defense and commercial markets.

KVH's mobile communications products enable customers to receive live digital television, telephone and Internet services in their automobiles, recreational vehicles and marine vessels while in motion via satellite and wireless services. KVH sells its mobile communications products through an extensive international network of retailers, distributors and dealers.

KVH's defense products include tactical navigation systems that provide uninterrupted access to navigation and pointing information in a spectrum of military vehicles, including tactical trucks and light armored vehicles. KVH also offers precision fiber optic gyro-based systems that enable platform stabilization and munitions guidance. KVH's defense products are sold directly to United States (U.S.) and allied governments and government contractors, as well as through an international network of authorized independent sales representatives. In addition, KVH's defense products have numerous commercial applications such as train location control and track geometry measurement systems, industrial robotics and optical stabilization.

(2) Basis of Presentation

The accompanying condensed consolidated financial statements of KVH Industries, Inc. and its wholly owned subsidiary, KVH Europe A/S (collectively, KVH or the Company), have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission regarding interim financial reporting. Given that KVH Europe A/S operates as the Company's European and international distributor, all of its operating expenses are reflected within sales, marketing and support within the accompanying condensed consolidated statements of operations. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation. The condensed consolidated financial statements have not been audited by our independent registered public accounting firm, but include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations, and cash flows for the periods presented. These condensed consolidated financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K filed on March 16, 2007 with the Securities and Exchange Commission. The results for the three months ended March 31, 2007 are not necessarily indicative of operating results for the remainder of the year.

(3) Significant Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions by management affect the Company's revenue recognition, valuation of accounts receivable, valuation of inventory, deferred tax assets, certain accrued expenses and accounting for contingencies.

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances.

Table of Contents**KVH INDUSTRIES, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements****(Unaudited, all tabular amounts in thousands except share and per share amounts)****(4) Stock-Based Compensation**

The Company recognizes stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. Stock-based compensation expense was \$213 and \$233 for the quarter ended March 31, 2007 and March 31, 2006, respectively. As of March 31, 2007, there was approximately \$2.9 million of total unrecognized compensation expense related to stock-based compensation arrangements, which is expected to be recognized over a weighted-average period of 2.99 years.

The Company granted 225,200 stock options under the terms of the 2006 Stock Incentive Plan for the quarter ended March 31, 2007.

The weighted-average fair values per share for all options granted during the three months ended March 31, 2007 and 2006 was \$4.36 per share and \$5.11 per share, respectively. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model. The weighted-average assumptions used to value options as of their grant date were as follows:

	Three months ended	
	March 31,	
	2007	2006
Risk-free interest rate	4.46%	4.39%
Expected volatility	49.6%	54.1%
Expected life (in years)	4.13	4.42
Dividend yield	N/A	N/A

(5) Income Per Common Share

Basic net income per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income per share incorporates the dilutive effect of common stock equivalent options, warrants and other convertible securities, if any, as determined with the treasury-stock accounting method. For the three months ended March 31, 2007 and 2006 common stock equivalents related to options to purchase 1,530,073 and 1,150,760 shares of common stock, respectively, have been excluded from the fully diluted calculation of income per share, as inclusion would be anti-dilutive.

A reconciliation of the basic and diluted weighted average common shares outstanding is as follows:

	Three months ended	
	March 31,	
	2007	2006
Weighted average common shares outstanding - basic	14,907,649	14,684,528
Dilutive common shares issuable in connection with stock plans	58,394	142,921
Weighted average common shares outstanding - diluted	14,966,043	14,827,449

(6) Inventories

Inventories are stated at the lower of cost or market using the first-in first-out costing method. Inventories as of March 31, 2007 and December 31, 2006 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

	March 31, 2007	December 31, 2006
Raw materials	\$ 6,248	\$ 5,553
Finished goods	1,751	2,886
Work in process	938	604
	\$ 8,937	\$ 9,043

Table of Contents**KVH INDUSTRIES, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements****(Unaudited, all tabular amounts in thousands except share and per share amounts)****(7) Comprehensive Income**

Comprehensive income includes net income and other comprehensive income. Other comprehensive income includes certain changes in equity that are excluded from net income. Specifically, the effects of unrealized gains or losses on available-for-sale marketable securities are separately included in accumulated other comprehensive income within stockholders' equity. The Company's comprehensive income for the periods presented is as follows:

	Three months ended March 31,	
	2007	2006
Net income	\$ 57	\$ 1,254
Unrealized gain on available-for-sale securities	14	1
Total comprehensive income	\$ 71	\$ 1,255

(8) Product Warranty

The Company's products carry limited warranties that range from one to two years and vary by product. The warranty period begins on the date of retail purchase by the original purchaser. The Company accrues estimated product warranty costs at the time of sale and any additional amounts are recorded when such costs are probable and can be reasonably estimated. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty repairs and the cost per repair. Warranty and related costs are reflected within sales, marketing and support in the accompanying statements of operations. As of March 31, 2007 and December 31, 2006, the Company had accrued product warranty costs of \$604 and \$539, respectively. The following table summarizes product warranty activity for the periods presented:

	Three months ended March 31,	
	2007	2006
Beginning balance	\$ 539	\$ 611
Charges to expense	430	151
Costs incurred	(365)	(212)
Ending balance	\$ 604	\$ 550

(9) Segment Reporting

Under common operational management, the Company designs, develops, manufactures and markets its navigation, guidance and stabilization and mobile communication products for use in a wide variety of applications. Products are generally sold directly to third-party consumer electronic dealers and retailers, consumer manufacturers, government contractors or directly to U.S. and other foreign government agencies. Primarily, sales originating in North America consist of sales within the United States and Canada and, to a lesser extent, Mexico, Asia/Pacific and some Latin and South American countries. North American sales also include all defense-related product sales throughout the world. Sales originating from the Company's Denmark subsidiary principally consist of sales into all European countries, both inside and outside the

European Union, as well as Africa, the Middle East, India and all countries in Asia.

Table of Contents**KVH INDUSTRIES, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements****(Unaudited, all tabular amounts in thousands except share and per share amounts)****(9) Segment Reporting (Continued)**

The Company operates in two geographic segments, exclusively in the mobile communications, navigation and guidance equipment industry, which it considers to be a single business activity. The Company has two primary product categories: mobile communication and navigation, guidance and stabilization. Mobile communication sales and services include automotive, marine and land mobile communication equipment, such as satellite-based telephone, television and broadband Internet connectivity services. Defense sales and services include sales of commercial marine and defense-related navigation, guidance and stabilization equipment based upon digital compass and fiber optic sensor technology. Defense services also include development contract revenue.

The following table summarizes information regarding the Company's operations by geographic segment:

	Sales Originating From		
	North America	Europe	Total
Three months ended March 31, 2007			
Mobile communication sales to the United States and Canada	\$ 11,369	\$	\$ 11,369
Mobile communication sales to Europe	80	3,747	3,827
Mobile communication sales to other geographic areas	120	739	859
Defense sales to the United States and Canada	3,986		3,986
Defense sales to Europe	226		226
Defense sales to other geographic areas	130		130
Intercompany sales	2,108		2,108
Subtotal	18,019	4,486	22,505
Eliminations	(2,108)		(2,108)
Net sales	\$ 15,911	\$ 4,486	\$ 20,397
Segment net income (loss)	\$ (388)	\$ 445	\$ 57
Depreciation and amortization	\$ 511	\$ 10	\$ 521
Total assets	\$ 85,740	\$ 4,091	\$ 89,831
	Sales Originating From		
	North America	Europe	Total
Three months ended March 31, 2006			
Mobile communication sales to the United States and Canada	\$ 10,702	\$	\$ 10,702
Mobile communication sales to Europe		3,216	3,216
Mobile communication sales to other geographic areas	350	78	428
Defense sales to the United States and Canada	4,510		4,510
Defense sales to Europe	449		449
Defense sales to other geographic areas	984		984
Intercompany sales	1,901		1,901
Subtotal	18,896	3,294	22,190
Eliminations	(1,901)		(1,901)
Net sales	\$ 16,995	\$ 3,294	\$ 20,289

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Segment net income	\$ 1,085	\$ 169	\$ 1,254
Depreciation and amortization	\$ 471	\$ 9	\$ 480
Total assets	\$ 79,308	\$ 3,751	\$ 83,059

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KVH INDUSTRIES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements

(Unaudited, all tabular amounts in thousands except share and per share amounts)

(10) Legal Matters

The Company and certain of its officers are defendants in a class action lawsuit in the U.S. District Court for the District of Rhode Island. The suit asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 under that statute, as well as claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, on behalf of purchasers of our securities in the period October 1, 2003 to July 2, 2004 and seeks certain legal remedies, including compensatory damages. The Teamsters Affiliates Pension Plan has been appointed lead plaintiff. This matter consolidates into one action eight separate complaints filed between July 24, 2004 and September 15, 2004. On January 14, 2005, the defendants filed a motion to dismiss the consolidated complaint for failure to state a claim upon which relief can be granted. The court denied this motion in part and granted it in part.

On October 14, 2005, the defendants answered the consolidated complaint and denied liability and all allegations of wrongdoing. Subsequently, on December 13, 2005, plaintiffs filed a motion for class certification. The motion is pending.

On August 16, 2004, Hamid Mehrvar filed a shareholder's derivative action in the Rhode Island State Superior Court for Newport County against KVH and certain of its officers and directors. The amended complaint asserts state law claims on KVH's behalf arising between October 1, 2003 and the present in connection with the allegations set forth in the class action consolidated complaint in the U.S. District Court described above. On October 7, 2005, the court dismissed Mehrvar's amended complaint without prejudice. By letter dated October 14, 2005, Mehrvar delivered a demand that KVH commence litigation for the same acts alleged in his complaint against the directors and senior officers who served during the period October 1, 2003 to the present. On March 1, 2006, Mehrvar filed a shareholder's derivative action in the Rhode Island State Superior Court for Providence County against KVH and certain of its officers and directors. The complaint asserts state law claims on KVH's behalf arising between October 1, 2003 and the present in connection with the allegations set forth in the class action consolidated complaint in the U.S. District Court described above and seeks certain legal and equitable remedies, including restitution from KVH's directors and officers and corporate governance changes. On June 30, 2006, defendants moved to dismiss the complaint on the basis that plaintiff's complaint failed to adequately allege that demand was wrongfully refused. The motion to dismiss has been voluntarily withdrawn without prejudice to its refiled at a later date.

On June 20, 2005, Yemin Ji filed a shareholder's derivative action in the U.S. District Court for the District of Rhode Island against KVH and certain of its officers and directors, asserting certain federal and state law claims on KVH's behalf arising between October 1, 2003 and the present in connection with the same allegations set forth in the class action consolidated complaint in the U.S. District Court and the Mehrvar complaint described above and seeks certain legal and equitable remedies, including restitution from KVH's directors and officers and corporate governance changes. On August 23, 2005, KVH moved the Court to abstain from exercising jurisdiction and dismiss the action as duplicative of the Mehrvar case. The Court denied this motion. On January 5, 2006, defendants moved to dismiss the complaint on the same grounds on which the Rhode Island state court dismissed the derivative complaint in Mehrvar that was filed on August 16, 2004. The Court granted this motion and dismissed the complaint on August 29, 2006. In late September 2006, Ji filed an appeal of the dismissal with the U.S. Court of Appeals for the First Circuit. The appeal is pending.

In May 2005, Electronic Controlled Systems, Inc., d/b/a King Controls, filed a patent infringement suit against KVH in the U.S. District Court for the District of Minnesota. The three asserted patents relate generally to controlling a satellite dish to acquire a satellite signal. The complaint alleges that KVH willfully infringes the patents and seeks injunctive relief, enhanced damages and attorneys' fees. KVH has denied the allegations and asserted counterclaims, including claims for false advertising. In January 2006, Electronic Controlled Systems, Inc., d/b/a/ King Controls, filed a second patent infringement suit against KVH in the U.S. District Court for the District of Minnesota. The second suit concerns one of the same three patents asserted in the original suit filed in May 2005, alleges that KVH willfully infringes the patent and seeks both preliminary and permanent injunctive relief, enhanced damages and attorneys fees. KVH has denied the allegations and asserted counterclaims. The court denied the plaintiff's motion for a preliminary injunction after a hearing on May 30, 2006. These two cases are now consolidated. An adverse ruling could result in an injunction preventing KVH from selling its TracVision products, other than those using phased-array antennas, and in significant monetary damages based, in part, on sales of those products since at least March 2005. Pursuant to a settlement agreement, the parties stipulated to the dismissal of the false advertising counterclaims. A trial is scheduled for June 2007.

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KVH INDUSTRIES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements

(Unaudited, all tabular amounts in thousands except share and per share amounts)

(11) Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48) was issued. FIN No. 48 applies to all tax positions accounted for under SFAS No. 109, Accounting for Income Taxes (SFAS No. 109) and is effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies what criteria must be met prior to recognition of the financial benefit of a position taken in a tax return. FIN No. 48 requires companies to include additional qualitative and quantitative disclosures within their financial statements. The disclosures include potential tax benefits from positions taken for tax return purposes that have not been recognized for financial reporting purposes and a tabular presentation of significant changes during each period. The disclosures also include a discussion of the nature of uncertainties, factors which could cause a change, and an estimated range of reasonably possible changes in tax uncertainties. FIN No. 48 also requires a company to recognize a financial statement benefit for a position taken for tax return purposes when it will be more-likely-than-not that the position will be sustained.

The Company adopted the provisions of FIN No. 48 effective January 1, 2007. The adoption of FIN No. 48 did not have a material impact to the financial statements of the Company. Additionally, there have been no material changes in unrecognized tax benefits since January 1, 2007. When appropriate, the Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. The Company files tax returns in the United States Federal, state and in the Danish jurisdiction. In general the Company's United States Federal statute of limitation has expired for years prior to 2003 and the relevant state statutes vary. However, preceding years remain open to examination by United States Federal and state taxing authorities to the extent of future utilization of net operating losses and research and development tax credits generated in each preceding year. The Company generally is no longer subject to income tax examinations by the Danish tax authorities for years before 2003.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements, including the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. This statement does not require any new fair value measures; rather, it applies to other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 will be applied prospectively and will be effective for fiscal years beginning after November 15, 2007. The Company does not expect that the adoption of this interpretation will have a material impact on the Company's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option are required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. SFAS No. 159 is effective for the Company in 2008; therefore, we anticipate adopting this standard as of January 1, 2008. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. The Company is currently evaluating the impact, if any, of SFAS No. 159 on its consolidated financial statements.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Introduction**

The statements included in this quarterly report on Form 10-Q, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding our future financial results, operating results, business strategies, projected costs, products, competitive positions and plans, customer preferences, consumer trends, anticipated product development, and objectives of management for future operations. In some cases, forward-looking statements can be identified by terminology such as may, will, should, would, expects, plans, anticipates, believes, estimates, predicts, potential, continue, or the negative of these terms or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the section entitled "Risk Factors" in Item 1A of Part II of this quarterly report. These and many other factors could affect our future financial and operating results, and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by us or on our behalf. For example, our expectations regarding certain items as a percentage of revenue assume that we will achieve our anticipated revenue goals. The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this report.

Overview

We develop, manufacture and market mobile communications products for the land and marine markets, and navigation, guidance and stabilization products for both defense and commercial markets. Our mobile communications products enable customers to receive live digital television, telephone and Internet services in their automobiles, recreational vehicles and marine vessels while in motion via satellites and wireless services. We sell our mobile communications products through an extensive international network of independent retailers, distributors, and dealers. Our defense products include tactical navigation systems that provide uninterrupted access to navigation and pointing information in a spectrum of military vehicles, including tactical trucks (HMMWVs) and light armored vehicles. We also offer precision fiber optic gyro-based systems that enable stabilization and munitions guidance. We sell our defense products directly to U.S. and allied governments and government contractors, as well as through an international network of authorized independent sales representatives.

We generate revenue primarily from the sale of our mobile communications and defense products and services. The following table provides, for the periods indicated, our net sales by product line category.

	Three months ended March 31,	
	2007	2006
	(in thousands)	
Mobile communications	\$ 16,055	\$ 14,346
Defense	4,342	5,943
Net sales	\$ 20,397	\$ 20,289

In addition to revenue from product sales, our mobile communications revenue includes revenue earned from product repairs, revenue from satellite phone and Internet usage services, and certain DIRECTV account referral fees earned in conjunction with the sale of our products. We provide, for a fee, third-party satellite phone and Internet airtime to our TracPhone and Internet customers who choose to activate their subscriptions with us. Under current DIRECTV programs, we are eligible to receive a one-time, new mobile account activation fee from DIRECTV for each customer who activates their DIRECTV service directly through us. Our defense revenue primarily includes product sales to both military and commercial markets and, to a lesser extent, revenue from product repairs and engineering services provided under development contracts. To date, our non-product revenue such as: revenues earned from product repairs, satellite phone, engineering services under development contracts, Internet usage services and DIRECTV activations have not been a material portion of our revenue individually. In the aggregate, such revenues represented approximately 9% and 7% of total net sales for the three months ended March 31, 2007 and 2006, respectively.

Our defense business is characterized by a small number of customers who place a small number of relatively large dollar value orders. Orders for our defense products typically range in size from several hundred thousand dollars to over one million dollars. Accordingly, our quarterly net sales of defense products usually consist of a relatively small number of orders. Each order can have a significant impact on our net sales, and because our defense products generally have higher direct margins than our mobile communications products, each order can have an impact on our net income that is disproportionately large relative to the revenue generated by the order.

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We have historically derived a substantial portion of our revenue from sales to customers located outside the United States and Canada. Note 9 of the notes to the condensed consolidated financial statements provides information regarding our sales to specific geographic regions.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure at the date of our financial statements. Our significant accounting policies are summarized in note 1 of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006.

As described in our Form 10-K for the year ended December 31, 2006, our most critical accounting policies and estimates upon which our consolidated financial statements were prepared were those relating to revenue recognition, allowances for accounts receivable, inventories, income taxes and contingencies. We have reviewed our policies and determined that these remain our most critical accounting policies for the quarter ended March 31, 2007. Readers should refer to our 2006 Form 10-K for the detailed descriptions of these policies.

Results of Operations

The following table provides, for the periods indicated, certain financial data expressed as a percentage of net sales:

	Three months ended	
	March 31,	
	2007	2006
Net sales	100.0%	100.0%
Costs of sales	62.8	56.5
Gross profit	37.2	43.5
Operating expenses:		
Sales, marketing and support	19.7	19.0
Research and development	10.8	10.7
General and administrative	8.7	9.3
Total operating expenses	39.2	39.0
(Loss) income from operations	(2.0)	4.5
Other income, net	3.1	2.1
Income before income tax expense	1.1	6.6
Income tax expense	(0.9)	(0.4)
Net income	0.2%	6.2%

Three Months Ended March 31, 2007 and 2006***Operating Summary***

Net income for the three months ended March 31, 2007 was \$0.1 million, or \$0.00 per diluted common share, as compared to net income of \$1.3 million, or \$0.08 per diluted common share for the three months ended March 31, 2006. The primary factor behind the decrease in net income was attributable to a \$1.6 million, or 27% decrease in sales of our defense-related products, which included a \$2.7 million, or 80%, decrease in our relatively higher margin military navigation product sales, driven largely by decreased sales volume related to our TACNAV products. The decrease in military navigation product sales significantly impacted an overall decrease in gross profit of \$1.2 million, or 14% for the three months ended March 31, 2007, as compared to the three months ended March 31, 2006. The decrease in gross profit was also impacted by incremental new product start-up expenses, including a switch to new fiber optic components that were initially more costly than expected, but are anticipated to generate improved manufacturing yields. The decrease in gross profit was partially offset by an increase in sales of our mobile

communications products of \$1.7 million, or 12%, to \$16.1 million.

Net Sales

Net sales for the three months ended March 31, 2007 increased \$0.1 million, or 1%, to \$20.4 million from \$20.3 million for the three months ended March 31, 2006. The primary reason for the improvement was an increase in sales of our mobile communications products of \$1.7 million, or 12%, to \$16.1 million. Specifically, for the three months ended March 31, 2007,

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sales of our marine products increased \$1.0 million, or 10%, to \$10.8 million. This increase was a result of demand for our new TracVision M3 DX satellite TV system that was launched in the first quarter of 2007. Also contributing to the improvement was an increase in sales of our land mobile communications products of \$0.7 million, or 16%. The improvement in mobile communications sales was concentrated largely outside the United States and Canada. Sales of mobile communications products outside the United States and Canada increased by approximately \$1.0 million, or 29%, while sales in the United States and Canada increased by approximately \$0.7 million, or 6%.

Sales of our defense-related products decreased by \$1.6 million, or 27%, to \$5.9 million. Specifically, sales of our military navigation products decreased \$2.7 million, or 80%, driven largely by decreased demand and sales volume related to our TACNAV products. Offsetting the decrease was an increase in sales of our fiber optic gyro products of \$0.9 million, or 53%, driven primarily by increased sales in support of the U.S. Navy's MK54 torpedo program and the U.S. Army's remotely operated weapons station program. Also contributing to the improvement was an increase in contract engineering revenue, repair work and legacy navigation products of \$0.2 million.

Cost of Sales

For the three months ended March 31, 2007, cost of sales increased by \$1.3 million, or 12%, to \$12.8 million. The primary reason for the increase, as discussed above, is due to a shift in sales mix toward our relatively lower margin mobile communications products during the three month period ended March 31, 2007.

Gross margin for the three months ended March 31, 2007 decreased to 37% from 44% for the three-month period ended March 31, 2006. The primary reason for the decrease in gross margin was the overall decrease in net sales of our relatively higher margin defense-related products during the quarter ended March 31, 2007. Given that we expect second quarter 2007 defense-related revenue to increase, we expect that gross margin percentage in the second quarter will improve from first quarter levels.

Operating Expenses

Sales, marketing and support expense for the three months ended March 31, 2007 increased by \$0.2 million, or 4%, to \$4.0 million from \$3.8 million for the three months ended March 31, 2006. As a percentage of net sales, sales, marketing and support expense increased during the quarter ended March 31, 2007 to 20% from 19% for the quarter ended March 31, 2006. The primary reason for the increase in 2007 is a number of new product introductions in the quarter, both in the United States and internationally, coupled with an increase in warranty costs associated with mobile communications products. We anticipate that, for the second quarter of 2007, sales and marketing expense as a percentage of revenue will be below first quarter levels.

Research and development expense for the three months ended March 31, 2007 was \$2.2 million, which was consistent with the expense incurred for the three months ended March 31, 2006. As a percentage of net sales, research and development expense remained fairly consistent on a quarter over quarter basis, representing 11% for both the three months ended March 31, 2007 and 2006. Our overall spending in 2007 continues to be focused on sustaining our existing product base and advancing new products. We anticipate that, for the second quarter of 2007, research and development expense as a percentage of revenue will remain at or slightly below first quarter levels.

General and administrative expense for the three months ended March 31, 2007 decreased by \$0.1 million, or 6%, to \$1.8 million from \$1.9 million, for the three months ended March 31, 2006. As a percentage of net sales, general and administrative expense remained fairly consistent on a quarter over quarter basis, representing 9% for both the three months ended March 31, 2007 and 2006. We anticipate that, for the second quarter of 2007, general and administrative expense as a percentage of revenue will be well above first quarter levels, primarily due to increased legal expenses to be incurred related to our patent infringement lawsuit, which we expect may go to trial as early as June 2007 (see Part II, Item 1. Legal Proceedings). We anticipate the additional legal expenses related to this litigation will be in excess of \$1.0 million in the second quarter.

Interest and Other Income, Net

Interest and other income, net for the three months ended March 31, 2007, increased by \$0.2 million to \$0.6 million from \$0.4 million for the three months ended March 31, 2006. The primary reason for the increase is due to increased interest income in 2007 on cash and marketable securities of \$0.2 million, resulting from improved interest rates, and a higher average amount of cash invested in marketable securities during the quarter ended March 31, 2007.

Table of Contents***Income Taxes***

Income tax expense for the three months ended March 31, 2007 increased by \$0.1 million to \$0.2 million from \$0.1 million for the three months ended March 31, 2006. Tax expense for the quarter ended March 31, 2007 relates to foreign income tax due based on pre-tax income generated from our wholly owned subsidiary in Denmark. The primary reason for the increase in 2007 was an increase of \$0.4 million in pre-tax income from our Danish subsidiary. We expect that substantially all of our 2007 taxable income generated from our U.S. operations will be offset by both federal and state net operating losses generated by us in prior years. Accordingly, we expect that any tax expense generated by our U.S. operations in 2007 will be made up primarily of federal alternative minimum tax and to a lesser extent certain state tax expense. Taxable income generated by our subsidiary in Denmark will be subject to taxation at the Danish statutory rates as we have no net operating loss carry-forwards or tax credits available to offset current or future taxable income in that jurisdiction.

Liquidity and Capital Resources

We have historically funded our operations primarily from product sales, net proceeds from public and private equity offerings, bank financings and proceeds received from exercises of stock options. As of March 31, 2007, we had \$53.8 million in cash, cash equivalents and marketable securities and \$67.4 million in working capital.

Net cash used in operations was \$1.0 million for the three months ended March 31, 2007 as compared to net cash generated from operations of \$0.4 million for the three months ended March 31, 2006. The decrease is primarily due to a \$2.6 million decrease in cash inflows attributable to changes in accounts receivable, coupled with a \$1.2 million decrease in net income. This decrease in cash generations was partially offset by a \$1.7 million decrease in cash outflows related to increases in accounts payable and a \$1.1 million decrease in cash outflows resulting from reduced inventory purchasing.

Net cash used in investing activities was \$1.2 million for the three months ended March 31, 2007 as compared to net cash used in investing activities of \$1.3 million for the three months ended March 31, 2006. The slight decrease is primarily due to a \$0.4 million decrease in capital expenditures related predominately to manufacturing and other equipment, partially offset by a \$0.1 million increase in our net investment in marketable securities, coupled with a \$0.1 million increase in investments in non-current assets related to customer deposits.

Net cash provided by financing activities was \$0.8 million for the three months ended March 31, 2007 as compared to net cash provided by financing activities of \$0.7 million for the three months ended March 31, 2006. The primary reason for the slight increase was an increase in proceeds received from the exercise of employee stock options.

On January 11, 1999, we entered into a mortgage loan in the amount of \$3.0 million. The loan term is 10 years, with a principal amortization of 20 years at a fixed rate of interest of 7.0%. Land, building and improvements secure the mortgage loan. The monthly mortgage payment is \$23,259, including interest and principal. Due to the difference in the term of the loan and amortization of the principal, a balloon payment of \$2.0 million is due on February 1, 2009. Under the mortgage loan we may prepay our outstanding loan balance subject to certain early termination charges as defined in the mortgage loan agreement.

Currently, we have a revolving loan agreement with a bank that provides for a maximum available credit of \$15.0 million that expires on December 31, 2008. We pay interest on any outstanding amounts at a rate equal to, at our option, LIBOR plus 1.5%, or the greater of either the Federal Funds Effective Rate plus 0.5% or the bank's prime interest rate. The line of credit contains two financial covenants, a Leverage Ratio and a Fixed Charge Ratio, that apply in the event that our consolidated cash, cash equivalents and marketable securities balance falls below \$25.0 million at any time. We may terminate the loan agreement prior to its full term without penalty, provided we give 30 days advance written notice to the bank. As of March 31, 2007, no borrowings were outstanding under the facility.

We are a defendant in a lawsuit brought by Electronic Controlled Systems, Inc., d/b/a King Controls, alleging infringement of three of its patents. A trial is scheduled for June 2007. An adverse ruling could result in an injunction preventing KVH from selling its TracVision products, other than those using phased-array antennas, and in significant monetary damages based, in part, on sales of those products since at least March 2005.

In the first quarter of 2007, we commenced a construction project to have significant renovations performed on our corporate headquarters in Middletown, Rhode Island. Currently, we estimate the total construction costs to the building will be approximately \$2.0 million, of which approximately \$0.1 million of these construction costs have been paid and \$0.4 million have been accrued as of March 31, 2007. We anticipate the remaining construction expenditures will be incurred in the second and third quarters of 2007 and will be paid with available cash on hand.

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We believe that the \$53.8 million we hold in cash, cash equivalents and marketable securities, together with our other existing working capital, will be adequate to meet planned operating and capital requirements through the foreseeable future. However, as the need or opportunity arises, we may seek to raise additional capital through public or private sales of securities or through additional debt financing. There are no assurances that we will be able to obtain any additional funding or that such funding will be available on terms acceptable to us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure is in the area of foreign currency exchange risk. We are exposed to currency exchange rate fluctuations related to our subsidiary operations in Denmark. Certain functions in Denmark are transacted in the Danish Krone or Euro, yet reported in the U.S. dollar, the functional currency. For foreign currency exposures existing at March 31, 2007, a 10% unfavorable movement in the foreign exchange rates for our subsidiary location would not expose us to material losses in earnings or cash flows.

From time to time, we purchase foreign currency forward exchange contracts generally having durations of no more than four months. These forward exchange contracts are intended to offset the impact of exchange rate fluctuations on cash flows of our foreign subsidiary. Forward exchange contracts are accounted for as cash flow hedges and are recorded on the balance sheet at fair value until executed. Changes in the fair value are recognized in earnings. For the quarter ended March 31, 2007 we recorded a loss of \$63,000 related to these contracts. Such loss is reflected within other expense in our 2006 condensed consolidated statement of operations for the three months ended March 31, 2007. As of March 31, 2007, we had two Euro to U.S. dollar forward currency exchange contracts outstanding with a total fair value loss of \$35,000.

The primary objective of our investment activities is to preserve principal and maintain liquidity, while at the same time maximize income. We have not entered into any instruments for trading purposes. Some of the securities that we invest in may have market risk. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, investment grade asset-backed corporate securities, money market funds and government agency and non-government debt securities. As of March 31, 2007, a hypothetical 100 basis-point increase in interest rates would result in an approximate \$39,000 decrease in the fair value of our investments that have maturities of greater than one year. Due to the conservative nature of our investments, the relatively short duration of their maturities, our ability to either convert some or all of our long-term investments to less interest rate-sensitive holdings or hold most securities until maturity, we believe interest rate risk is mitigated. As of March 31, 2007, approximately 85% of the \$39.4 million classified as available-for-sale marketable securities will mature or reset within one year. We do not invest in any financial instruments denominated in foreign currencies. Accordingly, interest rate risk is not considered material.

To the extent that we borrow against our variable-rate credit facility, we will be subject to interest rate risk. There were no borrowings outstanding at March 31, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our president and chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our president and chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that we record, process, summarize and report the information we must disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, within the time periods specified in the SEC's rules and forms.

The effectiveness of a system of disclosure controls and procedures is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of internal controls, and the risk of fraud. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2007, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

We are a defendant in a class action lawsuit in the U.S. District Court for the District of Rhode Island in which we and certain of our officers are named as defendants. The suit asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 under that statute, as well as claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, on behalf of purchasers of our securities in the period from October 1, 2003 to July 2, 2004 and seeks certain legal remedies, including compensatory damages. The Teamsters Affiliates Pension Plan has been appointed lead plaintiff. This matter consolidates into one action eight separate complaints filed between July 24, 2004 and September 15, 2004. On January 14, 2005, the defendants filed a motion to dismiss the consolidated complaint for failure to state a claim upon which relief can be granted. The court denied this motion in part and granted it in part.

On October 14, 2005, the defendants answered the consolidated complaint and denied liability and all allegations of wrongdoing. Subsequently, on December 13, 2005, plaintiffs filed a motion for class certification. The motion is pending.

On August 16, 2004, Hamid Mehrvar filed a shareholder's derivative action in the Rhode Island State Superior Court for Newport County against us and certain of our officers and directors. The amended complaint asserts state law claims on our behalf arising between October 1, 2003 and the present in connection with the allegations set forth in the class action consolidated complaint in the U.S. District Court described above. On October 7, 2005, the court dismissed Mehrvar's amended complaint without prejudice. By letter dated October 14, 2005, Mehrvar delivered a demand that we commence litigation for the same acts alleged in his complaint against the directors and senior officers who served during the period from October 1, 2003 to the present. On March 1, 2006, Mehrvar filed a shareholder's derivative action in the Rhode Island State Superior Court for Providence County against us and certain of our officers and directors. The complaint asserts state law claims on our behalf arising between October 1, 2003 and the present in connection with the allegations set forth in the class action consolidated complaint in the U.S. District Court described above and seeks certain legal and equitable remedies, including restitution from our directors and officers and corporate governance changes. On June 30, 2006, the defendants moved to dismiss the complaint on the basis that the plaintiff's complaint failed to adequately allege that demand was wrongfully refused. The motion to dismiss has been voluntarily withdrawn without prejudice to its refiled at a later date.

On June 20, 2005, Yemin Ji filed a shareholder's derivative action in the U.S. District Court for the District of Rhode Island against us and certain of our officers and directors, asserting certain federal and state law claims on our behalf arising between October 1, 2003 and the present in connection with the same allegations set forth in the class action consolidated complaint in the U.S. District Court and the Mehrvar complaint described above and seeks certain legal and equitable remedies, including restitution from our directors and officers and corporate governance changes. On August 23, 2005, we moved the Court to abstain from exercising jurisdiction and dismiss the action as duplicative of the Mehrvar case. The Court denied this motion. On January 5, 2006, the defendants moved to dismiss the complaint on the same grounds on which the Rhode Island state court dismissed the derivative complaint in Mehrvar that was filed on August 16, 2004. The Court granted this motion and dismissed the complaint on August 29, 2006. In late September 2006, Ji filed an appeal of the dismissal with the U.S. Court of Appeals for the First Circuit. The appeal is pending.

In May 2005, Electronic Controlled Systems, Inc., d/b/a King Controls, filed a patent infringement suit against us in the U.S. District Court for the District of Minnesota. The three asserted patents relate generally to controlling a satellite dish to acquire a satellite signal. The complaint alleges that we willfully infringe the patents and seeks injunctive relief, enhanced damages and attorneys' fees. We have denied the allegations and asserted counterclaims, including claims for false advertising. In January 2006, Electronic Controlled Systems, Inc., d/b/a/ King Controls, filed a second patent infringement suit against us in the U.S. District Court for the District of Minnesota. The second suit concerns one of the same three patents asserted in the original suit filed in May 2005, alleges that we willfully infringe the patent and seeks both preliminary and permanent injunctive relief, enhanced damages and attorneys fees. We have denied the allegations and asserted counterclaims. The court denied the plaintiff's motion for a preliminary injunction after a hearing on May 30, 2006. These two cases are now consolidated. An adverse ruling could result in an injunction preventing us from selling our TracVision products, other than those using phased-array antennas, and in significant monetary damages based, in part, on sales of those products since at least March 2005. Pursuant to a settlement agreement, the parties stipulated to the dismissal of the false advertising counterclaims. A trial is scheduled for June 2007.

Additionally, in the ordinary course of business, we are a party to inquiries, legal proceedings and claims including, from time to time, disagreements with vendors and customers.

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ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors in evaluating our business. If any of these risks, or other risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition and results of operations could be adversely affected. If that happens, the market price of our common stock could decline.

We have a history of variable operating results and may not be profitable in the future.

Although we generated net income during 2005 and 2006, and in thirteen of the last seventeen fiscal quarters, we incurred net losses of \$6.1 million in 2004 and at times our profitability has fluctuated significantly on both a sequential and comparable quarter-to-quarter basis during 2005, 2006, and in the first quarter of 2007. As of March 31, 2007, we had an accumulated deficit of \$10.8 million.

Shifts in our product sales mix toward our mobile communications products may continue to reduce our overall gross margins.

Our mobile communications products historically have had lower product gross margins than our defense products. During the year ended December 31, 2006, and the first quarter of 2007, sales of our defense products either declined or grew at a substantially lower rate than our overall sales growth, resulting in a small decline in our overall gross margin compared with the prior period. Although sales of defense products in each of 2006 and 2005 were slightly higher than the prior year, during 2004, sales of our defense products declined in the first quarter of 2007 compared to the first quarter of 2006. A continuing shift in our product sales mix toward mobile communications products would likely cause lower gross margins in the future.

Pending patent litigation will cause us to incur substantial expenses to defend ourselves and could lead to a substantial judgment against us and/or an injunction preventing us from selling certain of our products.

We are a defendant in a lawsuit brought by Electronic Controlled Systems, Inc., d/b/a King Controls, alleging infringement of three of its patents by certain of our TracVision mobile satellite communications products. A trial is scheduled for June 2007. We are defending ourselves vigorously against these claims, and we expect that we will incur substantial expenses during the second quarter of 2007 and, depending on the length of the trial and its outcome, in subsequent quarters. There can be no assurance that the trial will not be postponed, that we will not have to pay significant damages or amounts in settlement, that we will not be enjoined from selling certain of our mobile satellite communications products, or that the suit will not otherwise have a materially adverse effect on our operations or financial performance.

Competition may limit our ability to sell our mobile communications products and defense products.

The mobile communications markets and defense navigation, guidance and stabilization markets in which we participate are very competitive, and we expect this competition to persist and intensify in the future. We may not be able to compete successfully against current and future competitors, which could impair our ability to sell our products. To remain competitive, we must enhance our existing products and develop new products, and we may have to reduce the prices of our products. Moreover, new competitors may emerge, and entire product lines may be threatened by new technologies or market trends that reduce the value of those product lines. For example, improvements in less expensive wireless and cellular technologies may limit demand for land-based satellite telephone and Internet services. Likewise, emerging services like BGAN and maritime VSAT may be disruptive to existing marine Internet, data, and communication services that we currently support.

In the defense navigation, guidance and stabilization markets, we compete primarily with Honeywell International Inc., Kearfott Guidance & Navigation Corporation, Leica Microsystems AG, Northrop Grumman Corporation and Smiths Group plc.

In the market for mobile satellite communications products, we compete with a variety of companies. In the land mobile market for satellite TV communications equipment, we compete directly with King Controls, MotoSAT, TracStar Systems, Inc., and Winegard Company. There is also potential competition for sales of satellite TV to the automotive market from RaySat, Audiovox, Sirius Satellite Radio, Winegard, and Delphi.

In the marine market for satellite TV communications equipment, we compete with NaviSystem Marine Electronic Systems Srl, King Controls, Sea Tel, Inc., and Raymarine. In the marine market for telephone, fax, data and Internet communications equipment, we compete with Furuno Electric Co., Ltd., Globalstar LP, Iridium Satellite LLC, and Japan Radio Company.

In the mobile Internet market, we may compete with such products as single-user EVDO cards for use with individual laptops; EVDO/WiFi hubs such as those manufactured by Kyocera and Top Global; proposed WiMAX services in urban areas; and Internet-via-satellite systems proposed by companies such as RaySat. Moreover, new competitors may surface in the future. Among the factors that may affect our ability to compete in our markets are the following:

many of our primary competitors are well-established companies that could have substantially greater financial, managerial, technical, marketing, personnel and other resources than we do;

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product improvements or price reductions by competitors may weaken customer acceptance of our products; and

our competitors may have lower production costs than we do, which may enable them to compete more aggressively in offering discounts and other promotions.

Customers for TACNAV and our other defense products include the U.S. military and foreign governments, whose purchasing and delivery schedules and priorities are often unpredictable.

We sell TACNAV and our other defense products to the U.S. military and foreign military and government customers. These customers have unique purchasing and delivery requirements, which often make sales to these customers unpredictable. Factors that affect their purchasing and delivery decisions include:

changes in modernization plans for military equipment;

changes in tactical navigation requirements;

priorities for current battlefield operations;

allocation of funding for military programs;

	Entertainment 1.4%	
2,030	Live Nation Entertainment, Inc., 2.50%, 3/15/23 (a)(b)	2,137,546
1,135	Marriott Vacations Worldwide Corp., 1.50%, 9/15/22 (a)(b)	1,177,132
		3,314,678
	Equity Real Estate Investment Trusts (REITs) 0.8%	
1,690	Extra Space Storage L.P., 3.125%, 10/1/35 (a)(b)(g)	1,870,416
	Healthcare-Products 1.9%	
1,890	Insulet Corp., 1.375%, 11/15/24 (a)(b)(g)	2,061,534
2,539	Wright Medical Group, Inc., 1.625%, 6/15/23 (a)(b)	2,511,800
		4,573,334
	Healthcare-Services 2.1%	
695	Anthem, Inc., 2.75%, 10/15/42 (g)	2,415,141
560	Molina Healthcare, Inc., 1.125%, 1/15/20	1,440,211
940	Teladoc, Inc., 1.375%, 5/15/25 (a)(b)(g)	1,216,939
		5,072,291
	Insurance 0.6%	
1,390	AXA S.A., 7.25%, 5/15/21 (a)(b)	1,522,517
	Internet 7.6%	
1,220	Altaba, Inc., zero coupon, 12/1/18 (g)	1,664,434
1,325	Booking Holdings, Inc., 0.90%, 9/15/21 (g)	1,574,595
1,320	Ctrip.com International Ltd., 1.00%, 7/1/20	1,309,848
1,525	IAC FinanceCo., Inc., 0.875%, 10/1/22 (a)(b)(g)	1,725,190
895	Okta, Inc., 0.25%, 2/15/23 (a)(b)(g)	1,091,571
2,010	Palo Alto Networks, Inc., 0.75%, 7/1/23 (a)(b)(g)	1,983,948

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Internet (continued)	
\$1,310	Pandora Media, Inc., 1.75%, 12/1/23 (g)	\$1,289,695
825	Q2 Holdings, Inc., 0.75%, 2/15/23 (a)(b)(g)	962,615
1,120	RingCentral, Inc., zero coupon, 3/15/23 (a)(b)(g)	1,219,546
940	Twilio, Inc., 0.25%, 6/1/23 (a)(b)(g)	990,300
1,155	Twitter, Inc., 0.25%, 6/15/24 (a)(b)	1,053,454
960	Wix.com Ltd., zero coupon, 7/1/23 (a)(b)	920,584
1,130	Zendesk, Inc., 0.25%, 3/15/23 (a)(b)(g)	1,222,437
1,235	Zillow Group, Inc., 1.50%, 7/1/23	1,231,383
		18,239,600
	Iron/Steel 0.7%	
615	Allegheny Technologies, Inc., 4.75%, 7/1/22 (g)	1,271,400
310	Cleveland-Cliffs, Inc., 1.50%, 1/15/25	446,366
		1,717,766
	Lodging 0.8%	
1,075	Caesars Entertainment Corp., 5.00%, 10/1/24 (g)	1,933,828
	Machinery-Diversified 0.9%	
1,500	Chart Industries, Inc., 1.00%, 11/15/24 (a)(b)(g)	2,146,953
	Media 2.0%	
	DISH Network Corp.,	
1,095	2.375%, 3/15/24	956,645
2,115	3.375%, 8/15/26 (g)	1,926,670
	Liberty Media Corp.,	
835	1.00%, 1/30/23	944,794
1,025	2.125%, 3/31/48 (a)(b)(g)	1,034,956
		4,863,065
	Oil, Gas & Consumable Fuels 3.5%	
1,830	EnSCO Jersey Finance Ltd., 3.00%, 1/31/24 (g)	1,741,379
2,620	Nabors Industries, Inc., 0.75%, 1/15/24 (g)	2,056,412
1,140	Oasis Petroleum, Inc., 2.625%, 9/15/23 (g)	1,431,933
1,470	Oil States International, Inc., 1.50%, 2/15/23 (a)(b)(g)	1,589,948
1,190	Transocean, Inc., 0.50%, 1/30/23 (g)	1,655,735
		8,475,407
	Pharmaceuticals 5.6%	
475	Clovis Oncology, Inc., 1.25%, 5/1/25	431,517
650	Depomed, Inc., 2.50%, 9/1/21 (g)	574,234
1,420	DexCom, Inc., 0.75%, 5/15/22	1,649,711
785	Flexion Therapeutics, Inc., 3.375%, 5/1/24	919,922
1,445	Horizon Pharma Investment Ltd., 2.50%, 3/15/22 (g)	1,410,557
2,795	Jazz Investments I Ltd., 1.50%, 8/15/24 (a)(b)	2,911,747
1,340	Neurocrine Biosciences, Inc., 2.25%, 5/15/24 (g)	1,967,125
890	Sarepta Therapeutics, Inc., 1.50%, 11/15/24 (a)(b)(g)	1,554,277
1,050	Supernus Pharmaceuticals, Inc., 0.625%, 4/1/23 (a)(b)(g)	1,186,505
960	Teva Pharmaceutical Finance Co. LLC, 0.25%, 2/1/26, Ser. C (g)	905,778
		13,511,373

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Pipelines 0.9%	
\$2,640	Cheniere Energy, Inc., 4.25%, 3/15/45 (g)	\$2,077,701
	Retail 0.6%	
1,655	RH, zero coupon, 6/15/23 (a)(b)(g)	1,526,046
	Semiconductors 5.9%	
625	Advanced Micro Devices, Inc., 2.125%, 9/1/26	1,491,185
1,805	Cypress Semiconductor Corp., 2.00%, 2/1/23 (a)(b)(g)	1,961,999
470	Integrated Device Technology, Inc., 0.875%, 11/15/22	561,118
795	Intel Corp., 3.25%, 8/1/39 (g)	1,844,564
2,960	Microchip Technology, Inc., 1.625%, 2/15/27	3,538,120
1,425	Micron Technology, Inc., 3.00%, 11/15/43, Ser. G (g)	2,576,289
125	Novellus Systems, Inc., 2.625%, 5/15/41 (g)	715,200
940	Synaptics, Inc., 0.50%, 6/15/22	932,147
465	Teradyne, Inc., 1.25%, 12/15/23 (g)	677,315
		14,297,937
	Software 9.8%	
1,610	Akamai Technologies, Inc., 0.125%, 5/1/25 (a)(b)	1,620,763
1,455	Alteryx, Inc., 0.50%, 6/1/23 (a)(b)	1,604,351
1,745	Atlassian, Inc., 0.625%, 5/1/23 (a)(b)	1,931,902
1,560	Avaya Holdings Corp., 2.25%, 6/15/23 (a)(b)	1,546,620
955	Citrix Systems, Inc., 0.50%, 4/15/19 (g)	1,454,981
	Envestnet, Inc.,	
375	1.75%, 12/15/19 (g)	408,318
1,590	1.75%, 6/1/23 (a)(b)	1,707,631
920	Five9, Inc., 0.125%, 5/1/23 (a)(b)	916,474
1,140	Guidewire Software, Inc., 1.25%, 3/15/25 (g)	1,138,660
1,670	MINDBODY, Inc., 0.375%, 6/1/23 (a)(b)	1,647,361
780	MongoDB, Inc., 0.75%, 6/15/24 (a)(b)	799,127
815	New Relic, Inc., 0.50%, 5/1/23 (a)(b)(g)	885,950
700	Nice Systems, Inc., 1.25%, 1/15/24 (g)	964,883
640	Proofpoint, Inc., 0.75%, 6/15/20 (g)	923,897
1,000	PROS Holdings, Inc., 2.00%, 6/1/47	989,500
845	RealPage, Inc., 1.50%, 11/15/22 (g)	1,193,186
1,435	ServiceNow, Inc., zero coupon, 6/1/22	1,978,822
1,905	Workday, Inc., 0.25%, 10/1/22 (a)(b)(g)	2,013,825
		23,726,251
	Telecommunications 2.0%	
495	Ciena Corp., 3.75%, 10/15/18 (g)	630,360
1,850	GCI Liberty, Inc., 1.75%, 9/30/46 (a)(b)	1,942,396
1,120	GDS Holdings Ltd., 2.00%, 6/1/25 (a)(b)	843,908
440	Intelsat S.A., 4.50%, 6/15/25 (a)(b)	608,855
695	InterDigital, Inc., 1.50%, 3/1/20 (g)	841,297
		4,866,816
	Transportation 3.1%	
1,950	Air Transport Services Group, Inc., 1.125%, 10/15/24 (a)(b)(g)	1,905,911
985	Atlas Air Worldwide Holdings, Inc., 1.875%, 6/1/24 (g)	1,246,807

Schedule of Investments**AllianzGI Diversified Income & Convertible Fund**

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Transportation (continued)	
\$1,925	Echo Global Logistics, Inc., 2.50%, 5/1/20 (g)	\$2,130,659
1,755	Greenbrier Cos., Inc., 2.875%, 2/1/24 (g)	2,087,353
		7,370,730
	Total Convertible Bonds & Notes (cost-\$159,506,557)	161,644,765
Common Stock	Shares	
	36.2%	
	Aerospace & Defense 0.8%	
3,900	Boeing Co. (g)	1,389,570
2,600	Raytheon Co. (g)	514,878
		1,904,448
	Automobiles 0.3%	
72,600	Ford Motor Co. (g)	728,904
	Banks 1.6%	
58,200	Bank of America Corp.	1,797,216
18,400	JPMorgan Chase & Co. (g)	2,115,080
		3,912,296
	Beverages 0.4%	
9,000	PepsiCo, Inc.	1,035,000
	Biotechnology 2.3%	
13,200	AbbVie, Inc.	1,217,436
2,500	Biogen, Inc. (g)(i)	835,925
15,200	Gilead Sciences, Inc. (g)	1,183,016
1,843	Regeneron Pharmaceuticals, Inc. (g)(i)	678,242
9,000	Vertex Pharmaceuticals, Inc. (g)(i)	1,575,450
		5,490,069
	Building Products 0.4%	
24,752	Johnson Controls International PLC	928,448
	Chemicals 0.6%	
16,600	Chemours Co.	760,446
11,400	DowDuPont, Inc.	783,978
		1,544,424
	Construction & Engineering 0.3%	
15,300	Fluor Corp. (g)	784,125
	Diversified Telecommunication Services 0.1%	
32,499	Frontier Communications Corp.	169,645
	Electronic Equipment, Instruments & Components 0.4%	
9,600	Amphenol Corp., Class A	897,696
12,800	Energy Equipment & Services 0.4% Schlumberger Ltd. (g)	864,256

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Schedule of Investments**AllianzGI Diversified Income & Convertible Fund**

July 31, 2018 (unaudited) (continued)

Shares		Value
	Food & Staples Retailing 1.5%	
6,800	Costco Wholesale Corp.	\$1,487,228
37,600	Kroger Co. (g)	1,090,400
16,700	Walgreens Boots Alliance, Inc. (g)	1,129,254
		3,706,882
	Healthcare Equipment & Supplies 1.2%	
21,400	Baxter International, Inc. (g)	1,550,430
2,600	Intuitive Surgical, Inc. (g)(i)	1,321,294
		2,871,724
	Healthcare Providers & Services 2.0%	
20,825	Envision Healthcare Corp. (g)(i)	921,715
3,500	Laboratory Corp. of America Holdings (g)(i)	613,690
9,300	McKesson Corp. (g)	1,168,080
8,600	UnitedHealth Group, Inc.	2,177,692
		4,881,177
	Hotels, Restaurants & Leisure 1.1%	
8,100	McDonald's Corp.	1,276,074
14,900	Starbucks Corp.	780,611
3,700	Wynn Resorts Ltd.	617,086
		2,673,771
	Household Durables 0.4%	
21,700	DR Horton, Inc. (g)	948,290
	Industrial Conglomerates 0.6%	
3,500	3M Co. (g)	743,120
4,200	Honeywell International, Inc.	670,530
		1,413,650
	Internet & Catalog Retail 1.6%	
1,500	Amazon.com, Inc. (g)(i)	2,666,160
3,200	Netflix, Inc. (i)	1,079,840
		3,746,000
	Internet Software & Services 2.5%	
8,500	Alibaba Group Holding Ltd., ADR (g)(i)	1,591,455
2,200	Alphabet, Inc., Class A (g)(i)	2,699,884
9,900	Facebook, Inc., Class A (g)(i)	1,708,542
		5,999,881
	IT Services 1.9%	
6,000	International Business Machines Corp. (g)	869,580
14,800	PayPal Holdings, Inc. (g)(i)	1,215,672
18,400	Visa, Inc., Class A (g)	2,516,016
		4,601,268
	Machinery 1.4%	
13,300	Caterpillar, Inc.	1,912,540
9,500	Deere & Co.	1,375,505
		3,288,045

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Shares		Value
	Media 1.2%	
31,500	Comcast Corp., Class A	\$1,127,070
13,573	LiveStyle, Inc. (d)(f)(i)(k)	1
15,900	Walt Disney Co. (g)	1,805,604
		2,932,675
	Multi-Line Retail 0.7%	
19,600	Target Corp. (g)	1,581,328
	Oil, Gas & Consumable Fuels 1.1%	
14,900	Occidental Petroleum Corp.	1,250,557
60,184	Southwestern Energy Co. (i)	309,346
9,500	Valero Energy Corp.	1,124,325
		2,684,228
	Pharmaceuticals 1.4%	
13,761	Allergan PLC	2,533,262
16,200	Bristol-Myers Squibb Co.	951,750
		3,485,012
	Road & Rail 0.7%	
11,800	Union Pacific Corp.	1,768,702
	Semiconductors & Semiconductor Equipment 3.5%	
6,200	Broadcom, Inc.	1,374,974
23,000	Intel Corp. (g)	1,106,300
25,300	Micron Technology, Inc. (g)(i)	1,335,587
8,100	NVIDIA Corp. (g)	1,983,366
17,200	QUALCOMM, Inc. (g)	1,102,348
13,500	Texas Instruments, Inc.	1,502,820
		8,405,395
	Software 3.6%	
8,400	Adobe Systems, Inc. (g)(i)	2,055,312
24,700	Microsoft Corp.	2,620,176
13,400	Oracle Corp.	638,912
12,400	Salesforce.com, Inc. (i)	1,700,660
4,500	ServiceNow, Inc. (g)(i)	791,820
8,900	Take-Two Interactive Software, Inc. (g)(i)	1,005,878
		8,812,758
	Specialty Retail 0.8%	
9,400	Home Depot, Inc.	1,856,688
	Technology Hardware, Storage & Peripherals 1.4%	
13,600	Apple, Inc.	2,587,944
10,800	NetApp, Inc.	837,216
		3,425,160
	Total Common Stock (cost-\$100,245,490)	87,341,945

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Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
Corporate Bonds & Notes	28.2%	
	Aerospace & Defense 0.9%	
\$1,000	KLX, Inc., 5.875%, 12/1/22 (a)(b)(g)	\$1,038,750
1,000	TransDigm, Inc., 6.50%, 5/15/25 (g)	1,022,800
		2,061,550
	Auto Manufacturers 0.2%	
435	Navistar International Corp., 6.625%, 11/1/25 (a)(b)(g)	456,750
	Banks 0.3%	
680	Royal Bank of Scotland Group PLC, 5.125%, 5/28/24 (g)	692,912
	Building Materials 0.2%	
565	Builders FirstSource, Inc., 5.625%, 9/1/24 (a)(b)(g)	555,819
	Chemicals 1.5%	
1,000	Chemours Co., 7.00%, 5/15/25 (g)	1,075,000
305	Kraton Polymers LLC, 7.00%, 4/15/25 (a)(b)(g)	315,675
1,000	Platform Specialty Products Corp., 6.50%, 2/1/22 (a)(b)(g)	1,028,750
85	Trinseo Materials Operating SCA, 5.375%, 9/1/25 (a)(b)(g)	84,150
500	Tronox Finance PLC, 5.75%, 10/1/25 (a)(b)	483,125
720	Tronox, Inc., 6.50%, 4/15/26 (a)(b)(g)	718,200
		3,704,900
	Commercial Services 1.6%	
	Cardtronics, Inc. (g),	
1,000	5.125%, 8/1/22	952,500
190	5.50%, 5/1/25 (a)(b)	170,050
	Cenveo Corp., 6.00%, 5/15/24 (cost-\$432,167; purchased 12/14/15)	
350	(a)(b)(c)(g)(h)	19,250
300	Gartner, Inc., 5.125%, 4/1/25 (a)(b)(g)	303,419
365	KAR Auction Services, Inc., 5.125%, 6/1/25 (a)(b)(g)	356,787
915	RR Donnelley & Sons Co., 6.00%, 4/1/24 (g)	923,006
	United Rentals North America, Inc. (g),	
185	4.625%, 10/15/25	178,988
1,000	5.50%, 7/15/25	1,020,000
		3,924,000
	Computers 0.4%	
520	Dell International LLC, 7.125%, 6/15/24 (a)(b)(g)	559,118
500	Harland Clarke Holdings Corp., 9.25%, 3/1/21 (a)(b)(g)	473,125
		1,032,243
	Distribution/Wholesale 0.4%	
495	H&E Equipment Services, Inc., 5.625%, 9/1/25	490,050
365	Univar USA, Inc., 6.75%, 7/15/23 (a)(b)(g)	376,406
		866,456
	Diversified Financial Services 1.7%	
1,500	Community Choice Financial, Inc., 10.75%, 5/1/19	1,237,500
1,000	International Lease Finance Corp., 8.25%, 12/15/20 (g)	1,099,397
1,000	Nationstar Mortgage LLC, 7.875%, 10/1/20 (g)	1,020,250
700	Travelport Corporate Finance PLC, 6.00%, 3/15/26 (a)(b)(g)	714,000
		4,071,147

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Electric Utilities 0.7%	
\$1,000	NRG Energy, Inc., 6.25%, 5/1/24 (g)	\$1,033,750
1,000	Talen Energy Supply LLC, 6.50%, 6/1/25 (g)	740,000
		1,773,750
	Engineering & Construction 0.4%	
500	AECOM, 5.875%, 10/15/24 (g)	526,250
435	Tutor Perini Corp., 6.875%, 5/1/25 (a)(b)(g)	432,825
		959,075
	Entertainment 1.6%	
885	AMC Entertainment Holdings, Inc., 6.125%, 5/15/27 (g)	862,875
	Cedar Fair L.P.,	
750	5.375%, 6/1/24 (g)	759,375
190	5.375%, 4/15/27	186,675
1,000	International Game Technology PLC, 6.25%, 2/15/22 (a)(b)(g)	1,040,000
1,000	Scientific Games International, Inc., 5.00%, 10/15/25 (a)(b)	964,980
		3,813,905
	Equity Real Estate Investment Trusts (REITs) 0.1%	
	CyrusOne L.P. (g),	
210	5.00%, 3/15/24	211,313
60	5.375%, 3/15/27	59,700
		271,013
	Food & Beverage 0.4%	
495	Post Holdings, Inc., 5.75%, 3/1/27 (a)(b)(g)	483,862
450	SUPERVALU, Inc., 6.75%, 6/1/21	460,688
		944,550
	Food Service 0.2%	
390	Aramark Services, Inc., 5.00%, 2/1/28 (a)(b)(g)	377,208
	Healthcare-Products 0.1%	
260	Hill-Rom Holdings, Inc., 5.00%, 2/15/25 (a)(b)(g)	252,200
	Healthcare-Services 1.6%	
1,000	Community Health Systems, Inc., 6.875%, 2/1/22 (g)	495,000
800	DaVita, Inc., 5.125%, 7/15/24 (g)	780,000
145	Encompass Health Corp., 5.75%, 11/1/24 (g)	147,642
185	Envision Healthcare Corp., 6.25%, 12/1/24 (a)(b)(g)	197,950
1,000	HCA, Inc., 7.50%, 2/15/22 (g)	1,101,250
1,000	Tenet Healthcare Corp., 8.125%, 4/1/22 (g)	1,068,750
		3,790,592
	Home Builders 0.8%	
375	Beazer Homes USA, Inc., 8.75%, 3/15/22 (g)	399,206
365	Brookfield Residential Properties, Inc., 6.50%, 12/15/20 (a)(b)(g)	369,928
1,000	KB Home, 8.00%, 3/15/20 (g)	1,065,000
		1,834,134
	Internet 0.2%	
305	Symantec Corp., 5.00%, 4/15/25 (a)(b)(g)	301,592
90	Zayo Group LLC, 5.75%, 1/15/27 (a)(b)(g)	89,325
		390,917

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Iron/Steel 0.2%	
	AK Steel Corp. (g),	
\$205	7.00%, 3/15/27	\$195,263
265	7.50%, 7/15/23	274,937
		470,200
	Lodging 0.8%	
1,000	MGM Resorts International, 6.625%, 12/15/21 (g)	1,068,170
1,000	Wynn Las Vegas LLC, 5.50%, 3/1/25 (a)(b)(g)	990,000
		2,058,170
	Machinery-Construction & Mining 0.1%	
360	Terex Corp., 5.625%, 2/1/25 (a)(b)(g)	360,108
	Machinery-Diversified 0.1%	
250	Tennant Co., 5.625%, 5/1/25 (g)	250,000
	Media 2.3%	
1,000	Cablevision Systems Corp., 8.00%, 4/15/20 (g)	1,051,550
	CCO Holdings LLC,	
125	5.125%, 5/1/27 (a)(b)(g)	119,688
300	5.50%, 5/1/26 (a)(b)	295,500
500	5.75%, 1/15/24 (g)	506,250
1,000	Clear Channel Worldwide Holdings, Inc., 6.50%, 11/15/22, Ser. B (g)	1,025,000
425	CSC Holdings LLC, 6.75%, 11/15/21 (g)	444,125
750	DISH DBS Corp., 5.875%, 7/15/22 (g)	704,062
500	LIN Television Corp., 5.875%, 11/15/22 (g)	510,625
415	McClatchy Co., 9.00%, 12/15/22	436,538
440	Meredith Corp., 6.875%, 2/1/26 (a)(b)	444,400
		5,537,738
	Metal Fabricate/Hardware 0.1%	
270	Park-Ohio Industries, Inc., 6.625%, 4/15/27 (g)	274,050
	Mining 0.8%	
305	Alcoa Nederland Holding BV, 6.75%, 9/30/24 (a)(b)(g)	325,969
695	Constellium NV, 6.625%, 3/1/25 (a)(b)(g)	710,422
560	Freeport-McMoRan, Inc., 3.55%, 3/1/22 (g)	543,900
	Hudbay Minerals, Inc. (a)(b)(g),	
80	7.25%, 1/15/23	82,700
270	7.625%, 1/15/25	280,462
		1,943,453
	Miscellaneous Manufacturing 0.1%	
285	Koppers, Inc., 6.00%, 2/15/25 (a)(b)(g)	286,283
	Oil, Gas & Consumable Fuels 2.4%	
235	AmeriGas Partners L.P., 5.875%, 8/20/26 (g)	229,712
250	Callon Petroleum Co., 6.125%, 10/1/24 (g)	255,000
560	Calumet Specialty Products Partners L.P., 6.50%, 4/15/21 (g)	557,200
1,000	Carrizo Oil & Gas, Inc., 6.25%, 4/15/23 (g)	1,022,500
1,000	Chesapeake Energy Corp., 6.625%, 8/15/20 (g)	1,045,000
1,000	CVR Refining LLC, 6.50%, 11/1/22 (g)	1,027,500

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Oil, Gas & Consumable Fuels (continued)	
\$45	Noble Holding International Ltd., 7.75%, 1/15/24 (g)	\$43,875
1,000	Sanchez Energy Corp., 6.125%, 1/15/23 (g)	693,750
	Sunoco L.P. (a)(b)(g),	
300	5.50%, 2/15/26	286,125
170	5.875%, 3/15/28	160,225
320	Transocean, Inc., 7.50%, 1/15/26 (a)(b)(g)	328,000
165	Weatherford International Ltd., 8.25%, 6/15/23 (g)	164,175
		5,813,062
	Pharmaceuticals 1.0%	
615	Endo Finance LLC, 5.375%, 1/15/23 (a)(b)(g)	524,287
1,000	Horizon Pharma, Inc., 6.625%, 5/1/23 (g)	1,012,500
1,000	Valeant Pharmaceuticals International, Inc., 6.125%, 4/15/25 (a)(b)(g)	941,250
		2,478,037
	Pipelines 0.9%	
1,000	Energy Transfer Equity L.P., 5.875%, 1/15/24 (g)	1,042,500
1,000	Sabine Pass Liquefaction LLC, 5.75%, 5/15/24 (g)	1,079,185
		2,121,685
	Real Estate 0.8%	
500	Equinix, Inc., 5.375%, 1/1/22 (g)	518,125
1,000	Kennedy-Wilson, Inc., 5.875%, 4/1/24 (g)	980,000
360	Uniti Group L.P., 8.25%, 10/15/23 (g)	338,400
		1,836,525
	Retail 0.8%	
1,000	Conn's, Inc., 7.25%, 7/15/22	992,500
300	L Brands, Inc., 6.875%, 11/1/35 (g)	260,250
56	Men's Wearhouse, Inc., 7.00%, 7/1/22 (g)	57,826
1,000	Neiman Marcus Group Ltd. LLC, 8.00%, 10/15/21 (a)(b)(g)	635,000
		1,945,576
	Semiconductors 0.8%	
1,000	Amkor Technology, Inc., 6.375%, 10/1/22 (g)	1,022,500
500	Qorvo, Inc., 7.00%, 12/1/25 (g)	543,750
400	Sensata Technologies BV, 5.625%, 11/1/24 (a)(b)(g)	416,500
		1,982,750
	Software 0.4%	
800	Camelot Finance S.A., 7.875%, 10/15/24 (a)(b)(g)	796,000
230	Rackspace Hosting, Inc., 8.625%, 11/15/24 (a)(b)(g)	232,875
		1,028,875
	Telecommunications 3.2%	
700	CenturyLink, Inc., 7.50%, 4/1/24, Ser. Y (g)	733,257
800	Cincinnati Bell, Inc., 7.00%, 7/15/24 (a)(b)(g)	716,000
1,000	Consolidated Communications, Inc., 6.50%, 10/1/22 (g)	937,800
700	Frontier Communications Corp., 10.50%, 9/15/22 (g)	638,750
355	GTT Communications, Inc., 7.875%, 12/31/24 (a)(b)(g)	353,225
1,000	Hughes Satellite Systems Corp., 7.625%, 6/15/21 (g)	1,076,250

Schedule of Investments**AllianzGI Diversified Income & Convertible Fund**

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Telecommunications (continued)	
\$500	Level 3 Financing, Inc., 5.375%, 5/1/25 (g)	\$488,750
915	Sprint Communications, Inc., 6.00%, 11/15/22 (g)	927,298
365	Sprint Corp., 7.625%, 3/1/26 (g)	378,574
1,000	T-Mobile USA, Inc., 4.75%, 2/1/28 (g)	928,450
1,080	Windstream Services LLC, 6.375%, 8/1/23 (a)(b)(g)	645,300
		7,823,654
	Transportation 0.1%	
150	XPO Logistics, Inc., 6.50%, 6/15/22 (a)(b)(g)	154,688
	Total Corporate Bonds & Notes (cost-\$70,776,649)	68,137,975
	Convertible Preferred Stock 9.3%	
	Banks 1.9%	
2,000	Bank of America Corp., 7.25%, Ser. L (e)	2,544,480
1,585	Wells Fargo & Co., 7.50%, Ser. L (e)(g)	2,011,365
		4,555,845
	Commercial Services & Supplies 0.5%	
23,485	Stericycle, Inc., 5.25%, 9/15/18 (g)	1,233,432
	Diversified Financial Services 0.7%	
8,095	2017 Mandatory Exchangeable Trust, 5.188%, 12/1/20 (a)(b)(g)	1,017,976
12,550	AMG Capital Trust II, 5.15%, 10/15/37 (g)	754,883
		1,772,859
	Electric Utilities 0.8%	
34,450	NextEra Energy, Inc., 6.123%, 9/1/19 (g)	1,972,262
	Electronics 0.8%	
1,720	Fortive Corp., 5.00%, 7/1/21, Ser. A	1,820,190
	Equity Real Estate Investment Trusts (REITs) 0.8%	
1,700	Crown Castle International Corp., 6.875%, 8/1/20, Ser. A (g)	1,834,071
	Hand/Machine Tools 0.7%	
14,380	Stanley Black & Decker, Inc., 5.375%, 5/15/20 (g)	1,639,464
	Healthcare-Products 1.2%	
45,920	Becton Dickinson and Co., 6.125%, 5/1/20, Ser. A (g)	2,903,843
	Insurance 0.2%	
3,995	Assurant, Inc., 6.50%, 3/15/21, Ser. D	467,415
	Metal Fabricate/Hardware 0.6%	
22,895	Rexnord Corp., 5.75%, 11/15/19, Ser. A (g)	1,462,304
	Oil, Gas & Consumable Fuels 0.7%	
23,355	Hess Corp., 8.00%, 2/1/19 (g)	1,703,981
	Pharmaceuticals 0.4%	
2,310	Teva Pharmaceutical Industries Ltd., 7.00%, 12/15/18 (g)	1,019,518
	Total Convertible Preferred Stock (cost-\$24,240,009)	22,385,184

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Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

	Shares		Value
Preferred Stock (a)(d)(f)(i)(k)		0.5%	
	533	Media 0.5%	
	11,496	LiveStyle, Inc., Ser. A	\$72,515
	1,250	LiveStyle, Inc., Ser. B	1,149,600
Total Preferred Stock (cost-\$2,429,940)		LiveStyle, Inc., Ser. B	12
			1,222,127
	Units		
Warrants (d)(f)(i)		0.0%	
	37,000	Commercial Services 0.0%	
		Cenveo, Inc., strike price \$12.00, expires 6/10/24 (b)	1
	3,000	Media 0.0%	
Total Warrants (cost-\$10,113)		LiveStyle, Inc., expires 11/30/21, Ser. C (a)(k)	1
	Principal		
	Amount		
	(000s)		
Repurchase Agreements		3.9%	
	\$9,495	State Street Bank and Trust Co.,	
		dated 7/31/18, 0.35%, due 8/1/18, proceeds \$9,495,092; collateralized	
		by U.S. Treasury Bonds, 2.875%, due 7/31/25, valued at \$9,685,725	
		including accrued interest (cost-\$9,495,000)	9,495,000
Total Investments, before options written			
(cost-\$366,703,758)			350,226,997
Total Options Written		(0.0)% (premiums received-\$64,122) (i)(j)(l)	(26,579)
Total Investments, net of options written			
(cost-\$366,639,636)			350,200,418
Other liabilities in excess of other assets	(45.1)%		(108,889,670)
Net Assets	100.0%		\$241,310,748

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Schedule of Investments

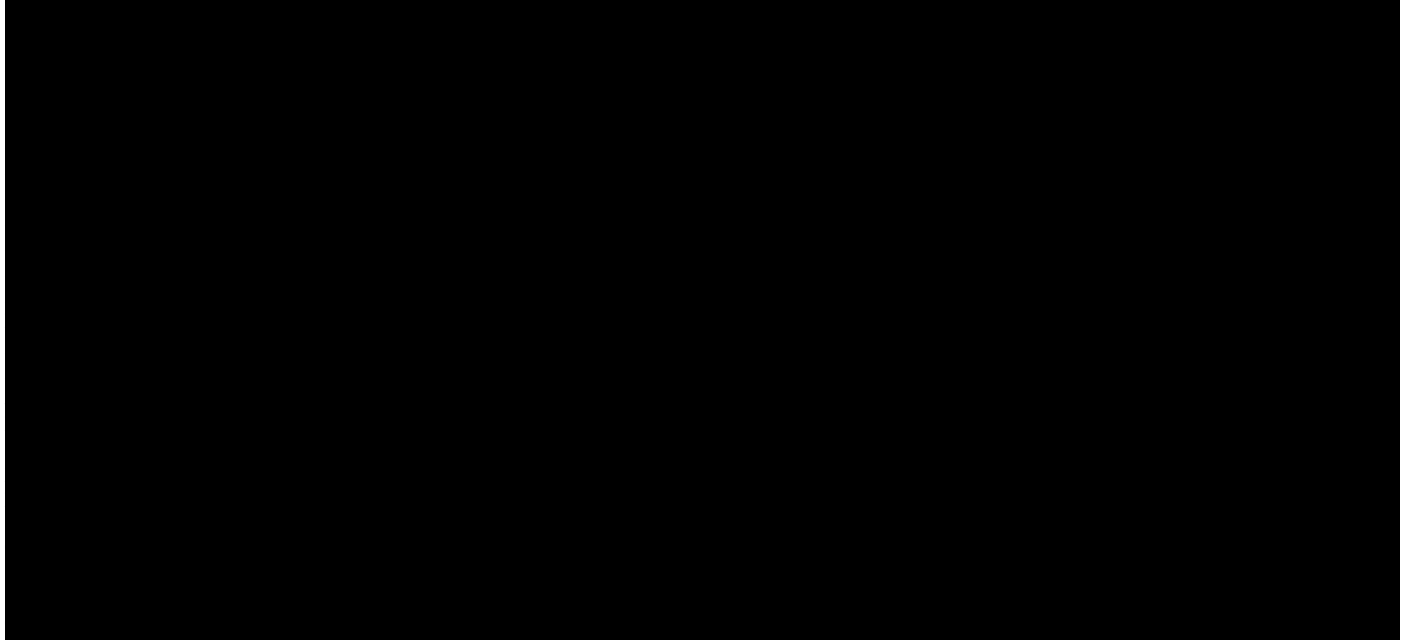
AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Notes to Schedule of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$98,162,549, representing 40.7% of net assets.
- (b) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Securities with an aggregate value of \$96,752,028, representing 40.1% of net assets.
- (c) In default.
- (d) Fair-Valued Securities with an aggregate value of \$1,303,466, representing 0.5% of net assets. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (e) Perpetual maturity. The date shown, if any, is the next call date.
- (f) Level 3 security. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (g) All or partial amount segregated for the benefit of the counterparty as collateral for options written and long-term and short-term loan financing.
- (h) Restricted. The cost of such security is \$432,167. The value is \$19,250, representing less than 0.05% of net assets.
- (i) Non-income producing.
- (j) Exchange traded-Chicago Board Options Exchange.
- (k) A member of the Fund's portfolio management team is a member of the board of directors of LiveStyle, Inc. The Fund's aggregate value of investments in LiveStyle, Inc. represents 0.5% of net assets.
- (l) Exchange traded option contracts outstanding at July 31, 2018:

Options written contracts outstanding at July 31, 2018:



(m) Fair Value Measurements See Note 1(b) in the Notes to Financial Statements.

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Schedule of Investments**AllianzGI Diversified Income & Convertible Fund**

July 31, 2018 (unaudited) (continued)

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 7/31/18
Investments in Securities Assets				
Convertible Bonds & Notes:				
Energy-Alternate Sources	\$	\$1,873,457	\$81,337	\$1,954,794
All Other		159,689,971		159,689,971
Common Stock:				
Media	2,932,674		1	2,932,675
All Other	84,409,270			84,409,270
Corporate Bonds & Notes		68,137,975		68,137,975
Convertible Preferred Stock:				
Diversified Financial Services		1,772,859		1,772,859
Electronics		1,820,190		1,820,190
Equity Real Estate Investment Trusts (REITs)		1,834,071		1,834,071
Hand/Machine Tools		1,639,464		1,639,464
Healthcare-Products		2,903,843		2,903,843
Pharmaceuticals		1,019,518		1,019,518
All Other	11,395,239			11,395,239
Preferred Stock			1,222,127	1,222,127
Warrants			1	1
Repurchase Agreements		9,495,000		9,495,000
	98,737,183	250,186,348	1,303,466	350,226,997
Investments in Securities Liabilities				
Options Written:				
Market Price	(26,579)			(26,579)
Totals	\$98,710,604	\$250,186,348	\$1,303,466	\$350,200,418

At July 31, 2018, a security valued at \$1,639,464 was transferred from Level 1 to Level 2. This transfer was a result of a security with an exchange-traded closing price at January, 31 2018, which was not available on July 31, 2018.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the six months ended July 31, 2018, was as follows:

Beginning Balance	Purchases	Sales	Accrued Discount	Net Realized	Net Change in	Transfers into	Transfers out of	Ending Balance
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	1/31/18	(Premiums)	Gain (Loss)	Unrealized Appreciation/ Depreciation	Level 3	Level 3*	7/31/18
Investments in Securities							
Convertible Bonds & Notes:							
Energy-Alternate Sources Common Stock:	\$81,337	\$(2,486)	\$610	\$	\$1,876	\$	\$81,337
Media	1						1

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Schedule of Investments**AllianzGI Diversified Income & Convertible Fund**

July 31, 2018 (unaudited) (continued)

	Beginning Balance 1/31/18	Purchases	Sales	Accrued Discount (Premiums)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3	Transfers out of Level 3*	Ending Balance 7/31/18
Convertible Preferred Stock:									
Equity Real Estate Investment Trusts (REITs)	\$1,911,225		\$	\$	\$	\$(77,154)		\$(1,834,071)	\$
Preferred Stock	1,274,413		(97,458)		27,557	17,615			1,222,127
Warrants	1,643					(1,642)			1
Totals	\$3,268,619		\$(99,944)	\$610	\$27,557	\$(59,305)		\$(1,834,071)	\$1,303,466

* Transferred out of Level 3 and into Level 2. This transfer was a result of a security with an evaluated mean price at July 31, 2018, which was not available at January 31, 2018.

Issued or removed via corporate action.

The table above includes Level 3 investments that are valued by brokers and pricing services. The inputs for these investments are not readily available or cannot be reasonably estimated and are generally those inputs described in Note 1(b).

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 at July 31, 2018:

Investments in Securities	Assets	Ending Balance at 7/31/18	Valuation Technique Used	Unobservable Inputs	Input Values (Range)
Preferred Stock		\$1,222,127	Market and Company Comparables	EV Multiples Applicable Liquidity Multiple Illiquidity Discount	0.72x(0.36x 1.12x) 1.60 30%

The net change in unrealized appreciation/depreciation of Level 3 investments held at July 31, 2018, was \$19,446. The net realized gain (loss) and net change in unrealized appreciation/depreciation are reflected on the Statements of Operations.

(n) The following is a summary of the Fund's derivatives categorized by risk exposure.

The effect of derivatives on the Fund's Statements of Assets and Liabilities at July 31, 2018:

Location	Market Price
Liability derivatives:	
Options written, at value	\$(26,579)

The effect of derivatives on the Fund's Statements of Operations for the six months ended July 31, 2018:

Location	Market Price
Net realized gain on:	
Options written	\$153,283
Net change in unrealized appreciation/depreciation of:	
Options written	\$61,246

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Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

The average volume (based on the open positions at each month-end) of derivative activity during the six months ended July 31, 2018 was 1,365 call options written contracts.

Glossary:

ADR - American Depositary Receipt

REIT - Real Estate Investment Trust

See accompanying Notes to Financial Statements | July 31, 2018 | Semi-Annual Report **29**

Schedule of Investments

AllianzGI Equity & Convertible Income Fund

July 31, 2018 (unaudited)

Common Stock	Shares		Value
	65.7%		
	20,600	Aerospace & Defense 1.5%	
	13,900	Boeing Co. (g)	\$7,339,780
		Raytheon Co.	2,752,617
			10,092,397
	465,300	Automobiles 0.7%	
		Ford Motor Co.	4,671,612
	297,900	Banks 3.0%	
	95,700	Bank of America Corp.	9,199,152
		JPMorgan Chase & Co. (g)	11,000,715
			20,199,867
	45,800	Beverages 0.8%	
		PepsiCo, Inc.	5,267,000
	78,700	Biotechnology 3.9%	
	9,700	AbbVie, Inc.	7,258,501
	91,000	Biogen, Inc. (i)	3,243,389
	46,800	Gilead Sciences, Inc.	7,082,530
		Vertex Pharmaceuticals, Inc. (g)(i)	8,192,340
			25,776,760
	133,544	Building Products 0.8%	
		Johnson Controls International PLC	5,009,236
	46,400	Chemicals 0.8%	
	43,600	Chemours Co.	2,125,584
		DowDuPont, Inc.	2,998,372
			5,123,956
	13,000	Construction & Engineering 0.1%	
		Fluor Corp.	666,250
	57,205	Diversified Telecommunication Services 0.0%	
		Frontier Communications Corp.	298,610
	85,560	Electric Utilities 0.5%	
		Exelon Corp.	3,636,300
	48,000	Electronic Equipment, Instruments & Components 0.7%	
		Amphenol Corp., Class A	4,488,480
	103,271	Energy Equipment & Services 1.7%	
	53,600	Baker Hughes a GE Co.	3,571,111
	72,000	National Oilwell Varco, Inc.	2,606,032
		Schlumberger Ltd.	4,861,440
			11,038,583
	34,500	Food & Staples Retailing 2.7%	
	182,400	Costco Wholesale Corp.	7,545,495
	74,100	Kroger Co.	5,289,600
		Walgreens Boots Alliance, Inc.	5,010,642
			17,845,737

Schedule of Investments**AllianzGI Equity & Convertible Income Fund**

July 31, 2018 (unaudited) (continued)

Shares		Value
	Healthcare Equipment & Supplies 2.0%	
93,300	Baxter International, Inc.	\$6,759,585
12,700	Intuitive Surgical, Inc. (g)(i)	6,454,013
		13,213,598
	Healthcare Providers & Services 2.9%	
12,000	Laboratory Corp. of America Holdings (g)(i)	2,104,080
46,400	McKesson Corp.	5,827,840
44,400	UnitedHealth Group, Inc.	11,242,968
		19,174,888
	Hotels, Restaurants & Leisure 2.0%	
46,400	McDonald's Corp.	7,309,856
78,100	Starbucks Corp.	4,091,659
11,000	Wynn Resorts Ltd.	1,834,580
		13,236,095
	Household Durables 0.7%	
111,900	DR Horton, Inc. (g)	4,890,030
	Industrial Conglomerates 1.3%	
17,800	3M Co. (g)	3,779,296
122,459	General Electric Co.	1,669,116
22,200	Honeywell International, Inc.	3,544,230
		8,992,642
	Internet & Catalog Retail 2.8%	
7,400	Amazon.com, Inc. (g)(i)	13,153,056
16,900	Netflix, Inc. (i)	5,702,905
		18,855,961
	Internet Software & Services 4.7%	
44,800	Alibaba Group Holding Ltd., ADR (g)(i)	8,387,904
11,200	Alphabet, Inc., Class A (g)(i)	13,744,864
51,700	Facebook, Inc., Class A (g)(i)	8,922,386
		31,055,154
	IT Services 3.7%	
37,200	International Business Machines Corp.	5,391,396
77,900	PayPal Holdings, Inc. (i)	6,398,706
96,000	Visa, Inc., Class A (g)	13,127,040
		24,917,142
	Machinery 2.7%	
68,900	Caterpillar, Inc.	9,907,820
58,000	Deere & Co.	8,397,820
		18,305,640
	Media 2.4%	
158,700	Comcast Corp., Class A	5,678,286
88,200	Walt Disney Co. (g)	10,015,992
		15,694,278
	Multi-Line Retail 1.4%	
118,000	Target Corp.	9,520,240

Schedule of Investments

AllianzGI Equity & Convertible Income Fund

July 31, 2018 (unaudited) (continued)

Shares		Value
	Oil, Gas & Consumable Fuels 2.1%	
77,900	Occidental Petroleum Corp.	\$6,538,147
86,739	Southwestern Energy Co. (i)	445,838
49,700	Valero Energy Corp.	5,881,995
76,588	WPX Energy, Inc. (i)	1,437,557
		14,303,537
	Pharmaceuticals 1.2%	
10,775	Allergan PLC	1,983,570
99,100	Bristol-Myers Squibb Co.	5,822,125
		7,805,695
	Road & Rail 1.2%	
53,700	Union Pacific Corp.	8,049,093
	Semiconductors & Semiconductor Equipment 7.0%	
31,600	Broadcom, Inc.	7,007,932
121,300	Intel Corp. (g)	5,834,530
139,000	Micron Technology, Inc. (g)(i)	7,337,810
43,300	NVIDIA Corp. (g)	10,602,438
128,100	QUALCOMM, Inc.	8,209,929
70,500	Texas Instruments, Inc. (g)	7,848,060
		46,840,699
	Software 6.5%	
46,300	Adobe Systems, Inc. (g)(i)	11,328,684
128,700	Microsoft Corp.	13,652,496
70,800	Oracle Corp.	3,375,744
35,200	Salesforce.com, Inc. (i)	4,827,680
24,300	ServiceNow, Inc. (g)(i)	4,275,828
51,400	Take-Two Interactive Software, Inc. (g)(i)	5,809,228
		43,269,660
	Specialty Retail 1.5%	
51,700	Home Depot, Inc.	10,211,784
	Technology Hardware, Storage & Peripherals 2.4%	
72,400	Apple, Inc.	13,776,996
29,200	NetApp, Inc.	2,263,584
		16,040,580
	Total Common Stock (cost-\$482,045,400)	438,491,504
	Principal Amount (000s)	
	Convertible Bonds & Notes 25.7%	
	Aerospace & Defense 0.3%	
\$1,635	Arconic, Inc., 1.625%, 10/15/19	1,687,773
	Auto Components 0.3%	
1,725	Meritor, Inc., 3.25%, 10/15/37 (a)(b)	1,716,842

Schedule of Investments

AllianzGI Equity & Convertible Income Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Auto Manufacturers 0.6%	
	Tesla, Inc.,	
\$3,130	0.25%, 3/1/19	\$3,231,882
710	2.375%, 3/15/22	766,716
		3,998,598
	Biotechnology 1.9%	
	BioMarin Pharmaceutical, Inc.,	
2,650	0.599%, 8/1/24	2,802,953
1,210	1.50%, 10/15/20	1,484,985
1,240	Exact Sciences Corp., 1.00%, 1/15/25	1,290,673
1,500	Illumina, Inc., 0.50%, 6/15/21	2,134,824
590	Innoviva, Inc., 2.50%, 8/15/25 (a)(b)	627,634
1,060	Insmmed, Inc., 1.75%, 1/15/25	997,495
325	Ionis Pharmaceuticals, Inc., 1.00%, 11/15/21	323,521
1,345	Ligand Pharmaceuticals, Inc., 0.75%, 5/15/23 (a)(b)	1,428,290
1,205	Medicines Co., 2.75%, 7/15/23	1,275,733
535	PTC Therapeutics, Inc., 3.00%, 8/15/22	555,023
		12,921,131
	Commercial Services 0.5%	
965	Macquarie Infrastructure Corp., 2.875%, 7/15/19	960,182
2,300	Square, Inc., 0.50%, 5/15/23 (a)(b)	2,523,344
		3,483,526
	Computers 1.1%	
1,500	Electronics For Imaging, Inc., 0.75%, 9/1/19	1,496,720
345	Lumentum Holdings, Inc., 0.25%, 3/15/24	387,644
1,500	Nutanix, Inc., zero coupon, 1/15/23 (a)(b)	1,793,748
1,570	Pure Storage, Inc., 0.125%, 4/15/23 (a)(b)	1,661,548
2,125	Western Digital Corp., 1.50%, 2/1/24 (a)(b)	2,084,959
		7,424,619
	Diversified Financial Services 0.9%	
	Encore Capital Group, Inc.,	
2,000	2.875%, 3/15/21	1,849,958
410	3.25%, 3/15/22	406,389
925	LendingTree, Inc., 0.625%, 6/1/22	1,205,002
2,765	PRA Group, Inc., 3.00%, 8/1/20	2,670,285
		6,131,634
	Electric Utilities 0.1%	
430	NRG Energy, Inc., 2.75%, 6/1/48 (a)(b)	419,165
	Electrical Equipment 0.1%	
1,155	SunPower Corp., 4.00%, 1/15/23	930,444
	Electronics 0.2%	
1,370	OSI Systems, Inc., 1.25%, 9/1/22	1,328,993
	Energy-Alternate Sources 0.2%	
	SunEdison, Inc. (a)(b)(d)(f),	

4,000 2.625%, 6/1/23

90,000

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Schedule of Investments

AllianzGI Equity & Convertible Income Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Energy-Alternate Sources (continued)	
\$1,000	3.375%, 6/1/25	\$22,500
1,170	Tesla Energy Operations, Inc., 1.625%, 11/1/19	1,052,012
		1,164,512
	Engineering & Construction 0.4%	
870	Dycom Industries, Inc., 0.75%, 9/15/21	971,472
1,430	Tutor Perini Corp., 2.875%, 6/15/21	1,424,303
		2,395,775
	Entertainment 0.4%	
1,675	Live Nation Entertainment, Inc., 2.50%, 3/15/23 (a)(b)	1,763,738
1,050	Marriott Vacations Worldwide Corp., 1.50%, 9/15/22 (a)(b)	1,088,977
		2,852,715
	Equity Real Estate Investment Trusts (REITs) 0.8%	
1,900	IH Merger Sub LLC, 3.50%, 1/15/22	2,102,171
1,035	Spirit Realty Capital, Inc., 2.875%, 5/15/19	1,026,735
2,000	Two Harbors Investment Corp., 6.25%, 1/15/22	2,065,308
		5,194,214
	Healthcare-Products 0.9%	
1,055	Insulet Corp., 1.375%, 11/15/24 (a)(b)	1,150,751
1,665	NuVasive, Inc., 2.25%, 3/15/21	1,893,660
2,705	Wright Medical Group, Inc., 1.625%, 6/15/23 (a)(b)	2,676,021
		5,720,432
	Insurance 0.2%	
1,160	AXA S.A., 7.25%, 5/15/21 (a)(b)	1,270,590
	Internet 3.6%	
2,070	Altaba, Inc., zero coupon, 12/1/18	2,824,080
3,280	Booking Holdings, Inc., 0.35%, 6/15/20	5,087,047
	FireEye, Inc.,	
940	0.875%, 6/1/24 (a)(b)	893,401
1,200	1.625%, 6/1/35, Ser. B	1,096,660
1,870	IAC FinanceCo., Inc., 0.875%, 10/1/22 (a)(b)	2,115,479
1,380	Liberty Expedia Holdings, Inc., 1.00%, 6/30/47 (a)(b)	1,403,322
1,000	Okta, Inc., 0.25%, 2/15/23 (a)(b)	1,219,632
	Palo Alto Networks, Inc.,	
585	zero coupon, 7/1/19	1,050,476
1,795	0.75%, 7/1/23 (a)(b)	1,771,735
1,700	Pandora Media, Inc., 1.75%, 12/1/23	1,673,650
895	Twilio, Inc., 0.25%, 6/1/23 (a)(b)	942,892
	Twitter, Inc.,	
1,100	0.25%, 9/15/19	1,060,034
1,130	0.25%, 6/15/24 (a)(b)	1,030,652
1,100	1.00%, 9/15/21	1,022,552
650	Wayfair, Inc., 0.375%, 9/1/22 (a)(b)	792,430
		23,984,042

Schedule of Investments

AllianzGI Equity & Convertible Income Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Iron/Steel 0.2%	
\$695	Allegheny Technologies, Inc., 4.75%, 7/1/22	\$1,436,785
	Lodging 0.3%	
1,275	Caesars Entertainment Corp., 5.00%, 10/1/24	2,293,610
	Machinery-Diversified 0.2%	
925	Chart Industries, Inc., 1.00%, 11/15/24 (a)(b)	1,323,954
	Media 1.6%	
	DISH Network Corp.,	
1,385	2.375%, 3/15/24	1,210,004
3,780	3.375%, 8/15/26	3,443,410
865	Liberty Interactive LLC, 1.75%, 9/30/46 (a)(b)	942,296
	Liberty Media Corp.,	
1,205	1.00%, 1/30/23	1,363,445
1,485	1.375%, 10/15/23	1,882,683
1,990	2.125%, 3/31/48 (a)(b)	2,009,329
		10,851,167
	Oil, Gas & Consumable Fuels 1.3%	
2,235	Chesapeake Energy Corp., 5.50%, 9/15/26	2,227,913
750	Helix Energy Solutions Group, Inc., 4.25%, 5/1/22	830,818
2,000	Nabors Industries, Inc., 0.75%, 1/15/24	1,569,780
1,500	SM Energy Co., 1.50%, 7/1/21	1,580,700
950	Transocean, Inc., 0.50%, 1/30/23	1,321,805
1,065	Weatherford International Ltd., 5.875%, 7/1/21	1,056,751
		8,587,767
	Pharmaceuticals 1.2%	
	Jazz Investments I Ltd.,	
1,285	1.50%, 8/15/24 (a)(b)	1,338,674
1,900	1.875%, 8/15/21	2,058,046
1,045	Neurocrine Biosciences, Inc., 2.25%, 5/15/24	1,534,064
195	Paratek Pharmaceuticals, Inc., 4.75%, 5/1/24 (a)(b)	186,856
1,055	Sarepta Therapeutics, Inc., 1.50%, 11/15/24 (a)(b)	1,842,430
270	TESARO, Inc., 3.00%, 10/1/21	343,448
1,115	Teva Pharmaceutical Finance Co. LLC, 0.25%, 2/1/26, Ser. C	1,052,024
		8,355,542
	Pipelines 0.5%	
4,000	Cheniere Energy, Inc., 4.25%, 3/15/45	3,148,032
	Retail 0.1%	
1,020	RH, zero coupon, 6/15/23 (a)(b)	940,524
	Semiconductors 3.9%	
790	Advanced Micro Devices, Inc., 2.125%, 9/1/26	1,884,858
	Cypress Semiconductor Corp.,	
2,340	2.00%, 2/1/23 (a)(b)	2,543,533
215	4.50%, 1/15/22	311,225
1,300	Intel Corp., 3.25%, 8/1/39	3,016,268

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Schedule of Investments

AllianzGI Equity & Convertible Income Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Semiconductors (continued)	
\$5,750	Microchip Technology, Inc., 1.625%, 2/15/27	\$6,873,038
2,135	Micron Technology, Inc., 3.00%, 11/15/43, Ser. G	3,859,913
375	Novellus Systems, Inc., 2.625%, 5/15/41	2,145,600
1,590	ON Semiconductor Corp., 1.625%, 10/15/23	1,997,477
1,725	Silicon Laboratories, Inc., 1.375%, 3/1/22	2,029,463
485	Synaptics, Inc., 0.50%, 6/15/22	480,948
870	Veeco Instruments, Inc., 2.70%, 1/15/23	774,384
		25,916,707
	Software 2.6%	
1,335	Akamai Technologies, Inc., 0.125%, 5/1/25 (a)(b)	1,343,925
1,095	Alteryx, Inc., 0.50%, 6/1/23 (a)(b)	1,207,398
1,130	Avaya Holdings Corp., 2.25%, 6/15/23 (a)(b)	1,120,308
2,380	Citrix Systems, Inc., 0.50%, 4/15/19	3,626,025
1,055	Evolent Health, Inc., 2.00%, 12/1/21	1,174,464
510	New Relic, Inc., 0.50%, 5/1/23 (a)(b)	554,398
	Nuance Communications, Inc.,	
1,075	1.00%, 12/15/35	973,024
1,750	1.25%, 4/1/25	1,677,862
820	Proofpoint, Inc., 0.75%, 6/15/20	1,183,743
1,070	ServiceNow, Inc., zero coupon, 11/1/18	2,541,352
2,080	Workday, Inc., 0.25%, 10/1/22 (a)(b)	2,198,822
		17,601,321
	Telecommunications 0.8%	
540	Ciena Corp., 3.75%, 10/15/18	687,665
1,470	Finisar Corp., 0.50%, 12/15/36	1,327,550
1,410	GDS Holdings Ltd., 2.00%, 6/1/25 (a)(b)	1,062,419
1,980	Viavi Solutions, Inc., 1.00%, 3/1/24	1,976,535
		5,054,169
	Transportation 0.5%	
1,380	Atlas Air Worldwide Holdings, Inc., 2.25%, 6/1/22	1,629,262
325	Echo Global Logistics, Inc., 2.50%, 5/1/20	359,722
1,125	Greenbrier Cos., Inc., 2.875%, 2/1/24	1,338,047
		3,327,031
	Total Convertible Bonds & Notes (cost-\$167,066,480)	171,461,614
	Convertible Preferred Stock 5.7%	
	Banks 1.5%	
3,400	Bank of America Corp., 7.25%, Ser. L (e)	4,325,616
4,335	Wells Fargo & Co., 7.50%, Ser. L (e)	5,501,115
		9,826,731
	Commercial Services & Supplies 0.2%	
29,890	Stericycle, Inc., 5.25%, 9/15/18	1,569,823

Schedule of Investments

AllianzGI Equity & Convertible Income Fund

July 31, 2018 (unaudited) (continued)

Shares		Value
	Electric Utilities 0.4%	
50,000	NextEra Energy, Inc., 6.123%, 9/1/19	\$2,862,500
	Electronic Equipment, Instruments & Components 0.1%	
10,350	Belden, Inc., 6.75%, 7/15/19	910,593
	Electronics 0.3%	
1,760	Fortive Corp., 5.00%, 7/1/21, Ser. A	1,862,520
	Equity Real Estate Investment Trusts (REITs) 0.7%	
2,510	Crown Castle International Corp., 6.875%, 8/1/20, Ser. A	2,707,952
32,170	Welltower, Inc., 6.50%, Ser. I (e)	1,910,576
		4,618,528
	Food & Beverage 0.2%	
8,430	Post Holdings, Inc., 2.50% (e)	1,352,261
	Gas Utilities 0.4%	
42,965	South Jersey Industries, Inc., 7.25%, 4/15/21	2,355,771
	Hand/Machine Tools 0.3%	
19,595	Stanley Black & Decker, Inc., 5.375%, 5/15/20	2,234,026
	Healthcare-Products 0.5%	
57,500	Becton Dickinson and Co., 6.125%, 5/1/20, Ser. A	3,636,128
	Metal Fabricate/Hardware 0.3%	
25,935	Rexnord Corp., 5.75%, 11/15/19, Ser. A	1,656,468
	Multi-Utilities 0.3%	
17,705	Sempra Energy, 6.00%, 1/15/21, Ser. A	1,811,399
	Oil, Gas & Consumable Fuels 0.3%	
25,000	ATP Oil & Gas Corp., 8.00% (cost-\$3,160,750; purchased 4/21/10)	3
47,840	(a)(b)(e)(h)	1,604,601
8,860	Kinder Morgan, Inc., 9.75%, 10/26/18, Ser. A	379,651
	Nabors Industries Ltd., 6.00%, 5/1/21	1,984,255
		1,306,396
2,960	Pharmaceuticals 0.2%	
	Teva Pharmaceutical Industries Ltd., 7.00%, 12/15/18	1,306,396
	Total Convertible Preferred Stock (cost-\$42,173,614)	37,987,399
	Principal Amount (000s)	
	Corporate Bonds & Notes 0.4%	
	Oil, Gas & Consumable Fuels 0.2%	
\$2,509	Cobalt International Energy, Inc., 7.75%, 12/1/23 (c)	1,437,356
	Pharmaceuticals 0.2%	
1,540	Herbalife Nutrition Ltd., 2.625%, 3/15/24 (a)(b)	1,602,276
	Total Corporate Bonds & Notes (cost-\$4,104,161)	3,039,632

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Schedule of Investments**AllianzGI Equity & Convertible Income Fund**

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
Repurchase Agreements 2.6%		
\$17,187	State Street Bank and Trust Co., dated 7/31/18, 0.35%, due 8/1/18, proceeds \$17,187,167; collateralized by U.S. Treasury Bonds, 2.875%, due 7/31/25, valued at \$17,531,063 including accrued interest (cost-\$17,187,000)	\$17,187,000
Total Investments, before options written (cost-\$712,576,655) 100.1%		668,167,149
Total Options Written (0.0)% (premiums received-\$354,005) (i)(j)(k)		(139,387)
Total Investments, net of options written (cost-\$712,222,650) 100.1%		668,027,762
Other liabilities in excess of other assets (0.1)%		(465,329)
Net Assets 100.0%		\$667,562,433

Notes to Schedule of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$50,704,795, representing 7.6% of net assets.
- (b) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Securities with an aggregate value of \$50,704,795, representing 7.6% of net assets.
- (c) In default.
- (d) Fair-Valued Securities with an aggregate value of \$112,500, representing less than 0.05% of net assets. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (e) Perpetual maturity. The date shown, if any, is the next call date.
- (f) Level 3 security. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (g) All or partial amount segregated for the benefit of the counterparty as collateral for options written.
- (h) Restricted. The cost of such security is \$3,160,750. The value is \$3, representing less than 0.05% of net assets.
- (i) Non-income producing.
- (j) Exchange traded-Chicago Board Options Exchange.
- (k) Exchange traded option contracts outstanding at July 31, 2018:

Options written contracts outstanding at July 31, 2018:

Description	Exercise Price	Expiration Date	Number of Contracts	Notional Amount	Market Value	Premiums Received	Unrealized Appreciation (Depreciation)
Call options:							
3M Co.	215.00 USD	8/17/18	(53)	\$(5,300)	\$(10,123)	\$(3,758)	\$(6,365)
Adobe Systems, Inc.	265.00 USD	8/17/18	(232)	(23,200)	(9,976)	(10,735)	759
Alibaba Group Holding Ltd.	210.00 USD	8/17/18	(225)	(22,500)	(6,188)	(14,191)	8,003
Alphabet, Inc.	1,310.00 USD	8/17/18	(60)	(6,000)	(14,100)	(33,177)	19,077
Amazon.com, Inc.	2,000.00 USD	8/17/18	(30)	(3,000)	(2,925)	(40,888)	37,963
Apple, Inc.	205.00 USD	8/17/18	(185)	(18,500)	(11,563)	(11,426)	(137)
Boeing Co.	380.00 USD	8/17/18	(105)	(10,500)	(4,095)	(18,161)	14,066
DR Horton, Inc.	48.00 USD	9/21/18	(355)	(35,500)	(14,555)	(15,319)	764
Facebook, Inc.	200.00 USD	8/17/18	(260)	(26,000)	(1,950)	(28,535)	26,585
Intel Corp.	56.00 USD	8/17/18	(725)	(72,500)	(1,450)	(21,780)	20,330

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Schedule of Investments

AllianzGI Equity & Convertible Income Fund

July 31, 2018 (unaudited) (continued)

Description	Exercise Price	Expiration Date	Number of Contracts	Notional Amount	Market Value	Premiums Received	Unrealized Appreciation (Depreciation)
Intuitive Surgical, Inc.	565.00 USD	8/17/18	(65)	\$(6,500)	\$(2,437)	\$(17,417)	\$14,980
JPMorgan Chase & Co.	125.00 USD	9/21/18	(480)	(48,000)	(15,600)	(17,895)	2,295
Laboratory Corp. of America Holdings	195.00 USD	8/17/18	(30)	(3,000)	(150)	(4,109)	3,959
Micron Technology, Inc.	62.50 USD	9/21/18	(345)	(34,500)	(21,218)	(22,577)	1,359
NVIDIA Corp.	280.00 USD	8/17/18	(215)	(21,500)	(12,900)	(13,580)	680
ServiceNow, Inc.	205.00 USD	8/17/18	(92)	(9,200)	(1,150)	(9,060)	7,910
Take-Two Interactive Software, Inc.	145.00 USD	8/17/18	(260)	(26,000)	(1,300)	(27,550)	26,250
Texas Instruments, Inc.	121.00 USD	8/17/18	(425)	(42,500)	(2,975)	(16,984)	14,009
Vertex Pharmaceuticals, Inc.	195.00 USD	8/17/18	(120)	(12,000)	(3,000)	(10,912)	7,912
Visa, Inc.	150.00 USD	8/17/18	(385)	(38,500)	(1,732)	(15,951)	14,219
Total options written contracts					\$(139,387)	\$(354,005)	\$214,618

(1) Fair Value Measurements See Note 1(b) in the Notes to Financial Statements.

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 7/31/18
Investments in Securities Assets				
Common Stock	\$438,491,504		\$	\$438,491,504
Convertible Bonds & Notes:				
Energy-Alternate Sources		1,052,012	112,500	1,164,512
All Other		170,297,102		170,297,102
Convertible Preferred Stock:				
Electronics		1,862,520		1,862,520
Equity Real Estate Investment Trusts (REITs)	1,910,576	2,707,952		4,618,528
Food & Beverage		1,352,261		1,352,261
Hand/Machine Tools		2,234,026		2,234,026
Healthcare-Products		3,636,128		3,636,128
Oil, Gas & Consumable Fuels	1,984,252	3		1,984,255
Pharmaceuticals		1,306,396		1,306,396
All Other	20,993,285			20,993,285
Corporate Bonds & Notes		3,039,632		3,039,632
Repurchase Agreements		17,187,000		17,187,000
	463,379,617	204,675,032	112,500	668,167,149
Investments in Securities Liabilities				
Options Written:				
Market Price	(139,387)			(139,387)

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Totals	\$463,240,230	\$204,675,032	\$112,500	\$668,027,762
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At July 31, 2018, a security valued at \$2,234,026 was transferred from Level 1 to Level 2. This transfer was a result of a security with an exchange-traded closing price at January 31, 2018, which was not available on July 31, 2018.

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Schedule of Investments**AllianzGI Equity & Convertible Income Fund**

July 31, 2018 (unaudited) (continued)

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the six months ended July 31, 2018, was as follows:

	Beginning Balance 1/31/18	Purchases	Sales	Accrued Discount (Premiums)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3	Transfers out of Level 3	Ending Balance 7/31/18
Investments in Securities									
Assets									
Convertible Bonds & Notes:									
Energy-Alternate Sources	\$112,500		\$(3,430)	\$10,245	\$	\$(6,815)		\$	\$112,500
Convertible Preferred Stock:									
Equity Real Estate									
Investment Trusts (REITs)	3,125,415		(277,531)		92	(140,024)		(2,707,952)	
Oil, Gas & Consumable									
Fuels	2					1		(3)	
Totals	\$3,237,917		\$(280,961)	\$10,245	\$92	\$(146,838)		\$(2,707,955)	\$112,500

* Transferred out of Level 3 and into Level 2. This transfer was a result of securities with an evaluated mean price at July 31, 2018, which was not available at January 31, 2018.

Issued or removed via corporate action.

The table above includes Level 3 investments that are valued by brokers and pricing services. The inputs for these investments are not readily available or cannot be reasonably estimated and are generally those inputs described in Note 1(b).

The net change in unrealized appreciation/depreciation of Level 3 investments held at July 31, 2018, was \$(6,815). The net realized gain (loss) and net change in unrealized appreciation/depreciation are reflected on the Statements of Operations.

(m) The following is a summary of the Fund's derivatives categorized by risk exposure.

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The effect of derivatives on the Fund's Statements of Assets and Liabilities at July 31, 2018:

Location	Market Price
Liability derivatives:	
Options written, at value	\$(139,387)

The effect of derivatives on the Fund's Statements of Operations for the six months ended July 31, 2018:

Location	Market Price
Net realized gain on:	
Options written	\$718,218
Net change in unrealized appreciation/depreciation of:	
Options written	\$347,025

The average volume (based on the open positions at each month-end) of derivative activity during the six months ended July 31, 2018 was 7,052 call options written contracts.

Glossary:

ADR - American Depositary Receipt

REIT - Real Estate Investment Trust

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Schedule of Investments

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

Common Stock	Shares		Value
	71.1%		
	60,457	Aerospace & Defense 2.9%	\$19,715,027
	151,870	Lockheed Martin Corp.	20,614,834
		United Technologies Corp.	40,329,861
	452,200	Automobiles 1.2%	
		General Motors Co.	17,142,902
	644,200	Banks 11.3%	
	40,011	Bank of America Corp.	19,892,896
	269,790	BB&T Corp.	2,032,959
	464,580	Citigroup, Inc.	19,395,203
	183,400	Citizens Financial Group, Inc.	18,480,992
	348,820	Comerica, Inc.	17,778,796
	291,280	JPMorgan Chase & Co. (g)	40,096,859
	364,640	SunTrust Banks, Inc.	20,992,550
		U.S. Bancorp (g)	19,329,566
			157,999,821
	107,790	Biotechnology 0.7%	
		AbbVie, Inc.	9,941,472
	123,210	Capital Markets 2.6%	
	368,570	Ameriprise Financial, Inc.	17,948,001
		Morgan Stanley (g)	18,634,899
			36,582,900
	183,010	Chemicals 1.4%	
		Eastman Chemical Co.	18,963,496
	438,920	Communications Equipment 1.3%	
		Cisco Systems, Inc.	18,561,927
	348,580	Containers & Packaging 1.3%	
		International Paper Co.	18,729,203
	577,491	Diversified Telecommunication Services 2.8%	
	146,729	AT&T, Inc. (g)	18,462,387
	374,880	Frontier Communications Corp.	765,926
		Verizon Communications, Inc.	19,358,803
			38,587,116
	233,560	Electric Utilities 1.4%	
		Entergy Corp. (g)	18,983,757
	241,670	Electrical Equipment 1.4%	
		Eaton Corp. PLC	20,099,694
	147,400	Energy Equipment & Services 0.7%	
		Schlumberger Ltd.	9,952,448
	214,540	Food & Staples Retailing 1.4%	
		Walmart, Inc. (g)	19,143,404
	150,730	Food Products 2.5%	
		Ingredion, Inc.	15,268,949

Schedule of Investments**AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

July 31, 2018 (unaudited) (continued)

Shares		Value
	Food Products (continued)	
464,200	Mondelez International, Inc., Class A	\$20,136,996
		35,405,945
	Healthcare Equipment & Supplies 2.8%	
298,220	Abbott Laboratories	19,545,339
221,080	Medtronic PLC	19,948,048
		39,493,387
	Healthcare Providers & Services 2.8%	
79,090	Anthem, Inc.	20,009,770
170,290	Quest Diagnostics, Inc. (g)	18,343,639
		38,353,409
	Independent Power Producers & Energy Traders 0.2%	
121,218	Vistra Energy Corp. (i)	2,739,527
	Industrial Conglomerates 1.5%	
131,420	Honeywell International, Inc. (g)	20,981,203
	Insurance 4.0%	
209,120	Allstate Corp.	19,891,494
393,950	MetLife, Inc. (g)	18,019,273
125,780	Reinsurance Group of America, Inc.	17,797,870
		55,708,637
	Media 1.5%	
584,823	Comcast Corp., Class A	20,924,967
	Multi-Line Retail 0.7%	
125,078	Target Corp.	10,091,293
	Multi-Utilities 1.4%	
381,000	Public Service Enterprise Group, Inc. (g)	19,644,360
	Oil, Gas & Consumable Fuels 9.9%	
161,010	Chevron Corp.	20,330,733
264,820	ConocoPhillips	19,112,059
143,980	Magellan Midstream Partners L.P. (g)	10,332,005
229,929	Occidental Petroleum Corp.	19,297,941
549,460	Royal Dutch Shell PLC, Class A, ADR (g)	37,566,580
193,488	Southwestern Energy Co. (i)	994,528
235,400	TransCanada Corp.	10,581,230
142,650	Valero Energy Corp.	16,882,628
139,149	WPX Energy, Inc. (i)	2,611,827
		137,709,531
	Pharmaceuticals 4.8%	
20,721	Allergan PLC	3,814,529
223,109	Eli Lilly & Co.	22,045,400
154,500	Johnson & Johnson	20,474,340
527,194	Pfizer, Inc. (g)	21,050,857
		67,385,126
	Road & Rail 1.5%	

177,390 Kansas City Southern

20,625,135

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Schedule of Investments

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

Shares		Value
	Semiconductors & Semiconductor Equipment 2.1%	
361,690	Intel Corp. (g)	\$17,397,289
58,960	Lam Research Corp. (g)	11,240,134
		28,637,423
	Technology Hardware, Storage & Peripherals 2.8%	
105,710	Apple, Inc. (g)	20,115,556
827,790	HP, Inc. (g)	19,105,393
		39,220,949
	Textiles, Apparel & Luxury Goods 1.4%	
209,380	VF Corp.	19,277,617
	Tobacco 0.8%	
178,150	Altria Group, Inc.	10,453,842
Total Common Stock (cost-\$906,732,471)		991,670,352
Principal Amount (000s)		
Convertible Bonds & Notes 21.8%		
\$3,110	Aerospace & Defense 0.2%	
	Arconic, Inc., 1.625%, 10/15/19	3,210,382
	Auto Manufacturers 0.5%	
5,615	Tesla, Inc., 0.25%, 3/1/19	5,797,768
1,290	2.375%, 3/15/22	1,393,048
		7,190,816
	Biotechnology 1.7%	
5,050	BioMarin Pharmaceutical, Inc., 0.599%, 8/1/24	5,341,476
2,290	1.50%, 10/15/20	2,810,425
2,265	Exact Sciences Corp., 1.00%, 1/15/25	2,357,559
2,820	Illumina, Inc., 0.50%, 6/15/21	4,013,469
1,120	Innoviva, Inc., 2.50%, 8/15/25 (a)(b)	1,191,442
1,940	Insmed, Inc., 1.75%, 1/15/25	1,825,604
625	Ionis Pharmaceuticals, Inc., 1.00%, 11/15/21	622,155
2,430	Ligand Pharmaceuticals, Inc., 0.75%, 5/15/23 (a)(b)	2,580,480
2,295	Medicines Co., 2.75%, 7/15/23	2,429,717
965	PTC Therapeutics, Inc., 3.00%, 8/15/22	1,001,116
		24,173,443
	Commercial Services 0.5%	
1,835	Macquarie Infrastructure Corp., 2.875%, 7/15/19	1,825,840
4,140	Square, Inc., 0.50%, 5/15/23 (a)(b)	4,542,019
		6,367,859
	Computers 1.0%	
3,570	Electronics For Imaging, Inc., 0.75%, 9/1/19	3,562,192
655	Lumentum Holdings, Inc., 0.25%, 3/15/24	735,963

Schedule of Investments**AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Computers (continued)	
\$2,725	Nutanix, Inc., zero coupon, 1/15/23 (a)(b)	\$3,258,642
2,815	Pure Storage, Inc., 0.125%, 4/15/23 (a)(b)	2,979,146
3,875	Western Digital Corp., 1.50%, 2/1/24 (a)(b)	3,801,983
		14,337,926
	Diversified Financial Services 0.8%	
5,000	Encore Capital Group, Inc., 2.875%, 3/15/21	4,624,895
1,670	LendingTree, Inc., 0.625%, 6/1/22	2,175,517
4,990	PRA Group, Inc., 3.00%, 8/1/20	4,819,068
		11,619,480
	Electric Utilities 0.1%	
770	NRG Energy, Inc., 2.75%, 6/1/48 (a)(b)	750,598
	Electrical Equipment 0.1%	
2,195	SunPower Corp., 4.00%, 1/15/23	1,768,246
	Electronics 0.2%	
2,530	OSI Systems, Inc., 1.25%, 9/1/22	2,454,272
	Energy-Alternate Sources 0.2%	
	SunEdison, Inc. (a)(b)(d)(f),	
2,915	2.625%, 6/1/23	65,588
3,820	3.375%, 6/1/25	85,950
2,205	Tesla Energy Operations, Inc., 1.625%, 11/1/19	1,982,639
		2,134,177
	Engineering & Construction 0.3%	
1,665	Dycom Industries, Inc., 0.75%, 9/15/21	1,859,197
2,570	Tutor Perini Corp., 2.875%, 6/15/21	2,559,761
		4,418,958
	Entertainment 0.4%	
3,025	Live Nation Entertainment, Inc., 2.50%, 3/15/23 (a)(b)	3,185,258
1,900	Marriott Vacations Worldwide Corp., 1.50%, 9/15/22 (a)(b)	1,970,530
		5,155,788
	Equity Real Estate Investment Trusts (REITs) 0.7%	
3,600	IH Merger Sub LLC, 3.50%, 1/15/22	3,983,062
1,965	Spirit Realty Capital, Inc., 2.875%, 5/15/19	1,949,307
4,000	Two Harbors Investment Corp., 6.25%, 1/15/22	4,130,616
		10,062,985
	Healthcare-Products 0.8%	
1,945	Insulet Corp., 1.375%, 11/15/24 (a)(b)	2,121,526
3,135	NuVasive, Inc., 2.25%, 3/15/21	3,565,539
5,117	Wright Medical Group, Inc., 1.625%, 6/15/23 (a)(b)	5,062,182
		10,749,247
	Insurance 0.2%	
2,090	AXA S.A., 7.25%, 5/15/21 (a)(b)	2,289,252
	Internet 2.9%	
3,920	Altaba, Inc., zero coupon, 12/1/18	5,348,017

Schedule of Investments**AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Internet (continued)	
\$2,900	Booking Holdings, Inc., 0.35%, 6/15/20	\$4,497,694
3,800	0.90%, 9/15/21	4,515,821
1,700	FireEye, Inc., 0.875%, 6/1/24 (a)(b)	1,615,726
2,150	1.625%, 6/1/35, Ser. B	1,964,848
3,385	IAC FinanceCo., Inc., 0.875%, 10/1/22 (a)(b)	3,829,356
2,620	Liberty Expedia Holdings, Inc., 1.00%, 6/30/47 (a)(b)	2,664,278
1,800	Okta, Inc., 0.25%, 2/15/23 (a)(b)	2,195,338
1,055	Palo Alto Networks, Inc., zero coupon, 7/1/19	1,894,448
3,260	0.75%, 7/1/23 (a)(b)	3,217,747
1,615	Twilio, Inc., 0.25%, 6/1/23 (a)(b)	1,701,420
2,080	Twitter, Inc., 0.25%, 9/15/19	2,004,427
2,040	0.25%, 6/15/24 (a)(b)	1,860,645
2,150	1.00%, 9/15/21	1,998,625
1,175	Wayfair, Inc., 0.375%, 9/1/22 (a)(b)	1,432,470
		40,740,860
	Iron/Steel 0.2%	
1,255	Allegheny Technologies, Inc., 4.75%, 7/1/22	2,594,483
	Lodging 0.3%	
2,315	Caesars Entertainment Corp., 5.00%, 10/1/24	4,164,477
	Machinery-Diversified 0.2%	
1,710	Chart Industries, Inc., 1.00%, 11/15/24 (a)(b)	2,447,526
	Media 1.4%	
2,300	DISH Network Corp., 2.375%, 3/15/24	2,009,393
6,545	3.375%, 8/15/26	5,962,200
1,600	Liberty Interactive LLC, 1.75%, 9/30/46 (a)(b)	1,742,974
2,295	Liberty Media Corp., 1.00%, 1/30/23	2,596,770
2,815	1.375%, 10/15/23	3,568,857
3,625	2.125%, 3/31/48 (a)(b)	3,660,210
		19,540,404
	Oil, Gas & Consumable Fuels 1.0%	
4,240	Chesapeake Energy Corp., 5.50%, 9/15/26	4,226,555
600	Helix Energy Solutions Group, Inc., 4.25%, 5/1/22	664,655
2,000	Nabors Industries, Inc., 0.75%, 1/15/24	1,569,780
3,000	SM Energy Co., 1.50%, 7/1/21	3,161,400
1,700	Transocean, Inc., 0.50%, 1/30/23	2,365,336
1,935	Weatherford International Ltd., 5.875%, 7/1/21	1,920,011
		13,907,737

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Schedule of Investments

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Pharmaceuticals 1.0%	
	Jazz Investments I Ltd.,	
\$2,135	1.50%, 8/15/24 (a)(b)	\$2,224,179
3,600	1.875%, 8/15/21	3,899,455
1,890	Neurocrine Biosciences, Inc., 2.25%, 5/15/24	2,774,528
340	Paratek Pharmaceuticals, Inc., 4.75%, 5/1/24 (a)(b)	325,800
1,945	Sarepta Therapeutics, Inc., 1.50%, 11/15/24 (a)(b)	3,396,707
515	TESARO, Inc., 3.00%, 10/1/21	655,095
885	Teva Pharmaceutical Finance Co. LLC, 0.25%, 2/1/26, Ser. C	835,014
		14,110,778
	Pipelines 0.2%	
4,335	Cheniere Energy, Inc., 4.25%, 3/15/45	3,411,680
	Retail 0.1%	
1,855	RH, zero coupon, 6/15/23 (a)(b)	1,710,462
	Semiconductors 3.4%	
1,435	Advanced Micro Devices, Inc., 2.125%, 9/1/26	3,423,761
	Cypress Semiconductor Corp.,	
4,320	2.00%, 2/1/23 (a)(b)	4,695,753
385	4.50%, 1/15/22	557,311
2,380	Intel Corp., 3.25%, 8/1/39	5,522,090
10,510	Microchip Technology, Inc., 1.625%, 2/15/27	12,562,719
3,900	Micron Technology, Inc., 3.00%, 11/15/43, Ser. G	7,050,896
675	Novellus Systems, Inc., 2.625%, 5/15/41	3,862,079
2,910	ON Semiconductor Corp., 1.625%, 10/15/23	3,655,760
3,275	Silicon Laboratories, Inc., 1.375%, 3/1/22	3,853,037
905	Synaptics, Inc., 0.50%, 6/15/22	897,440
1,605	Veeco Instruments, Inc., 2.70%, 1/15/23	1,428,604
		47,509,450
	Software 2.3%	
2,415	Akamai Technologies, Inc., 0.125%, 5/1/25 (a)(b)	2,431,144
1,980	Alteryx, Inc., 0.50%, 6/1/23 (a)(b)	2,183,241
2,040	Avaya Holdings Corp., 2.25%, 6/15/23 (a)(b)	2,022,503
4,320	Citrix Systems, Inc., 0.50%, 4/15/19	6,581,693
1,945	Evolent Health, Inc., 2.00%, 12/1/21	2,165,244
925	New Relic, Inc., 0.50%, 5/1/23 (a)(b)	1,005,526
	Nuance Communications, Inc.,	
3,375	1.00%, 12/15/35	3,054,844
1,950	1.25%, 4/1/25	1,869,617
1,555	Proofpoint, Inc., 0.75%, 6/15/20	2,244,781
1,980	ServiceNow, Inc., zero coupon, 11/1/18	4,702,688
3,755	Workday, Inc., 0.25%, 10/1/22 (a)(b)	3,969,508
		32,230,789
	Telecommunications 0.7%	
1,060	Ciena Corp., 3.75%, 10/15/18	1,349,861
2,795	Finisar Corp., 0.50%, 12/15/36	2,524,151
2,475	GDS Holdings Ltd., 2.00%, 6/1/25 (a)(b)	1,864,885

Schedule of Investments

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Telecommunications (continued)	
\$3,770	Viavi Solutions, Inc., 1.00%, 3/1/24	\$3,763,403
		9,502,300
	Transportation 0.4%	
2,620	Atlas Air Worldwide Holdings, Inc., 2.25%, 6/1/22	3,093,238
595	Echo Global Logistics, Inc., 2.50%, 5/1/20	658,567
2,065	Greenbrier Cos., Inc., 2.875%, 2/1/24	2,456,059
		6,207,864
	Total Convertible Bonds & Notes (cost-\$296,168,333)	304,762,239
	Convertible Preferred Stock 5.3%	
6,455	Banks 1.3%	
8,240	Bank of America Corp., 7.25%, Ser. L (e)	8,212,309
	Wells Fargo & Co., 7.50%, Ser. L (e)	10,456,560
		18,668,869
	Commercial Services & Supplies 0.1%	
30,390	Stericycle, Inc., 5.25%, 9/15/18	1,596,083
	Electric Utilities 0.4%	
90,000	NextEra Energy, Inc., 6.123%, 9/1/19	5,152,500
	Electronic Equipment, Instruments & Components 0.1%	
19,650	Belden, Inc., 6.75%, 7/15/19	1,728,807
	Electronics 0.3%	
3,195	Fortive Corp., 5.00%, 7/1/21, Ser. A	3,381,109
	Equity Real Estate Investment Trusts (REITs) 0.6%	
4,525	Crown Castle International Corp., 6.875%, 8/1/20, Ser. A	4,881,865
61,055	Welltower, Inc., 6.50%, Ser. I (e)	3,626,057
		8,507,922
	Food & Beverage 0.2%	
15,970	Post Holdings, Inc., 2.50% (e)	2,561,757
	Gas Utilities 0.3%	
78,185	South Jersey Industries, Inc., 7.25%, 4/15/21	4,286,884
	Hand/Machine Tools 0.3%	
37,185	Stanley Black & Decker, Inc., 5.375%, 5/15/20	4,239,462
	Healthcare-Products 0.5%	
108,135	Becton Dickinson and Co., 6.125%, 5/1/20, Ser. A	6,838,133
	Metal Fabricate/Hardware 0.2%	
44,915	Rexnord Corp., 5.75%, 11/15/19, Ser. A	2,868,721
	Multi-Utilities 0.2%	
32,295	Sempra Energy, 6.00%, 1/15/21, Ser. A	3,304,101
	Oil, Gas & Consumable Fuels 0.6%	
45,100	ATP Oil & Gas Corp., 8.00% (cost-\$4,510,000; purchased 9/23/09)	4
	(a)(b)(e)(h)	
90,780	Kinder Morgan, Inc., 9.75%, 10/26/18, Ser. A	3,044,852
15,975	Nabors Industries Ltd., 6.00%, 5/1/21	684,529

Schedule of Investments**AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

July 31, 2018 (unaudited) (continued)

Shares		Value
	Oil, Gas & Consumable Fuels (continued)	
213,230	Sanchez Energy Corp., 6.50%, Ser. B (e)	\$3,804,023 7,533,408
	Pharmaceuticals 0.2%	
6,225	Teva Pharmaceutical Industries Ltd., 7.00%, 12/15/18	2,747,404
Total Convertible Preferred Stock (cost-\$82,890,641)		73,415,160
	Corporate Bonds & Notes 0.4%	
Principal Amount (000s)		
\$4,647	Oil, Gas & Consumable Fuels 0.2% Cobalt International Energy, Inc., 7.75%, 12/1/23 (c)	2,662,173
2,805	Pharmaceuticals 0.2% Herbalife Nutrition Ltd., 2.625%, 3/15/24 (a)(b)	2,918,432
Total Corporate Bonds & Notes (cost-\$7,348,152)		5,580,605
	Warrants (b)(d)(f)(i) 0.0%	
Units		
97,838	Commercial Services 0.0% Cenveo, Inc., strike price \$12.00, expires 6/10/24 (cost-\$0)	1
	Short-Term Investments 1.4%	
Principal Amount (000s)		
\$19,353	Repurchase Agreements 1.4% State Street Bank and Trust Co., dated 7/31/18, 0.35%, due 8/1/18, proceeds \$19,353,188; collateralized by U.S. Treasury Bonds, 2.875%, due 7/31/25, valued at \$19,750,500 including accrued interest (cost-\$19,353,000)	19,353,000
Total Investments, before options written (cost-\$1,312,492,597) 100.0%		1,394,781,357
Total Options Written (0.0%) (premiums received-\$584,809) (i)(j)(k)		(535,164)
Total Investments, net of options written (cost-\$1,311,907,788) 100.0%		1,394,246,193
Other liabilities in excess of other assets (0.0)%		(28,719)
Net Assets 100.0%		\$1,394,217,474

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Schedule of Investments

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

Notes to Schedule of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$89,000,430, representing 6.4% of net assets.
- (b) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Securities with an aggregate value of \$89,000,431, representing 6.4% of net assets.
- (c) In default.
- (d) Fair-Valued Securities with an aggregate value of \$151,539, representing less than 0.05% of net assets. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (e) Perpetual maturity. The date shown, if any, is the next call date.
- (f) Level 3 security. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (g) All or partial amount segregated for the benefit of the counterparty as collateral for options written.
- (h) Restricted. The cost of such security is \$4,510,000. The value is \$4, representing less than 0.05% of net assets.
- (i) Non-income producing.
- (j) Exchange traded-Chicago Board Options Exchange.
- (k) Exchange traded option contracts outstanding at July 31, 2018:

Options written contracts outstanding at July 31, 2018:

Description	Exercise Price	Expiration Date	Number of Contracts	Notional Amount	Market Value	Premiums Received	Unrealized Appreciation (Depreciation)
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Call options:

Abbott Laboratories	65.00 USD	8/10/18	(1,000)	\$(100,000)	\$(103,500)	\$(43,000)	\$(60,500)
Anthem, Inc.	260.00 USD	8/17/18	(270)	(27,000)	(36,585)	(50,759)	14,174
Cisco Systems, Inc.	44.00 USD	8/10/18	(1,536)	(153,600)	(13,056)	(70,655)	57,599
Citigroup, Inc.	73.50 USD	8/17/18	(944)	(94,400)	(34,928)	(40,592)	5,664
General Motors Co.	41.00 USD	8/17/18	(1,500)	(150,000)	(11,250)	(73,499)	62,249
HP, Inc.	24.00 USD	8/17/18	(3,000)	(300,000)	(33,000)	(56,999)	23,999
Medtronic PLC	87.50 USD	8/17/18	(774)	(77,400)	(243,810)	(74,652)	(169,158)
Public Service Enterprise Group, Inc.	55.00 USD	8/17/18	(1,334)	(133,400)	(3,335)	(45,355)	42,020
Quest Diagnostics, Inc.	115.00 USD	8/17/18	(690)	(69,000)	(3,450)	(82,799)	79,349
Schlumberger Ltd.	68.50 USD	8/24/18	(500)	(50,000)	(52,250)	(46,499)	(5,751)
Total options written contracts					\$(535,164)	\$(584,809)	\$49,645

(l) Fair Value Measurements See Note 1(b) in the Notes to Financial Statements.

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 7/31/18
Investments in Securities Assets				
Common Stock	\$991,670,352		\$	\$991,670,352
Convertible Bonds & Notes:				
Energy-Alternate Sources		1,982,639	151,538	2,134,177
All Other		302,628,062		302,628,062
Convertible Preferred Stock:				
Electronics		3,381,109		3,381,109
Equity Real Estate Investment Trusts (REITs)	3,626,057	4,881,865		8,507,922

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Schedule of Investments**AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

July 31, 2018 (unaudited) (continued)

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 7/31/18
Food & Beverage	\$	\$2,561,757	\$	\$2,561,757
Hand/Machine Tools		4,239,462		4,239,462
Healthcare-Products		6,838,133		6,838,133
Oil, Gas & Consumable Fuels	3,729,381	3,804,027		7,533,408
Pharmaceuticals		2,747,404		2,747,404
All Other	37,605,965			37,605,965
Corporate Bonds & Notes		5,580,605		5,580,605
Warrants			1	1
Repurchase Agreements		19,353,000		19,353,000
	1,036,631,755	357,998,063	151,539	1,394,781,357
Investments in Securities				
Liabilities				
Options Written:				
Market Price	(535,164)			(535,164)
Totals	\$1,036,096,591	\$357,998,063	\$151,539	\$1,394,246,193

At July 31, 2018, a security valued at \$4,239,462 was transferred from Level 1 to Level 2. This transfer was a result of a security with an exchange-traded closing price at January 31, 2018, which was not available on July 31, 2018.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the six months ended July 31, 2018, was as follows:

	Beginning Balance 1/31/18	Purchases	Sales	Accrued Discount (Premiums)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3	Transfers out of Level 3*	Ending Balance 7/31/18
Investments in Securities									
Assets									
Convertible Bonds & Notes:									
Energy-Alternate Sources	\$151,538		\$(4,624)	\$7,988	\$	\$(3,364)			\$ 151,538
Convertible Preferred Stock:									
Equity Real Estate									
Investment Trusts (REITs)	5,907,934		(750,362)		179	(275,886)		(4,881,865)	
	4							(4)	

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Oil, Gas & Consumable

Fuels							
Warrants	4,345				(4,344)		1
Totals	\$6,063,821	\$(754,986)	\$7,988	\$179	\$(283,594)	\$(4,881,869)	\$151,539

* Transferred out of Level 3 and into Level 2. This transfer was a result of a security with an evaluated mean price at July 31, 2018, which was not available at January 31, 2018.

Issued or removed via corporate action.

The table above includes Level 3 investments that are valued by brokers and pricing services. The inputs for these investments are not readily available or cannot be reasonably estimated and are generally those inputs described in Note 1(b).

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Schedule of Investments

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

The net change in unrealized appreciation/depreciation of Level 3 investments held at July 31, 2018, was \$(7,708). The net realized gain (loss) and net change in unrealized appreciation/depreciation are reflected on the Statements of Operations.

(m) The following is a summary of the Fund's derivatives categorized by risk exposure.

The effect of derivatives on the Fund's Statements of Assets and Liabilities at July 31, 2018:

Location	Market Price
Liability derivatives:	
Options written, at value	\$(535,164)

The effect of derivatives on the Fund's Statements of Operations for the six months ended July 31, 2018:

Location	Market Price
Net realized loss on:	
Options written	\$(487,558)
Net change in unrealized appreciation/depreciation of:	
Options written	\$2,657,377

The average volume (based on the open positions at each month-end) of derivative activity during the six months ended July 31, 2018 was 23,173 call options written contracts.

Glossary:

ADR - American Depositary Receipt

REIT - Real Estate Investment Trust

See accompanying Notes to Financial Statements | July 31, 2018 | Semi-Annual Report **51**

Statements of Assets and Liabilities**AllianzGI Diversified Income & Convertible Fund****AllianzGI Equity & Convertible Income Fund****AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

July 31, 2018 (unaudited)

	Diversified Income & Convertible	Equity & Convertible Income	Dividend, Interest & Premium Strategy
Assets:			
Investments, at value (cost-\$366,703,758, \$712,576,655 and \$1,312,492,597, respectively)	\$350,226,997	\$668,167,149	\$1,394,781,357
Cash		1,177	108,768
Receivable for investments sold	1,834,658	602,233	17,675,257
Interest and dividends receivable	2,085,131	1,301,619	3,024,236
Investments in Affiliated Funds- Trustees Deferred Compensation Plan (see Note 4)	33,735	83,629	184,377
Prepaid expenses and other assets	18,590	27,675	67,793
Total Assets	354,199,111	670,183,482	1,415,841,788
Liabilities:			
Loan payable (See Note 7 and Note 8)	75,000,000		
Payable for investments purchased	3,486,927	1,594,484	19,272,352
Dividends payable to common shareholders	1,716,997		
Payable to custodian for cash overdraft	1,143,604		
Loan interest payable	805,830		
Investment management fees payable	286,320	549,495	1,017,027
Interest payable on dividends to mandatory redeemable preferred shareholders	99,610		
Trustees Deferred Compensation Plan payable (see Note 4)	33,735	83,629	184,377
Call options written, at value (premiums received- \$64,122, \$354,005 and \$584,809, respectively)	26,579	139,387	535,164
Accrued expenses	288,761	254,054	615,394
Mandatory redeemable preferred shares (see Note 7)	30,000,000		
Total Liabilities	112,888,363	2,621,049	21,624,314
Net Assets Applicable to Common Shareholders	\$241,310,748	\$667,562,433	\$1,394,217,474
Composition of Net Assets Applicable to Common Shareholders:			
Common Stock:			
Par value (\$0.00001 per share)	\$103	\$277	\$948
Paid-in-capital in excess of par	250,765,185	671,525,781	1,327,402,207
Dividends in excess of net investment income	(3,647,321)	(2,163,577)	(29,975,876)
Accumulated net realized gain	10,631,999	42,397,100	14,451,790
Net unrealized appreciation (depreciation)	(16,439,218)	(44,197,148)	82,338,405
Net Assets Applicable to Common Shareholders	\$241,310,748	\$667,562,433	\$1,394,217,474
Common Shares Issued and Outstanding	10,281,421	27,708,965	94,801,581
Net Asset Value Per Common Share	\$23.47	\$24.09	\$14.71

Statements of Operations**AllianzGI Diversified Income & Convertible Fund****AllianzGI Equity & Convertible Income Fund****AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

Six Months ended July 31, 2018 (unaudited)

	Diversified Income & Convertible	Equity & Convertible Income	Dividend, Interest & Premium Strategy
Investment Income:			
Interest	\$3,592,565	\$1,775,020	\$3,048,593
Dividends (net of foreign withholding taxes of \$0, \$0 and \$201,867, respectively)	1,458,669	4,948,652	16,308,430
Miscellaneous	9,155		7,202
Total Investment Income	5,060,389	6,723,672	19,364,225
Expenses:			
Investment management	1,706,692	3,263,898	6,180,873
Loan expense	1,385,574		
Interest on dividends to mandatory redeemable preferred shareholders	643,886		
Custodian and accounting agent	52,490	44,345	108,962
Audit and tax services	44,877	44,572	53,374
Shareholder communications	28,582	37,968	90,864
Transfer agent	15,472	12,443	12,441
Legal	13,190	15,195	30,899
Trustees	7,808	20,466	45,841
New York Stock Exchange listing	6,229	7,077	24,214
Insurance	4,986	8,937	18,653
Miscellaneous	12,331	2,379	26,039
Total Expenses	3,922,117	3,457,280	6,592,160
Net Investment Income	1,138,272	3,266,392	12,772,065
Realized and Change in Unrealized Gain (Loss):			
Net realized gain (loss) on:			
Investments	12,926,100	64,211,016	41,033,475
Call options written	153,283	718,218	(487,558)
Foreign currency transactions			2,420
Net change in unrealized appreciation/depreciation of:			
Investments	(8,203,940)	(59,162,075)	(71,684,972)
Call options written	61,246	347,025	2,657,377
Foreign currency transactions		(803)	
Net realized and change in unrealized gain (loss)	4,936,689	6,113,381	(28,479,258)
Net Increase (Decrease) in Net Assets Resulting from Investment Operations	\$6,074,961	\$9,379,773	\$(15,707,193)

Statement of Changes in Net Assets Applicable to Common Shareholders**AllianzGI Diversified Income & Convertible Fund**

	Six Months ended July 31, 2018 (unaudited)	Year ended January 31, 2018
Investment Operations:		
Net investment income	\$1,138,272	\$2,983,622
Net realized gain	13,079,383	21,579,721
Net change in unrealized appreciation/depreciation	(8,142,694)	19,560,672
Net increase in net assets resulting from investment operations	6,074,961	44,124,015
Dividends and Distributions to Common Shareholders from:		
Net investment income	(1,716,997)	(4,515,790)
Net realized gains	(8,579,600)	(16,075,250)
Total dividends and distributions to common shareholders	(10,296,597)	(20,591,040)
Common Share Transactions:		
Reinvestment of dividends and distributions	150,361	
Total increase (decrease) in net assets	(4,071,275)	23,532,975
Net Assets:		
Beginning of period	245,382,023	221,849,048
End of period*	\$241,310,748	\$245,382,023
* Including dividends in excess of net investment income of:	\$(3,647,321)	\$(3,068,596)
Shares Activity:		
Shares outstanding, beginning of period	10,274,970	10,274,970
Shares reinvested	6,451	
Shares outstanding, end of period	10,281,421	10,274,970

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Statements of Changes in Net Assets**AllianzGI Equity & Convertible Income Fund
AllianzGI NFJ Dividend, Interest & Premium Strategy Fund****Equity & Convertible Income:**

	Six Months ended July 31, 2018 (unaudited)	Year ended January 31, 2018
Investment Operations:		
Net investment income	\$3,266,392	\$11,124,921
Net realized gain	64,929,234	33,268,378
Net change in unrealized appreciation/depreciation	(58,815,853)	80,054,873
Net increase in net assets resulting from investment operations	9,379,773	124,448,172
Dividends and Distributions to Shareholders from:		
Net investment income	(4,667,325)	(11,985,450)
Net realized gains	(16,391,488)	(30,132,177)
Total dividends and distributions to shareholders	(21,058,813)	(42,117,627)
Total increase (decrease) in net assets	(11,679,040)	82,330,545
Net Assets:		
Beginning of period	679,241,473	596,910,928
End of period*	\$667,562,433	\$679,241,473
* Including dividends in excess of net investment income of:	\$(2,163,577)	\$(762,644)

Dividend, Interest & Premium Strategy:

	Six Months ended July 31, 2018 (unaudited)	Year ended January 31, 2018
Investment Operations:		
Net investment income	\$12,772,065	\$28,108,553
Net realized gain	40,548,337	59,301,599
Net change in unrealized appreciation/depreciation	(69,027,595)	76,711,228
Net increase (decrease) in net assets resulting from investment operations	(15,707,193)	164,121,380
Dividends and Distributions to Shareholders from:		
Net investment income	(42,660,711)	(28,416,813)
Return of capital		(78,234,965)
Total dividends and distributions to shareholders	(42,660,711)	(106,651,778)
Total increase (decrease) in net assets	(58,367,904)	57,469,602
Net Assets:		
Beginning of period	1,452,585,378	1,395,115,776
End of period*	\$1,394,217,474	\$1,452,585,378
* Including dividends in excess of net investment income of:	\$(29,975,876)	\$(87,230)

See accompanying Notes to Financial Statements | July 31, 2018 | Semi-Annual Report **55**

Statement of Cash Flows***AllianzGI Diversified Income & Convertible Fund**

For the Six Months ended July 31, 2018 (unaudited)

Increase (Decrease) in Cash from:**Cash Flows provided by Operating Activities:**

Net increase in net assets resulting from investment operations	\$6,074,961
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Adjustments to Reconcile Net Increase in Net Assets Resulting from Investment Operations to Net Cash provided by Operating Activities:

Purchases of long-term investments	(201,494,595)
Proceeds from sales of long-term investments	205,174,582
Sales of short-term portfolio investments, net	5,773,550
Net change in unrealized appreciation/depreciation	8,142,694
Net amortization/accretion on investments	(41,677)
Net realized gain	(13,079,383)
Decrease in payable for investments purchased	(5,659,805)
Proceeds from sale of written options	551,037
Payments to cover written options	(421,050)
Increase in investments in Affiliated Funds Trustees Deferred Compensation Plan	(12,671)
Increase in Trustees Compensation Plan payable	12,671
Decrease in receivable for investments sold	6,657,417
Increase in interest and dividends receivable	(94,431)
Increase in prepaid expenses and other assets	(2,788)
Decrease in investment management fees payable	(226)
Decrease in accrued expenses	(133,670)
Increase in loan interest payable	6,893
Net cash provided by operating activities	11,453,509

Cash Flows used for Financing Activities:

Decrease in payable to custodian for cash overdraft	(1,301,236)
Cash dividends paid	(10,152,273)
Net cash used for financing activities	(11,453,509)
Net increase (decrease) in cash	

Cash:

Beginning of period	
End of period	\$

Noncash Investing and Financing Activities:

Noncash investing transactions Conversions of convertible preferred stock	\$12,791,818
Cash Paid for Interest	\$1,378,681
Cash Paid for Interest on Dividends to Mandatory Redeemable Preferred Shares	\$651,000

* A Statement of Cash Flows is not required for Equity & Convertible Income and Dividend, Interest & Premium Strategy.

Financial Highlights**AllianzGI Diversified Income & Convertible Fund**

For a common share outstanding throughout each period:

	Six Months ended July 31, 2018 (unaudited)	Year ended January 31, 2018 2017		For the period May 27, 2015* through January 31, 2016
Net asset value, beginning of period	\$23.88	\$21.59	\$18.91	\$23.88
Investment Operations:				
Net investment income (1)	0.11	0.29	0.39	0.18
Net realized and change in unrealized gain (loss)	0.48	4.00	4.21	(4.09)
Total from investment operations	0.59	4.29	4.60	(3.91)
Dividends and Distributions to Common Shareholders from:				
Net Investment Income	(0.17)	(0.44)	(0.51)	(0.62)
Net realized gains	(0.83)	(1.56)	(1.49)	(0.55)
Total dividends and distributions to common shareholders	(1.00)	(2.00)	(2.00)	(1.17)
Common Share Transactions:				
Offering costs charged to paid-in-capital in excess of par				(0.05)
Accretion to net asset value resulting from share repurchases			0.08	0.16
Net asset value, end of period	\$23.47	\$23.88	\$21.59	\$18.91
Market price, end of period	\$24.09	\$22.40	\$19.49	\$16.40
Total Investment Return (2)	12.37%	26.13%	32.56%	(30.12)%
RATIOS/SUPPLEMENTAL DATA:				
Net assets, end of period (000s)	\$241,311	\$245,382	\$221,849	\$201,644
Ratio of expenses to average net assets, including interest expense (4)(5)	3.31%(3)	3.36%(6)	3.48%(6)	3.26%(3)
Ratio of expenses to average net assets, excluding interest expense (4)(5)	2.14%(3)	2.26%(6)	2.34%(6)	2.56%(3)
Ratio of net investment income to average net assets (5)	0.96%(3)	1.30%(6)	1.90%(6)	1.24%(3)
Mandatory redeemable preferred shares asset coverage per share	\$225	\$229	\$209	\$193
Portfolio turnover rate	60%	154%	196%	149%

* Commencement of operations.

(1) Calculated on average common shares outstanding during the period.

(2) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each period reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares. Total investment return for a period of less than one year is not annualized.

(3) Annualized.

(4) Interest expense relates to participation in Senior Secured Notes and Margin Loan Financing (See Note 7 and Note 8).

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- (5) Calculated on the basis of income and expenses applicable to both common and mandatory redeemable preferred shares relative to average net assets of common shareholders.
- (6) Inclusive of excise tax expense of 0.07% and 0.01% for the years ended January 31, 2018 and January 31, 2017, respectively.

See accompanying Notes to Financial Statements | July 31, 2018 | Semi-Annual Report **57**

Financial Highlights**AllianzGI Equity & Convertible Income Fund**

For a share outstanding throughout each period:

	Six Months ended July 31, 2018 (unaudited)	2018	2017	Year ended January 31,		2014
				2016	2015	
Net asset value, beginning of period	\$24.51	\$21.54	\$19.90	\$22.13	\$21.79	\$20.10
Investment Operations:						
Net investment income (1)	0.12	0.40	0.41	0.47	0.53	0.56
Net realized and change in unrealized gain (loss)	0.22	4.09	2.75	(1.18)	1.13	2.49
Total from investment operations	0.34	4.49	3.16	(0.71)	1.66	3.05
Dividends and Distributions to Shareholders from:						
Net Investment Income	(0.17)	(0.43)	(0.54)	(0.41)	(0.63)	(0.92)
Net realized gains	(0.59)	(1.09)	(0.98)	(1.11)	(0.69)	(0.44)
Total dividends and distributions to shareholders	(0.76)	(1.52)	(1.52)	(1.52)	(1.32)	(1.36)
Net asset value, end of period	\$24.09	\$24.51	\$21.54	\$19.90	\$22.13(2)	\$21.79
Market price, end of period	\$23.06	\$22.08	\$19.03	\$16.97	\$20.01	\$18.73
Total Investment Return (3)	8.18%	24.96%	21.69%	(8.01)%	14.07%	12.35%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000s)	\$667,562	\$679,241	\$596,911	\$551,378	\$613,133	\$603,786
Ratio of expenses to average net assets	1.06%(5)	1.07%	1.08%	1.10%(6)	1.13%(6)	1.09%(4)
Ratio of net investment income to average net assets	1.00%(5)	1.80%	1.94%	2.15%(6)	2.34%(6)	2.39%(4)
Portfolio turnover rate	53%	99%	90%	110%	63%	82%

(1) Calculated on average shares outstanding during the period.

(2) Payment from affiliate increased the net asset value by less than \$0.01.

(3) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each period reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares. Total investment return for a period of less than one year is not annualized.

(4) Inclusive of Reimbursement from Investment Manager of 0.02%.

(5) Annualized.

(6) Inclusive of excise tax expense of 0.02% and 0.05% for the years ended January 31, 2016 and January 31, 2015, respectively.

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Financial Highlights**AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

For a share outstanding throughout each period:

	Six Months ended July 31, 2018 (unaudited)	2018	2017	Year ended January 31, 2016	2015	2014
Net asset value, beginning of period	\$15.32	\$14.72	\$13.59	\$16.95	\$18.19	\$17.91
Investment Operations:						
Net investment income (1)	0.13	0.30	0.35	0.38	0.41	0.49
Net realized and change in unrealized gain (loss)	(0.29)	1.43	1.98	(2.09)	0.15	1.59
Total from investment operations	(0.16)	1.73	2.33	(1.71)	0.56	2.08
Dividends and Distributions to Shareholders from:						
Net Investment Income	(0.45)	(0.30)	(0.37)	(0.39)	(0.65)	(0.54)
Return of capital		(0.83)	(0.83)	(1.26)	(1.15)	(1.26)
Total dividends and distributions to shareholders	(0.45)	(1.13)	(1.20)	(1.65)	(1.80)	(1.80)
Net asset value, end of period	\$14.71	\$15.32	\$14.72	\$13.59	\$16.95(2)	\$18.19
Market price, end of period	\$12.86	\$13.52	\$13.03	\$11.50	\$15.88	\$17.86
Total Investment Return (3)	(1.48)%	12.92%	24.60%	(18.68)%	(1.75)%	18.83%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000s)	\$1,394,217	\$1,452,585	\$1,395,116	\$1,288,319	\$1,606,718	\$1,719,489
Ratio of expenses to average net assets	0.96%(4)	0.97%	1.01%	0.97%	0.96%	0.94%(5)
Ratio of net investment income to average net assets	1.86%(4)	2.03%	2.42%	2.41%	2.20%	2.69%(5)
Portfolio turnover rate	25%	85%	39%	54%	47%	48%

(1) Calculated on average shares outstanding during the period.

(2) Payment from Affiliates increased the net asset value by \$0.02.

(3) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each period reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares. Total investment return for a period of less than one year is not annualized.

(4) Annualized.

(5) Inclusive of Reimbursement from Investment Manager of 0.02%.

See accompanying Notes to Financial Statements | July 31, 2018 | Semi-Annual Report 59

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

1. Organization and Significant Accounting Policies

AllianzGI Diversified Income & Convertible Fund (Diversified Income & Convertible), AllianzGI Equity & Convertible Income Fund (Equity & Convertible Income) and AllianzGI NFJ Dividend, Interest & Premium Strategy Fund (Dividend, Interest & Premium Strategy) (each, a Fund and, together, the Funds) were organized as Massachusetts business trusts on March 10, 2015, December 12, 2006 and August 20, 2003, respectively. The Funds follow the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 946 Financial Services Investment Companies. Prior to commencing operations on May 27, 2015, February 27, 2007, and February 28, 2005, respectively, the Funds had no operations other than matters relating to their organization and registration as diversified, closed-end management investment companies registered under the Investment Company Act of 1940, as amended (the 1940 Act), and the rules and regulations thereunder. Allianz Global Investors U.S. LLC (AllianzGI U.S. or the Investment Manager) serves as the Funds investment manager. The Investment Manager is an indirect wholly-owned subsidiary of Allianz Asset Management of America L.P. (AAM). AAM is an indirect, wholly-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. Each Fund has authorized an unlimited amount of common shares with \$0.00001 par value.

Diversified Income & Convertible s investment objective is to provide total return through a combination of current income and capital appreciation, while seeking to provide downside protection against capital loss. Under normal market conditions, the Fund will seek to achieve its investment objective by investing in a combination of convertible securities, debt and other income-producing instruments and common stocks and other equity securities. The Fund expects to employ a strategy of writing (selling) covered call options on the stocks held in the equity portion of the portfolio.

Equity & Convertible Income s investment objective is to seek total return comprised of capital appreciation, current income and gains. Under normal market conditions the Fund pursues its objective by investing in a diversified portfolio of equity securities and income-producing convertible securities. The Fund also employs a strategy of writing (selling) call options on the equity securities held by the Fund as well as on equity indexes.

Dividend, Interest & Premium Strategy s primary investment objective is to seek current income and gains, with a secondary objective of long-term capital appreciation. Under normal market conditions the Fund pursues its investment objectives by investing in a diversified portfolio of dividend-paying common stocks and income-producing convertible securities. The Fund also employs a strategy of writing (selling) call options on the equity securities held by the Fund in an

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

1. Organization and Significant Accounting Policies (continued)

attempt to generate gains from option premiums.

Dividend, Interest & Premium Strategy can invest up to 10% of its total assets in securities issued by master limited partnerships (MLPs), including, without limitation, common units, preferred units, convertible subordinated units or other equity or debt securities.

There can be no assurance that the Funds will meet their stated objectives.

The preparation of the Funds' financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the Funds' management to make estimates and assumptions that affect the reported amounts and disclosures in each Fund's financial statements. Actual results could differ from those estimates.

In the normal course of business, the Funds enter into contracts that contain a variety of representations that provide general indemnifications. The Funds' maximum exposures under these arrangements are unknown as this would involve future claims that may be made against the Funds that have not yet occurred. However, based on experience, the risk of loss is expected to be remote.

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-15 which amends ASC 230 to clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows.

In November 2016, the FASB issued ASU 2016-18 which amends ASC 230 to provide guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows.

The amendments took effect on February 1, 2018 and the financial statements have been modified accordingly, as applicable.

In March 2017, the FASB issued Accounting Standards update (ASU) 2017-08 which changes the amortization period for a callable debt security from the maturity date to the earliest call date. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

The following is a summary of significant accounting policies consistently followed by the Funds:

(a) Valuation of Investments

Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of official closing prices, last reported sales prices, or if no sales or closing prices are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or independent pricing services. The Funds' investments are valued daily using prices supplied by an

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Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

1. Organization and Significant Accounting Policies (continued)

independent pricing service or broker/dealer quotations, or by using the last sale or settlement price on the exchange that is the primary market for such securities, or the mean between the last bid and ask quotations. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics.

The Board of Trustees of each Fund (together, the Board) has adopted procedures for valuing portfolio securities and other financial instruments in circumstances where market quotations are not readily available (including in cases where available market quotations are deemed to be unreliable), and has delegated primary responsibility for applying the valuation methods to the Investment Manager. The Funds' Valuation Committee of the Board of each Fund was established by the Board to oversee the implementation of the Funds' valuation methods and to make fair value determinations on behalf of the Board, as necessary. The Investment Manager monitors the continued appropriateness of methods applied and identifies circumstances and events that may require fair valuation. The Investment Manager determines if adjustments should be made in light of market changes, events affecting the issuer, or other factors. If the Investment Manager determines that a valuation method may no longer be appropriate, another valuation method may be selected or the Funds' Valuation Committee will be convened to consider the matter and take any appropriate action in accordance with procedures adopted by the Board. The Board shall review and ratify the appropriateness of the valuation methods and these methods may be amended or supplemented from time to time by the Funds' Valuation Committee.

Short-term debt instruments maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing premiums or discounts based on their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Funds to value investments may differ from the value that would be realized if the investments were sold, and these differences could be material to the Funds' financial statements. Each Fund's net asset value (NAV) is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern Time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business. In unusual circumstances, the Board or the Valuation Committee may in good faith determine the NAV as of 4:00 p.m., Eastern Time, notwithstanding an earlier, unscheduled close or halt of trading on the NYSE.

(b) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the exit price) in an orderly transaction between market participants. The

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

1. Organization and Significant Accounting Policies (continued)

three levels of the fair value hierarchy are described below:

- n Level 1 quoted prices in active markets for identical investments that the Funds have the ability to access
- n Level 2 valuations based on other significant observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates or other market corroborated inputs
- n Level 3 valuations based on significant unobservable inputs (including the Investment Manager's or Valuation Committee's own assumptions and securities whose price was determined by using a single broker's quote)

The valuation techniques used by the Funds to measure fair value during the six months ended July 31, 2018 were intended to maximize the use of observable inputs and to minimize the use of unobservable inputs.

The Funds' policy is to recognize transfers between levels at the end of the reporting period. An investment asset's or liability's level within the fair value hierarchy is based on the lowest level input, individually or in aggregate, that is significant to the fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation techniques used.

Investments categorized as Level 1 or 2 as of period end may have been transferred between Levels 1 and 2 since the prior period due to changes in the valuation method utilized in valuing the investments.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following are certain inputs and techniques that the Funds generally use to evaluate how to classify each major category of assets and liabilities within Level 2 and Level 3, in accordance with U.S. GAAP.

Equity Securities (Common and Preferred Stock and Warrants) Equity securities traded in inactive markets are valued using inputs which include broker-dealer quotes, recently executed transactions adjusted for changes in the benchmark index, or evaluated price quotes received from independent pricing services that take into account the integrity of the market sector and issuer, the individual characteristics of the security, and information received from broker-dealers and other market sources pertaining to the issuer or security. To the extent that these inputs are observable, the values of equity securities are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Convertible Bonds & Notes Convertible bonds & notes are valued by independent pricing services based on various inputs and techniques, which include broker-dealer quotations from relevant market makers and

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

1. Organization and Significant Accounting Policies (continued)

recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds and sector-specific trends. To the extent that these inputs are observable, the values of convertible bonds & notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Corporate Bonds & Notes Corporate bonds & notes are generally comprised of two main categories: investment grade bonds and high yield bonds. Investment grade bonds are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, live trading levels, recently executed transactions in securities of the issuer or comparable issuers, and option adjusted spread models that include base curve and spread curve inputs. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. High yield bonds are valued by independent pricing services based primarily on broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds and sector-specific trends. To the extent that these inputs are observable, the values of corporate bonds & notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Option Contracts Option contracts traded over-the-counter (OTC) and FLEXible EXchange (FLEX) options are valued by independent pricing services based on pricing models that incorporate various inputs such as interest rates, credit spreads, currency exchange rates and volatility measurements for in-the-money, at-the-money, and out-of-the-money contracts based on a given strike price. To the extent that these inputs are observable, the values of OTC and FLEX option contracts are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

(c) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on an identified cost basis. Interest income adjusted for the accretion of discounts and amortization of premiums is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income. Conversion premium is not amortized. Dividend income is recorded on the ex-dividend date, except for certain dividends from foreign securities where the ex-dividend date may have passed,

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

1. Organization and Significant Accounting Policies (continued)

and then are recorded as soon after the ex-dividend date as the Funds, using reasonable diligence, become aware of such dividends. Consent fees relating to corporate actions and facility are recorded as miscellaneous income upon receipt. Payments received from certain investments may be comprised of dividends, realized gains and return of capital. These payments may initially be recorded as dividend income and may subsequently be reclassified as realized gains and/or return of capital upon receipt of information from the issuer. Payments considered return of capital reduce the cost basis of the respective security. Distributions, if any, in excess of the cost basis of a security are recognized as capital gains. Expenses are recorded on an accrual basis.

(d) Federal Income Taxes

The Funds intend to distribute all of their taxable income and to comply with the other requirements of Subchapter M of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required. The Funds may be subject to excise tax based on distributions to shareholders.

Accounting for uncertainty in income taxes establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. In accordance with provisions set forth under U.S. GAAP, the Investment Manager has reviewed the Funds' tax positions for all open tax years. As of July 31, 2018, the Funds have recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions they have taken. The Funds' federal income tax returns for the prior three years, as applicable, remain subject to examination by the Internal Revenue Service.

(e) Dividends and Distributions to Shareholders

Diversified Income & Convertible declares dividends and distributions on a monthly basis. Equity & Convertible Income and Dividend, Interest & Premium Strategy declare dividends and distributions on a quarterly basis. These dividends and distributions may be comprised in varying proportions of net investment income, gains from option premiums and the sale of portfolio securities and return of capital. The Funds record dividends and distributions on the ex-dividend date. The amount of dividends from net investment income and distributions from net realized capital gains or return of capital is determined in accordance with federal income tax regulations, which may differ from U.S. GAAP. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment. Temporary differences do not require reclassification. To the extent

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

1. Organization and Significant Accounting Policies (continued)

dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions to shareholders from return of capital. As of July 31, 2018, it is anticipated that the Dividend, Interest & Premium Strategy will have a return of capital at fiscal year-end.

(f) Convertible Securities

It is the Funds' policy to invest a portion of their assets in convertible securities. Although convertible securities derive part of their value from that of the securities into which they are convertible, they are not considered derivative financial instruments. However, certain of the Funds' investments in convertible securities include features which render them sensitive to price changes in their underlying securities. The value of structured/synthetic convertible securities can be affected by interest rate changes and credit risks of the issuer. Such securities may be structured in ways that limit their potential for capital appreciation and the entire value of the security may be at risk of loss depending on the performance of the underlying equity security. Consequently, the Funds are exposed to greater downside risk than traditional convertible securities, but typically still less than that of the underlying stock.

(g) Payment In-Kind Securities

The Funds may invest in payment in-kind securities, which are debt or preferred stock securities that require or permit payment of interest in the form of additional securities. Payment in-kind securities allow the issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater risk than securities that pay interest currently or in cash.

(h) Warrants

The Funds may receive warrants. Warrants are securities that are usually issued together with a debt security or preferred stock and that give the holder the right to buy a proportionate amount of common stock at a specified price. Warrants may be freely transferable and are often traded on major exchanges. Warrants normally have a life that is measured in years and entitle the holder to buy common stock of a company at a price that is usually higher than the market price at the time the warrant is issued. Warrants may entail greater risks than certain other types of investments. Generally, warrants do not carry the right to receive dividends or exercise voting rights with respect to the underlying securities, and they do not represent any rights in the assets of the issuer. In addition, their value does not necessarily change with the value of the underlying securities, and they cease to have value if they are not exercised on or before their expiration date. If the market price of the underlying stock does not exceed the exercise price during the life of the warrant, the warrant will expire worthless. Warrants may increase the potential profit or loss to be realized from the investment as compared with investing the same amount in the underlying securities. Similarly, the percentage increase or decrease in the value of an equity security warrant may

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

1. Organization and Significant Accounting Policies (continued)

be greater than the percentage increase or decrease in the value of the underlying common stock. Warrants may relate to the purchase of equity or debt securities. Debt obligations with warrants attached to purchase equity securities have many characteristics of convertible securities and their prices may, to some degree, reflect the performance of the underlying stock. Debt obligations also may be issued with warrants attached to purchase additional debt securities at the same coupon rate. A decline in interest rates would permit a Fund to sell such warrants at a profit. If interest rates rise, these warrants would generally expire with no value.

(i) Statement of Cash Flows

U.S. GAAP requires entities providing financial statements that report both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided, but exempts investment companies meeting certain conditions. One of the conditions is that the fund had little or no debt, based on the average debt outstanding during the period, in relation to average total assets. Diversified Income & Convertible's indebtedness has been determined to be at a level requiring a statement of cash flows. The Statement of Cash Flows has been prepared using the indirect method which required net change in net assets resulting from operations to be adjusted to reconcile to net cash flows from operating activities.

(j) Loan Interest Expense

Loan interest expense relates to the Diversified Income & Convertible's participation in debt financing transactions (See Note 7 and Note 8). Interest expense is recorded as it is incurred.

(k) Repurchase Agreements

The Funds are parties to Master Repurchase Agreements (Master Repo Agreements) with select counterparties. The Master Repo Agreements include provisions for initiation of repurchase transactions, income payments, events of default, and maintenance of collateral.

The Funds enter into transactions, under the Master Repo Agreements, with their custodian bank or securities brokerage firms whereby they purchase securities under agreements (*i.e.*, repurchase agreements) to resell such securities at an agreed upon price and date. The Funds, through their custodian, take possession of securities collateralizing the repurchase agreement. Such agreements are carried at the contract amount in the financial statements, which is considered to represent fair value. The collateral that is pledged (*i.e.* the securities received by the Funds), which consists primarily of U.S. government obligations and asset-backed securities, is held by the custodian bank for the benefit of the Funds until

maturity of the repurchase agreement. Provisions of the repurchase agreements and the procedures adopted by the Funds require that the market value of the collateral, including accrued interest thereon, be sufficient in the event of default by the counterparty. If the

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

1. Organization and Significant Accounting Policies (continued)

counterparty defaults under the Master Repo Agreements and the value of the collateral declines or if the counterparty enters an insolvency proceeding, realization of the collateral by the Funds may be delayed or limited. The gross values are included in the Funds' Schedules of Investments. As of July 31, 2018, the value of the related collateral exceeded the value of the repurchase agreements.

(I) Restricted Securities

The Funds are permitted to invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expenses, and prompt sale at an acceptable price may be difficult.

2. Principal Risks

In the normal course of business, the Funds trade financial instruments and enter into financial transactions where risk of potential loss exists due to, among other things, changes in the market (market risk) or failure of the other party to a transaction to perform (counterparty risk). The Funds are also exposed to other risks such as, but not limited to, interest rate, credit and leverage risks.

Interest rate risk is the risk that fixed income securities' valuations will change because of changes in interest rates. During periods of rising nominal interest rates, the values of fixed income instruments are generally expected to decline. Conversely, during periods of declining nominal interest rates, the values of fixed income instruments are generally expected to rise. To the extent that a Fund effectively has short positions with respect to fixed income instruments, the values of such short positions would generally be expected to rise when nominal interest rates rise and to decline with nominal interest rates decline. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is used primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.*, yield) movements. Interest rate changes can be sudden and unpredictable, and a fund may lose money as a result of movements in interest rates. A fund may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended. The values of equity and other non-fixed income securities may also decline due to fluctuations in interest rates.

The Funds are exposed to credit risk, which is the risk of losing money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to make timely

principal and/or interest

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AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

2. Principal Risks (continued)

payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

The market values of securities may decline due to general market conditions (market risk) which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, adverse changes to credit markets or adverse investor sentiment. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity-related investments generally have greater market price volatility than fixed income securities, although under certain market conditions fixed income securities may have comparable or greater price volatility. Credit ratings downgrades may also negatively affect securities held by the Funds. Even when markets perform well, there is no assurance that the investments held by the Funds will increase in value along with the broader market. In addition, market risk includes the risk that geopolitical events will disrupt the economy on a national or global level.

The Funds are exposed to counterparty risk, or the risk that an institution or other entity with which the Funds have unsettled or open transactions will default. The potential loss to the Funds could exceed the value of the financial assets recorded in the Funds' financial statements. Financial assets, which potentially expose the Funds to counterparty risk, consist principally of cash due from counterparties and investments. The Investment Manager seeks to minimize the Funds' counterparty risk by performing reviews of each counterparty and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. Delivery of securities sold is only made once the Funds have received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Funds are exposed to risks associated with leverage. Leverage may cause the value of the Funds' shares to be more volatile than if the Funds did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the Funds' portfolio securities. The Funds may engage in transactions or purchase instruments that give rise to forms of leverage. In addition, to the extent the Funds employ leverage, dividend and interest costs on such leverage may not be recovered by any appreciation of the securities purchased with the leverage proceeds and could exceed the Funds' investment returns, resulting in greater losses. As discussed further in Note 7 and Note 8, Diversified Income & Convertible has mandatory redeemable preferred shares and senior secured notes outstanding and entered into margin loan financing.

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Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

2. Principal Risks (continued)

The Funds may hold defaulted securities that may involve special considerations including bankruptcy proceedings, other regulatory and legal restrictions affecting the Funds' ability to trade, and the availability of prices from independent pricing services or dealer quotations. Defaulted securities may often be illiquid and may not be actively traded. Sale of securities in bankrupt companies at an acceptable price may be difficult and differences compared to the value of the securities used by the Funds could be material. A Fund may incur additional expenses to the extent it is required to seek recovery upon a portfolio security's default in the payment of principal or interest. In any bankruptcy proceeding relating to a defaulted investment, a Fund may lose its entire investment or may be required to accept cash or securities with a value substantially less than its original investment.

Diversified Income & Convertible will terminate on the first business day following the fifteenth anniversary of the effective date of its registration statement, May 22, 2030, unless such term is extended by the Trustees and absent Trustee and shareholder approval to amend the limited term. Leading up to the Fund's dissolution date, the Fund may begin liquidating all or a portion of the Fund's portfolio, and the Fund may deviate from its investment strategy. As a result, during the wind-down period, the Fund's distributions may decrease, and such distributions may include a return of capital. The Fund does not seek to return \$25.00 per common share (its initial offering price) upon termination. As the assets of the Fund will liquidate in connection with its termination, the Fund may be required to sell portfolio securities when it otherwise would not, including at times when market conditions are not favorable, which may cause the fund to lose money.

3. Financial Derivative Instruments

Disclosure about derivatives and hedging activities requires qualitative disclosure regarding objectives and strategies for using derivatives, quantitative disclosure about fair value amounts of gains and losses on derivatives, and disclosure about credit-risk-related contingent features in derivative agreements. The disclosure requirements distinguish between derivatives which are accounted for as hedges, and those that do not qualify for such accounting. Although the Funds at times use derivatives for hedging purposes, the Funds reflect derivatives at fair value and recognize changes in fair value through the Funds' Statements of Operations, and such derivatives do not qualify for hedge accounting treatment.

Option Transactions

The Funds may write (sell) put and call options on securities and indices to earn premiums, for hedging purposes, risk management purposes or otherwise as part of their investment strategies. When an option is written, the premium received is recorded as an asset with an equal liability that is subsequently marked to market to reflect the market value of the option written. These liabilities, if any, are reflected as options written in the Funds

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

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July 31, 2018 (unaudited)

3. Financial Derivative Instruments (continued)

Statements of Assets and Liabilities. Premiums received from writing options which expire unexercised are recorded on the expiration date as a realized gain. The difference between the premium received and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option written is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether there has been a realized gain or loss. If a put option written is exercised, the premium reduces the cost basis of the security. In writing an option, the Funds bear the market risk of an unfavorable change in the price of the security underlying the written option. Exercise of a written option could result in the Funds purchasing a security at a price different from its current market value.

There are several risks associated with option transactions on securities. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objective. The Funds' ability to use options successfully will depend on the Investment Manager's ability to predict pertinent market movements, which cannot be assured. As the writer of a covered call option, a Fund foregoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but has retained the risk of loss should the price of the underlying security decline.

4. Investment Manager & Deferred Compensation

Investment Manager. Each Fund has an Investment Management Agreement (for the purpose of this section, each an "Agreement") with the Investment Manager. Subject to the supervision of the Funds' Board, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds' investment activities, business affairs and administrative matters. Pursuant to their Agreements, Diversified Income & Convertible and Equity & Convertible Income pay the Investment Manager an annual fee, payable monthly, at an annual rate of 1.00% of their average daily total managed assets. Pursuant to its Agreement, Dividend, Interest & Premium Strategy pays the Investment Manager an annual fee, payable monthly, at an annual rate of 0.90% of its average daily total managed assets. Diversified Income & Convertible's Agreement defines total managed assets as the total assets of the Fund (including assets attributable to any Preferred Shares, borrowings, issued debt securities or other forms of leverage that may be outstanding) minus accrued liabilities (other than liabilities representing leverage). The Agreements of each of Equity & Convertible Income and Dividend, Interest & Premium Strategy define total managed assets as the total assets of each

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AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

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July 31, 2018 (unaudited)

4. Investment Manager & Deferred Compensation (continued)

Fund (including assets attributable to any borrowing that may be outstanding) minus accrued liabilities (other than liabilities representing borrowings).

Deferred Compensation. Trustees do not currently receive any pension or retirement benefits from the Funds. The Funds have adopted a deferred compensation plan (the Plan) for the Trustees, which permits the Trustees to defer their receipt of compensation from the Funds, at their election, in accordance with the terms of the Plan. Under the Plan, each Trustee may elect not to receive all or a portion of his or her fees from the Funds on a current basis but to receive in a subsequent period, chosen by the Trustee, an amount equal to the value of such compensation if such compensation had been invested in one or more series of Allianz Funds Multi-Strategy Trust or Allianz Funds selected by the Trustees from and after the normal payment dates for such compensation. The deferred compensation program is structured such that the Funds remain in substantially the same financial position whether Trustee fees are paid when earned or deferred.

5. Investments in Securities

For the six months ended July 31, 2018, purchases and sales of investments, other than short-term securities were:

	Purchases	Sales
Diversified Income & Convertible	\$201,494,595	\$206,100,894
Equity & Convertible Income	343,322,239	337,672,658
Dividend, Interest & Premium Strategy	343,014,100	339,993,102

6. Income Tax Information

At July 31, 2018, the aggregate cost basis and the net unrealized appreciation (depreciation) of investments and other financial instruments for federal income tax purposes were:

Federal Tax Cost Basis (1)	Unrealized Appreciation	Unrealized Depreciation	Net Unrealized Appreciation (Depreciation)
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Diversified Income & Convertible	\$367,664,930	\$11,680,942	\$29,145,454	\$(17,464,512)
Equity & Convertible Income	712,333,701	34,077,052	78,382,991	(44,305,939)
Dividend, Interest & Premium Strategy	1,314,106,743	151,274,133	71,134,683	80,139,450

(1) Differences between book and tax cost basis are primarily attributable to wash sale loss deferrals, reclassifications related to investments in REITs and differing treatment of bond premium amortization.

Notes to Financial Statements**AllianzGI Diversified Income & Convertible Fund****AllianzGI Equity & Convertible Income Fund****AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

July 31, 2018 (unaudited)

7. Long-term Financing Arrangements

On October 2, 2015, Diversified Income & Convertible completed a private placement with a single institutional investor, consisting of \$30,000,000 in Series A Mandatory Redeemable Preferred Shares (MRPS) with a mandatory redemption date of October 2, 2025, and \$50,000,000 in Senior Secured Notes (Notes and together with MRPS, Long-Term Financing Arrangements) due November 22, 2029. Fitch Ratings (Fitch) assigned a rating of AA to the MRPS and AAA to the Notes. The Long-Term Financing Arrangements refinanced a portion of the Diversified Income & Convertible s short-term borrowings under the Margin Loan Financing described in Note 8. For a portion of its borrowings, Diversified Income & Convertible continues to maintain short-term borrowings under the Margin Loan Financing described in Note 8 at variable interest rates.

Mandatory Redeemable Preferred Shares

At July 31, 2018, Diversified Income & Convertible had 1,200,000 shares of MRPS outstanding with an aggregate liquidation preference of \$30,000,000 (\$25.00 per share). The following table summarizes the key terms of the MRPS at July 31, 2018:

Mandatory Redemption Date	Annual Dividend Rate	Aggregate Liquidation Preference	Estimated Fair Value
October 2, 2025	4.34%	\$30,000,000	\$30,000,000

Holders of MRPS are entitled to receive a quarterly dividend at an annual fixed dividend rate of 4.34%, subject to upward adjustment (by as much as 4.00%) during any period when the MRPS have a rating of below A from Fitch, or the equivalent from another rating agency (with the rate increasing at lower rating levels). The MRPS will have a default interest rate of 5.00% whenever a past due amount is outstanding with respect to the MRPS. Dividends are accrued daily and paid quarterly and are presented in Diversified Income & Convertible s Statement of Assets & Liabilities as interest payable on dividends to mandatory redeemable preferred shareholders. For the six months ended July 31, 2018, Diversified Income & Convertible paid \$651,000 in interest on dividends to mandatory redeemable preferred shareholders. The MRPS are senior, with priority in all respects, to Diversified Income & Convertible s outstanding common shares as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. The MRPS rank pari passu with any and all other preferred shares of the Fund, and rank junior to the Fund s indebtedness, including the Notes, the Margin Loan Financing and any other senior secured indebtedness. Diversified Income & Convertible may redeem all or any part of the MRPS at any time, subject to certain redemption premiums. With respect to the MRPS, the Fund is subject to periodic asset coverage testing, including a monthly 225% asset coverage test and a weekly asset coverage test that is tied to rating agency

Notes to Financial Statements**AllianzGI Diversified Income & Convertible Fund****AllianzGI Equity & Convertible Income Fund****AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

July 31, 2018 (unaudited)

7. Long-term Financing Arrangements (continued)

criteria, in each case subject to various terms and conditions. If the Fund's asset coverage is insufficient under either of these tests, it may be required to redeem some or all of the MRPS. No such mandatory redemption had been triggered as of the end of the most recent fiscal period.

Senior Secured Notes

At July 31, 2018, Diversified Income & Convertible had \$50,000,000 in aggregate principal amount of Notes outstanding. The Notes rank pari passu with all other senior debt of Diversified Income & Convertible, including the Margin Loan Financing, and are secured by a lien on all assets of the Fund of every kind, including all securities and all other investment property, equal and ratable with the liens securing the Margin Loan Financing. The Notes are senior, with priority in all respects, to the MRPS and the outstanding common shares as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. Holders of the Notes are entitled to receive cash interest payments semi-annually until maturity. The Notes accrue interest at an annual fixed rate of 3.94%. The Notes will be subject to a penalty interest rate of an additional 2.00% while overdue payments are outstanding, and an additional 1.00% during any interest rate period when the Notes, at any time, have a rating of less than A- from Fitch or the equivalent from another agency. The Notes are prepayable in whole or in part at any time, subject to a prepayment premium, which may be adjusted under some circumstances based on asset coverage levels. Interest expense of \$976,904 is included in the Diversified Income & Convertible's Statement of Operations.

The following table shows the maturity date, interest rate, notional/carrying amount and estimated fair value of the Notes outstanding at July 31, 2018:

Maturity Date	Interest Rate	Notional/Carrying Amount	Estimated Fair Value
November 22, 2029	3.94%	\$50,000,000	\$50,000,000

With respect to the Notes, the Fund is subject to monthly asset coverage tests that mirror those applicable to closed-end funds set forth in Section 18 of the 1940 Act, as well as a weekly asset coverage test that is tied to rating agency criteria, in each case subject to various terms and conditions. A breach of any of these tests, after the passage of a cure period, would constitute an event of default under the Notes. As of the end of the most recent fiscal period, no such breach had occurred. The agreements governing the MRPS and Notes impose certain additional customary covenants and restrictions on the Fund, including, among others, restrictions on distributions and a requirement that the Fund adhere to its stated investment policies.

Notes to Financial Statements

AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

8. Margin Loan Financing

Diversified Income & Convertible has entered into a margin loan financing agreement with BNP Paribas Prime Brokerage International, Ltd. (BNP). The margin loan is offered at a daily rate equal to the U.S. 3-month LIBOR rate plus 0.90%. At July 31, 2018, the Fund had a borrowing outstanding under the margin agreement totaling \$25,000,000. The interest rate charged at July 31, 2018, was 3.249%. During the six months ended July 31, 2018, the weighted average daily balance outstanding was \$ 25,000,000 at the weighted average interest rate of 3.138%. With respect to the margin loan financing, loan interest expense of \$408,670 is included in the Diversified Income & Convertible's Statement of Operations.

The Fund is required to fully collateralize its outstanding loan balance as determined by BNP. Pledged assets are held in a segregated account and are denoted in the Fund's Schedule of Investments.

9. Common Share Repurchase Plan

The common share repurchase plan (the Repurchase Plan) of Diversified Income & Convertible (for purposes of this paragraph, the Fund) became effective on September 4, 2015. The Board of Trustees initially authorized the Repurchase Plan at the Fund's organizational meeting on April 20, 2015. The Repurchase Plan was intended in part to provide additional liquidity in the marketplace for the Fund's common shares. The Repurchase Plan remained in effect until 230 days after the commencement of the Repurchase Plan (*i.e.*, April 21, 2016) (the Repurchase Period), during which the Fund repurchased its common shares in the open market on any trading day when the Fund's common shares were trading at a discount of 2% or more from the common shares' closing NAV on the prior trading day and only so long as shares of the SPDR Barclays Convertible Securities ETF had not, at any time during such trading day, traded down 2% or more from their closing market price on the prior trading day. Any repurchases were made through a single broker-dealer who was not an underwriter in this initial public offering of the Fund's common shares acting as the Fund's agent. On any day that shares were repurchased under the Repurchase Plan, the Fund, subject to certain conditions under Rule 10b-18 under the Exchange Act and other applicable laws, including Regulation M, repurchased its shares in an amount equal to the lesser of (i) \$125,000 based on the aggregate purchase price of the common shares or (ii) the maximum number of common shares the Fund may purchase under Rule 10b-18, which, generally, is currently 25% of the average daily trading volume of the common shares over the trailing four week period. In addition to providing potential additional liquidity in the marketplace, any repurchases under the Repurchase Plan were made by the Fund at a discount to then current NAV of the common shares and therefore were accretive to the NAV of the remaining common shares following the repurchases, and the Repurchase Plan may have had the effect of preventing or reducing a significant decline in

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AllianzGI Diversified Income & Convertible Fund

AllianzGI Equity & Convertible Income Fund

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

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9. Common Share Repurchase Plan (continued)

the market price of the common shares in comparison to their NAV. Effective April 22, 2016, the Common Share Repurchase Plan was discontinued.

10. Significant Account Holders

From time to time, a Fund may have a concentration of shareholders, which may include the Investment Manager or affiliates of the Investment Manager, holding a significant percentage of shares outstanding. Investment activities of these shareholders could have a material impact on a Fund. At July 31, 2018, Advisors Asset Management, Inc. and Morgan Stanley Smith Barney LLC held 5% or more of shares of common stock of Diversified Income & Convertible and Dividend, Interest & Premium Strategy, respectively.

11. Subsequent Events

In preparing these financial statements, the Funds' management has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

On August 1, 2018, a monthly distribution of \$0.167 per share was declared to Diversified Income & Convertible common shareholders, payable September 4, 2018 to common shareholders of record on August 13, 2018.

On September 4, 2018, a monthly distribution of \$0.167 per share was declared to Diversified Income & Convertible common shareholders, payable October 1, 2018 to common shareholders of record on September 14, 2018.

On September 7, 2018, the following quarterly distributions were declared to shareholders, payable September 28, 2018 to shareholders of record on September 17, 2018:

Equity & Convertible Income

\$0.380 per share

Dividend, Interest & Premium Strategy

\$0.225 per share

There were no other subsequent events identified that require recognition or disclosure.

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Annual Shareholder Meeting Results (unaudited)
AllianzGI Diversified Income & Convertible Fund
AllianzGI Equity & Convertible Income Fund
AllianzGI NFJ Dividend, Interest & Premium Strategy Fund
Annual Shareholder Meeting Results:

The Funds held their annual meeting of shareholders on July 12, 2018. Shareholders voted as indicated below:

AllianzGI Diversified Income & Convertible:

	Affirmative	Withheld Authority
Election of Deborah A. DeCotis Class III to serve until the annual meeting for the 2021-2022 fiscal year	10,546,996	183,662
Election of Bradford K. Gallagher Class III to serve until the annual meeting for the 2021-2022 fiscal year	10,547,456	183,202
Election of Erick R. Holt Class III to serve until the annual meeting for the 2021-2022 fiscal year	10,540,596	190,062
The other members of the Board of Trustees at the time of the meeting, namely, Messrs. Davey S. Scoon, A. Douglas Eu, F. Ford Drummond, James A. Jacobson, Hans W. Kertess, James S. MacLeod, William B. Ogden, IV and Alan Rappaport continued to serve as Trustees of the Fund.		

Interested Trustee

AllianzGI Equity & Convertible Income:

	Affirmative	Withheld Authority
Election of F. Ford Drummond Class II to serve until the annual meeting for the 2021-2022 fiscal year	25,310,329	462,256
Election of James A. Jacobson Class II to serve until the annual meeting for the 2021-2022 fiscal year	25,289,884	482,701
Election of James S. MacLeod Class II to serve until the annual meeting for the 2021-2022 fiscal year	25,298,881	473,704

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Election of A. Douglas Eu fiscal year	Class II to serve until the annual meeting for the 2021-2022	25,302,399	470,186
Election of Erick R. Holt year	Class III to serve until the annual meeting for the 2019-2020 fiscal	25,310,706	461,879

The other members of the Board of Trustees at the time of the meeting, namely, Ms. Deborah A. DeCotis and Messrs. Davey S. Scoon, Bradford K. Gallagher, Hans W. Kertess, William B. Ogden, IV and Alan Rappaport continued to serve as Trustees of the Fund.

Interested Trustee

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**Annual Shareholder Meeting Results (continued)/
Changes to Fund Officers/Proxy Voting Policies & Procedures (unaudited)**

**AllianzGI Diversified Income & Convertible Fund
AllianzGI Equity & Convertible Income Fund
AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

AllianzGI NFJ Dividend, Interest & Premium Strategy:

	Affirmative	Withheld Authority
Election of Hans W. Kertess Class I to serve until the annual meeting for the 2021-2022 fiscal year	81,291,686	7,473,120
Election of James S. MacLeod Class I to serve until the annual meeting for the 2021-2022 fiscal year	81,654,544	7,110,262
Election of William B. Ogden, IV Class I to serve until the annual meeting for the 2021-2022 fiscal year	81,305,291	7,459,515
Election of A. Douglas Eu Class I to serve until the annual meeting for the 2021-2022 fiscal year	81,554,156	7,210,650
Election of Erick R. Holt Class II to serve until the annual meeting for the 2019-2020 fiscal year	81,570,560	7,194,246
The other members of the Board of Trustees at the time of the meeting, namely, Ms. Deborah A. DeCotis and Messrs. Davey S. Scoon, Bradford K. Gallagher, James A. Jacobson and Alan Rappaport continued to serve as Trustees of the Fund.		

Interested Trustee

Changes to Fund Officers:

Effective April 13, 2018, Lawrence G. Altadonna resigned as the Treasurer, Principal Financial and Accounting officer of the Funds.

Effective April 13, 2018, Scott Whisten was appointed Treasurer, Principal Financial and Accounting officer of the Funds.

Proxy Voting Policies & Procedures:

A description of the policies and procedures that the Funds have adopted to determine how to vote proxies relating to portfolio securities and information about how the Funds voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 is available (i) without charge, upon request, by calling the Funds' shareholder servicing agent at (800) 254-5197; (ii) on the Funds' website at

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us.allianzgi.com/closedendfunds; and (iii) on the Securities and Exchange Commission website at www.sec.gov.

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Matters Relating to the Trustees Consideration of the Investment Management Agreements (unaudited)

**AllianzGI Diversified Income & Convertible Fund
AllianzGI Equity & Convertible Income Fund
AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

The Investment Company Act of 1940, as amended, requires that both the full Board of Trustees (the Board or the Trustees) and a majority of the non-interested Trustees (the Independent Trustees), voting separately, annually approve the continuation of each Fund s (as defined below) Investment Management Agreement (for purposes of this section, the Advisory Agreements or the Agreements) with Allianz Global Investors U.S. LLC (the Investment Manager).

The Board, including the Independent Trustees, met in person on June 13, 2018 (the approval meeting) for the specific purpose of considering whether to approve the continuation of the Advisory Agreements for an additional year. The Funds Contracts Committees, which are comprised of all of the Independent Trustees, met on May 30, 2018 and June 13, 2018 (together with the approval meeting, the contract review meetings) with independent counsel to discuss the materials provided by the Investment Manager in response to the Independent Trustees written request for information regarding the annual renewal. Representatives from fund management attended portions of those meetings to, among other topics, review the comparative fee and expense information and comparative performance information prepared and provided by Broadridge Financial Solutions, Inc. (Broadridge), an independent third party, for each Fund using its respective Broadridge peer groups for performance and expense comparisons.

At their meeting held on June 13, 2018 the Board, including the Independent Trustees unanimously approved the continuation of the Agreements for an additional one-year period commencing July 1, 2018 with respect to AllianzGI Equity & Convertible Income Fund (NIE), AllianzGI NFJ Dividend, Interest & Premium Strategy Fund (NFJ), and AllianzGI Diversified Income & Convertible Fund (ACV and, together with NFJ and NIE, for the purposes of this section, the Funds). The material factors and conclusions that formed the basis of these approvals are discussed below.

In connection with their deliberations regarding the approval of the Agreements, the Trustees, including the Independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. As described below, the Trustees also considered the nature, quality and extent of the various investment management, administrative and other services to be performed by the Investment Manager under the applicable Agreement.

In connection with their contract review meetings, the Trustees received and relied upon materials provided by the Investment Manager including, among other items: (i) information provided by Broadridge on the total return investment performance (based on net asset value and common share market price) of the Funds for various time periods, and the investment performance of a group of funds identified by Broadridge with

Matters Relating to the Trustees Consideration of the Investment Management Agreements (unaudited) (continued)

**AllianzGI Diversified Income & Convertible Fund
AllianzGI Equity & Convertible Income Fund
AllianzGI NFJ Dividend, Interest & Premium Strategy Fund**

investment classifications and/or objectives comparable to those of the Funds (the Broadridge Performance Universe); (ii) information provided by Broadridge on the Funds' management fees and other expenses, and the fees and other expenses of comparable funds identified by Broadridge (the Broadridge Expense Group or Expense Group) (based both on common share and leveraged assets combined (if applicable), and on common share assets alone); (iii) information regarding the investment performance and fees for other funds and separately managed accounts managed by the Investment Manager with strategies that have similarities (but none of which are substantially similar) to those of the Funds; (iv) an estimate of the profitability to the Investment Manager from its relationship with the Funds for the twelve months ended December 31, 2017; (v) descriptions of various functions performed by the Investment Manager for the Funds, such as portfolio management, compliance monitoring, portfolio trading practices and oversight of third party service providers; (vi) information regarding the overall organization and business functions of the Investment Manager, including, without limitation, information regarding senior management, portfolio managers and other personnel providing investment management, administrative, compliance and other services, and corporate ownership and business operations unrelated to the Funds; (vii) fact cards for each Fund including, among other information, investment objective, total net assets, annual fund operating expenses, portfolio managers, performance based on net asset value and market value, related share price premium and/or discount information, performance (based on net asset value and market value) relative to each Fund's Broadridge Performance Universe, total expense ratio and management fee comparisons between each Fund and its Broadridge Expense Group and trends in profitability to the Investment Manager from its relationship with each Fund; (viii) summaries assigning a quadrant placement to each Fund based on an average of certain measures of performance and fees/expenses versus its Broadridge peer group medians; (ix) information regarding the Funds' use of leverage, if any; and (x) so-called fall-out benefits potentially available to the Investment Manager as a result of its advisory arrangements with the Funds.

The Trustees' conclusions as to the approval of the Agreements were based on a comprehensive consideration of all information provided to the Trustees and were not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, attributing different weights to various factors. The Trustees recognized that the fee arrangements for the Funds are the result of review and discussion in the prior years between the Independent Trustees and the Investment Manager, that certain aspects of such arrangements may receive greater scrutiny in some years than in others, and that

Matters Relating to the Trustees Consideration of the Investment Management Agreements (unaudited) (continued)

AllianzGI Diversified Income & Convertible Fund
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the Trustees' conclusions may be based, in part, on their consideration of these same arrangements during the course of the year and in prior years. The Trustees evaluated information available to them on a Fund-by-Fund basis, and their determinations were made separately in respect of each Fund. The Trustees also considered the risk profiles of the Funds.

The Independent Trustees considered, among other matters, that the Investment Manager provides the Funds with office space, administrative services and personnel to serve as officers of the Funds, and that the Investment Manager and its affiliates pay all of the compensation of the Funds' interested Trustees and officers (in their capacities as employees of the Investment Manager or such affiliates).

Performance Information

Fund-specific performance results reviewed by the Trustees are discussed below. The comparative performance information was prepared and provided by Broadridge and was not independently verified by the Trustees. Due to the passage of time, these performance results may differ from the performance results for more recent periods. The Trustees reviewed, among other information, comparative information showing performance of each Fund against its respective Broadridge Performance Universe (based on net asset value and market value) for the one-year, three-year, five-year and ten-year periods (to the extent each such Fund had been in existence), each ended March 31, 2018.

In addition, the Trustees considered matters bearing on the Funds and their advisory arrangements at their meetings throughout the year, including a review of performance data at each regular meeting (either by the full Board or by the Performance Committee of the Board).

As part of their review, the Trustees examined the ability of the Investment Manager to provide high-quality investment management and other services to the Funds. Among other information, the Trustees considered the investment philosophy and research and decision-making processes of the Investment Manager; the experience of key advisory personnel of the Investment Manager and its affiliates, as applicable, responsible for portfolio management of the Funds; the ability of the Investment Manager to attract and retain capable personnel; the background and capabilities of the senior management and staff of the Investment Manager; employee compensation; and the operational infrastructure, including technology and systems, of the Investment Manager. In addition, the Trustees reviewed the extent and quality of the Investment Manager's services with respect to regulatory compliance and ability to comply with the investment policies of the Funds; the compliance programs and risk controls of the Investment Manager; the specific contractual obligations of the Investment Manager pursuant to the Agreements; the nature, extent and quality of certain administrative services the Investment Manager is responsible for providing to the Funds; the Investment Manager's risk management

Matters Relating to the Trustees Consideration of the Investment Management Agreements (unaudited) (continued)

AllianzGI Diversified Income & Convertible Fund
AllianzGI Equity & Convertible Income Fund
AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

function; and conditions that might affect the ability of the Investment Manager to provide high quality services to the Funds in the future under the Agreements, including, but not limited to, the organization's financial condition and operational stability. Based on the foregoing, the Trustees concluded that the Investment Manager's investment processes, research capabilities and philosophy were well-suited to the applicable Fund, given its respective investment objective and policies, that the Investment Manager would be able to continue to meet any reasonably foreseeable obligations under the Agreements, and that the Investment Manager would otherwise be able to provide services to the Funds of sufficient extent and quality.

Fee and Expense Information

In assessing the reasonableness of each Fund's fees under the Agreements, the Trustees considered, among other information, each Fund's management fee and its total expense ratio as a percentage of average net assets attributable to common shares and as a percentage of average managed assets (including assets attributable to common shares and leverage outstanding combined) and the management fee and total expense ratios of such Fund's Broadridge Expense Group. Specifically, the Trustees reviewed each Fund's ranking within its Broadridge Expense Group for total expense ratio (including any interest and borrowing expenses) based on common share assets and total expense ratio (including any interest and borrowing expenses) based on common share and leveraged assets combined, as applicable. Each Fund's ranking within its Broadridge Expense Group for both actual management fees based on common share assets and actual management fees based on common and leveraged assets combined were also considered, as applicable. The Fund-specific fee and expense results discussed below were prepared and provided by Broadridge and were not independently verified by the Trustees.

The Trustees specifically took note of how each Fund compared to its Broadridge peers as to performance, management fee and total expense ratio. The Trustees noted that while the Funds are not charged a separate administration fee (recognizing that their management fee includes a component for administrative services), it was not clear in all cases whether the peer funds in the Broadridge categories were separately charged such a fee by their investment managers, so that the total expense ratio (rather than any individual expense component) represented the most relevant comparison. It was noted that the total expense ratio comparisons reflect the effect of any expense waivers/reimbursements (although none exist for the Funds).

NFJ

The Trustees noted that the Broadridge Expense Group for the Fund consisted of a total of six closed-end funds, including the Fund. The Trustees also noted that average net assets of the common shares of the six funds in the Broadridge Expense Group ranged from \$315.5 million to \$1.79 billion, and that one fund in the group was larger in

Matters Relating to the Trustees Consideration of the Investment Management Agreements (unaudited) (continued)

AllianzGI Diversified Income & Convertible Fund
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asset size than the Fund. The Trustees also noted that the Fund was ranked second out of six funds in the Expense Group for both total expense ratio based on common share assets and actual management fees based on common share assets (with the fund ranked first having the lowest fees/expenses and the fund ranked sixth having the highest fees/expenses in the Expense Group).

With respect to total return performance relative to its Broadridge Performance Universe (based on net asset value), the Trustees noted that the Fund had fourth quintile performance for the one- and ten-year periods, and fifth quintile performance for the three- and five-year periods, each ended March 31, 2018.

NIE

The Trustees noted that the Broadridge Expense Group for the Fund consisted of a total of seven closed-end funds, including the Fund. The Trustees also noted that average net assets of the common shares of the seven funds in the Broadridge Expense Group ranged from \$247.9 million to \$762.1 million, and that two funds in the group were larger in asset size than the Fund. The Trustees also noted that the Fund was ranked third out of seven funds in the Expense Group for both total expense ratio based on common share assets and actual management fees based on common share assets (with the fund ranked first having the lowest fees/expenses and the fund ranked seventh having the highest fees/expenses in the Expense Group).

With respect to total return performance relative to its Broadridge Performance Universe (based on net asset value), the Trustees noted that the Fund was ranked first out of four funds for performance for the one-, three-, five- and ten-year periods, each ended March 31, 2018.

ACV

The Trustees noted that the Broadridge Expense Group for the Fund consisted of a total of nine closed-end funds, including the Fund. The Trustees also noted that average net assets of the common shares of the nine funds in the Broadridge Expense Group ranged from \$139.8 million to \$329.4 million, and that five funds in the group were larger in asset size than the Fund. The Trustees noted that the Fund was ranked ninth out of nine funds in the Expense Group for total expense ratio (including any interest and borrowing expenses) based on common share assets, ninth based on total expense ratio (including any interest and borrowing expenses) based on common share and leveraged assets combined, eighth in the Expense Group for actual management fees based on common share assets and seventh in the Expense Group for actual management fees based on common and leveraged assets combined (with the fund ranked first having the lowest fees/expenses and the fund ranked ninth having the highest fees/expenses in the Expense Group).

With respect to total return performance relative to its Broadridge Performance Universe (based on net asset value), the Trustees noted that the Fund had first quintile performance for the one-year period and the

Matters Relating to the Trustees Consideration of the Investment Management Agreements (unaudited) (continued)

AllianzGI Diversified Income & Convertible Fund
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period since inception on May 27, 2015, each ended March 31, 2018.

In addition to their review of Fund performance based on net asset value, the Trustees also considered the market value performance of each Fund's common shares and related share price premium and/or discount information based on the materials provided by Broadridge and the Investment Manager.

The Trustees were advised that the Investment Manager does not manage any funds or accounts, including institutional or separate accounts, with investment strategies and return profiles substantially similar to those of the Funds. However, the Trustees considered the management fees charged by the Investment Manager to other funds and accounts with strategies that have similarities (but none of which are substantially similar) to those of the Funds, including open-end funds and, in some cases, separate accounts, advised by the Investment Manager. The Trustees noted that the management fees paid by the Funds are generally higher than the fees paid by such separate account clients. However, the Trustees were advised that the Investment Manager generally provides broader and more extensive services to the Funds in comparison to separate accounts, and incurs additional expenses in connection with the more extensive regulatory regime to which the Funds are subject in comparison to separate accounts generally. The Trustees noted that the management fees paid by the Funds are generally higher than the fees paid by the open-end funds offered for comparison, but were advised by the Investment Manager that there are additional portfolio management challenges in managing closed-end funds such as the Funds, including, but not limited to, those associated with less liquid holdings, the use of leverage, issues relating to trading on a national exchange and attempting to meet a regular dividend, that do not apply to the management of open-end funds.

The Trustees also took into account that ACV has preferred shares, senior notes or short-term loans outstanding to provide leverage, which increase the amount of management fees payable by ACV under the Agreement (because the Fund's fees are calculated based on average daily managed assets, including assets attributable to any outstanding borrowings, issued debt securities or preferred shares, reverse repurchase agreements and dollar rolls). The Trustees took into account that the Investment Manager has a financial incentive for ACV to continue to have preferred shares, senior notes or short-term loans and other borrowings outstanding, which may create a conflict of interest between ACV and the Investment Manager, on one hand, and ACV's common shareholders, on the other. In this regard, the Trustees considered information provided by the Investment Manager and related presentations as to why ACV's use of leverage continues to be appropriate and in the best interests of the Fund under current market conditions. The Trustees also considered certain leverage refinancing transactions that were then being contemplated for ACV. The Trustees also

Matters Relating to the Trustees Consideration of the Investment Management Agreements (unaudited) (continued)

AllianzGI Diversified Income & Convertible Fund
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considered the Investment Manager's representation that it will use leverage for the Fund solely as it determines to be in the best interests of the Fund from an investment perspective and without regard to the level of compensation the Investment Manager receives.

Based on a profitability analysis provided by the Investment Manager, the Trustees also considered the estimated profitability to the Investment Manager from its relationship with each Fund and determined that such profitability did not appear to be excessive.

The Trustees also considered the extent to which the Investment Manager may realize economies of scale or other efficiencies in managing and supporting the Funds. The Trustees took into account that, as a general matter, as closed-end investment companies, the assets of the Funds will grow (if at all) principally through the investment performance of each Fund or through the use of additional leverage. The Trustees considered that NFJ, NIE and ACV do not currently intend to raise additional assets, and the Trustees therefore did not consider potential economies of scale as a principal factor in assessing the fee rates payable under the Agreements. The Trustees considered that, as the assets of the Funds grow over time, certain economies of scale and other efficiencies may be realized through spreading certain fixed costs across a larger asset base.

Additionally, the Trustees considered so-called "fall-out benefits" potentially available to the Investment Manager as a result of its advisory arrangements with the Funds, including research, statistical and quotation services from broker-dealers executing the Funds' portfolio transactions on an agency basis, and enhanced visibility for marketing and distribution of other products managed by the Investment Manager. The Trustees also took into account the entrepreneurial, legal, regulatory and business risks the Investment Manager has undertaken as investment manager and sponsor of the Funds.

After reviewing these and other factors described herein, the Trustees concluded, within the context of their overall conclusions regarding the Agreements that they were satisfied with the Investment Manager's responses and ongoing efforts relating to the investment performance of the Funds. The Trustees also concluded that the fees payable under each Agreement represent reasonable compensation in light of the nature, extent and quality of services provided by the Investment Manager, and should be continued. Based on their evaluation of factors that they deemed to be material, including, but not limited to, those factors described above, the Trustees, including the Independent Trustees, unanimously concluded that the continuation of the Agreement with respect to each Fund was in the interests of the Fund and its shareholders, and should be approved.

Privacy Policy (unaudited)

AllianzGI Diversified Income & Convertible Fund AllianzGI Equity & Convertible Income Fund AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

Please read this Policy carefully. It gives you important information about how Allianz Global Investors U.S. and its U.S. affiliates (AllianzGI US, we or us) handle non-public personal information (Personal Information) that we may receive about you. It applies to all of our past, present and future clients and shareholders of AllianzGI US and the funds and accounts it manages, advises, sub-advises, administers or distributes, and will continue to apply when you are no longer a client or shareholder. As used throughout this Policy, AllianzGI US means Allianz Global Investors U.S. LLC, Allianz Global Investors Distributors LLC, and the family of registered and unregistered funds managed by one or more of these firms. AllianzGI US is part of a global investment management group, and the privacy policies of other Allianz Global Investors entities outside of the United States may have provisions in their policies that differ from this Privacy Policy. Please refer to the website of the specific non-US Allianz Global Investors entity for its policy on privacy.

We Care about Your Privacy

We consider your privacy to be a fundamental aspect of our relationship with you, and we strive to maintain the confidentiality, integrity and security of your Personal Information. To ensure your privacy, we have developed policies that are designed to protect your Personal Information while allowing your needs to be served.

Information We May Collect

In the course of providing you with products and services, we may obtain Personal Information about you, which may come from sources such as account application and other forms, from other written, electronic, or verbal communications, from account transactions, from a brokerage or financial advisory firm, financial advisor or consultant, and/or from information you provide on our website.

You are not required to supply any of the Personal Information that we may request. However, failure to do so may result in us being unable to open and maintain your account, or to provide services to you.

How Your Information Is Shared

We do not disclose your Personal Information to anyone for marketing purposes. We disclose your Personal Information only to those service providers, affiliated and non-affiliated, who need the information for everyday business purposes, such as to respond to your inquiries, to perform services, and/or to service and maintain your account. This applies to all of the categories of Personal Information we collect about you. The affiliated and non-affiliated service providers who receive your Personal Information also may use it to process your transactions, provide you with materials (including preparing and mailing prospectuses and shareholder reports and gathering shareholder proxies), and provide you with account statements and other materials relating to your account. These service providers provide services at our direction, and under their agreements with us, are required to keep your Personal Information confidential and to use it only for providing the contractually required services. Our service providers may not use your Personal Information to market products and services

Privacy Policy (unaudited) (continued)

AllianzGI Diversified Income & Convertible Fund
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AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

to you except in conformance with applicable laws and regulations. We also may provide your Personal Information to your respective brokerage or financial advisory firm, custodian, and/or to your financial advisor or consultant.

In addition, we reserve the right to disclose or report Personal Information to non-affiliated third parties, in limited circumstances, where we believe in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities or pursuant to other legal process, or to protect our rights or property, including to enforce our Privacy Policy or other agreements with you. Personal Information collected by us may also be transferred as part of a corporate sale, restructuring, bankruptcy, or other transfer of assets.

Security of Your Information

We maintain your Personal Information for as long as necessary for legitimate business purposes or otherwise as required by law. In maintaining this information, we have implemented appropriate procedures that are designed to restrict access to your Personal Information only to those who need to know that information in order to provide products and/or services to you. In addition, we have implemented physical, electronic and procedural safeguards to help protect your Personal Information.

Privacy and the Internet

The Personal Information that you provide through our website, as applicable, is handled in the same way as the Personal Information that you provide by any other means, as described above. This section of the Policy gives you additional information about the way in which Personal Information that is obtained online is handled.

• **Online Enrollment, Account Access and Transactions:** When you visit our website, you can visit pages that are open to the general public, or, where available, log into protected pages to enroll online, access information about your account, or conduct certain transactions. Access to the secure pages of our website is permitted only after you have created a User ID and Password. The User ID and Password must be supplied each time you want to access your account information online. This information serves to verify your identity. When you enter Personal Information into our website to enroll or access your account online, you will log into secure pages. By using our website, you consent to this Privacy Policy and to the use of your Personal Information in accordance with the practices described in this Policy. If you provide Personal Information to effect transactions, a record of the transactions you have performed while on the site is retained by us. For additional terms and conditions governing your use of our website, please refer to the Investor Mutual Fund Access Disclaimer which is incorporated herein by reference and is available on our website.

• **Cookies and Similar Technologies:** Cookies are small text files stored in your computer's hard drive when you visit certain web pages. Clear GIFs (also known as Web Beacons) are typically transparent very small graphic images (usually 1 pixel x 1 pixel) that are placed on a website that may be included on our services provided via our website and

Privacy Policy (unaudited) (continued)

AllianzGI Diversified Income & Convertible Fund
AllianzGI Equity & Convertible Income Fund
AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

typically work in conjunction with cookies to identify our users and user behavior. We may use cookies and automatically collected information to: (i) personalize our website and the services provided via our website, such as remembering your information so that you will not have to re-enter it during your use of, or the next time you use, our website and the services provided via our website; (ii) provide customized advertisements, content, and information; (iii) monitor and analyze the effectiveness of our website and the services provided via our website and third-party marketing activities; (iv) monitor aggregate site usage metrics such as total number of visitors and pages viewed; and (v) track your entries, submissions, and status in any promotions or other activities offered through our website and the services provided via our website. Tracking technology also helps us manage and improve the usability of our website, (i) detecting whether there has been any contact between your computer and us in the past and (ii) to identify the most popular sections of our website. Because an industry-standard Do-Not-Track protocol is not yet established, our website will continue to operate as described in this Privacy Policy and will not be affected by any Do-Not-Track signals from any browser.

- **Use of Social Media Plugins:** Our website uses the following Social Media Plugins (Plugins):
 - Facebook Share Button operated by Facebook Inc., 1601 S. California Ave, Palo Alto, CA 94304, USA
 - Tweet Button operated by Twitter Inc., 795 Folsom St., Suite 600, San Francisco, CA 94107, USA
 - LinkedIn Share Button operated by LinkedIn Corporation, 2029 Stierlin Court, Mountain View, CA 94043, USA

All Plugins are marked with the brand of the respective operators Facebook, Twitter and LinkedIn (Operators). When you visit our website that contains a social plugin, your browser establishes a direct connection to the servers of the Operator. The Operator directly transfers the plugin content to your browser which embeds the latter into our website, enabling the Operator to receive information about you having accessed the respective page of our website. Thus, AllianzGI US has no influence on the data gathered by the plugin and we inform you according to our state of knowledge: The embedded plugins provide the Operator with the information that you have accessed the corresponding page of our website. If you do not wish to have such data transferred to the Operators, you need to log out of your respective account before visiting our website. Please see the Operators' data privacy statements in order to get further information about purpose and scope of the data collection and the processing and use:

- Facebook: <https://de-de.facebook.com/about/privacy>

- Twitter: <https://twitter.com/privacy>

- Linked In: <https://www.linkedin.com/legal/privacy-policy>

Changes to Our Privacy Policy

We may modify this Privacy Policy from time-to-time to reflect changes in related practices

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Privacy Policy (unaudited) (continued)

AllianzGI Diversified Income & Convertible Fund
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and procedures, or applicable laws and regulations. If we make changes, we will notify you on our website and the revised Policy will become effective immediately upon posting to our website. We also will provide account owners with a copy of our Privacy Policy annually, if required. We encourage you to visit our website periodically to remain up to date on our Privacy Policy. You acknowledge that by using our website after we have posted changes to this Privacy Policy, you are agreeing to the terms of the Privacy Policy as modified.

Obtaining Additional Information

If you have any questions about this Privacy Policy or our privacy related practices in the United States, you may contact us via our dedicated email at PrivacyUS@allianzgi.com.

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Trustees

Davey S. Scoon
Chairman of the Board of Trustees
Deborah A. DeCotis
F. Ford Drummond
A. Douglas Eu
Bradford K. Gallagher
Erick R. Holt
James A. Jacobson
Hans W. Kertess
James S. MacLeod
William B. Ogden, IV
Alan Rappaport

Officers

Thomas J. Fuccillo
President and Chief Executive Officer
Scott Whisten
Treasurer, Principal Financial & Accounting Officer
Angela Borreggine
Chief Legal Officer & Secretary
Thomas L. Harter
Chief Compliance Officer
Richard J. Cochran
Assistant Treasurer
Orhan Dzemaili
Assistant Treasurer
Debra Rubano
Assistant Secretary
Craig A. Ruckman
Assistant Secretary

Investment Manager

Allianz Global Investors U.S. LLC
1633 Broadway
New York, NY 10019

Custodian & Accounting Agent

State Street Bank & Trust Co.
801 Pennsylvania Avenue
Kansas City, MO 64105

Transfer Agent, Dividend Paying Agent and Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017

Legal Counsel

Ropes & Gray LLP
Prudential Tower
800 Boylston Street
Boston, MA 02199

This report, including the financial information herein, is transmitted to the shareholders of AllianzGI Diversified Income & Convertible Fund, AllianzGI Equity & Convertible Income Fund and AllianzGI NFJ Dividend, Interest & Premium Strategy Fund, for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund s or any securities mentioned in this report.

The financial information included herein is taken from the records of the Funds without examination by an independent registered public accounting firm, who did not express an opinion herein.

Notice is hereby given in accordance with Section 23(c) of the investment Company Act of 1940, as amended, that from time to time the Funds may purchase shares of their stock in the open market.

The Funds file their complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of their fiscal year on Form N-Q. Each Fund s Form N-Q is available on the SEC s website at www.sec.gov and may be reviewed and copied at the SEC s Public Reference Room in Washington D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Funds website at us.allianzgi.com/closedendfunds. Information on the Funds is available at us.allianzgi.com/closedendfunds.

Receive this report electronically and eliminate paper mailings.

To enroll, go to us.allianzgi.com/edelivery.

574344

Allianz Global Investors Distributors LLC

AZ601SA_073118

ITEM 2. CODE OF ETHICS

Not required in this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

Not required in this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not required in this filing

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS

Not required in this filing

ITEM 6. INVESTMENTS

(a) The registrant's Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this form.

(b) Not applicable.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS

None

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund's Board of Trustees since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant's President and Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a-3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 12. DISCLOSURE OF SECURITIES LENDING ACTIVITIES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES

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(a) The Fund did not engage in any securities lending activity during the fiscal period ended July 31, 2018.

(b) The Fund did not engage in any securities lending activity and did not engage a securities lending agent during the fiscal period ended July 31, 2018.

ITEM 13. EXHIBITS

(a) (1) Not required in this filing.

(a) (2) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(a) (3) Not Applicable

(a) (4) Not Applicable

(b) Exhibit 99.906 Cert. Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

By: /s/ Thomas J. Fuccillo
Thomas J. Fuccillo
President & Chief Executive Officer

Date: October 3, 2018

By: /s/ Scott Whisten
Scott Whisten
Treasurer, Principal Financial & Accounting Officer

Date: October 3, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Thomas J. Fuccillo
Thomas J. Fuccillo
President & Chief Executive Officer

Date: October 3, 2018

By: /s/ Scott Whisten
Scott Whisten
Treasurer, Principal Financial & Accounting Officer

Date: October 3, 2018
