AllianzGI Convertible & Income Fund II
Form N-CSRS
October 30, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21338

AllianzGI Convertible & Income Fund II

(Exact name of registrant as specified in charter)

1633 Broadway, New York, NY 10019

(Address of principal executive offices) (Zip code)

Scott Whisten   1633 Broadway, New York, New York 10019

(Name and address of agent for service)

Registrant s telephone number, including area code: 212-739-3367

Date of fiscal year end: February 28

Date of reporting period: August 31, 2018

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Item 1. Report to Shareholders

AllianzGI Convertible & Income 2024 Target Term Fund

AllianzGI Convertible & Income Fund

AllianzGI Convertible & Income Fund II

Semi-Annual Report

August 31, 2018

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Letter from the President

Thomas J. Fuccillo

President & Chief Executive Officer

Dear Shareholder:

U.S. economic expansion accelerated during the six-month fiscal reporting period ended August 31, 2018. In contrast, economic growth overseas moderated. Against this backdrop, the overall U.S. equity market posted a solid return, whereas international equities were weak. Elsewhere, the overall U.S. bond market posted a small gain during the reporting period.

For the six month reporting period ended August 31, 2018:

- AllianzGI Convertible & Income 2024 Target Term Fund returned 4.52% on net asset value (NAV) and 4.01% on market price.
- AllianzGI Convertible & Income Fund returned 3.90% on NAV and 9.13% on market price.
- AllianzGI Convertible & Income Fund II returned 3.89% on NAV and 7.89% on market price.

During the six-month period ended August 31, 2018, the Standard & Poor s (S&P) 500 Index, an unmanaged index generally representative of the U.S. stock market, rose 7.96% and the ICE BofA Merrill Lynch High Yield Master II Index, an unmanaged index generally representative of the high yield bond market, gained 2.23%. Convertible securities, which share characteristics of both stocks and bonds, generated even stronger results. The ICE BofA Merrill Lynch All Convertibles All Qualities Index, an unmanaged index generally representative of the convertible securities market, returned 8.61%.

Turning to the U.S. economy, gross domestic product (GDP), the value of goods and services produced in the country, which is the broadest measure of economic activity and the principal indicator of economic performance, expanded at a 2.3% annualized pace during the fourth quarter of 2017. GDP growth then moderated to 2.2% during the first quarter of 2018. Finally, the Commerce Department s final reading released after the reporting period had ended showed that GDP grew at an annual pace of 4.2% for the second quarter of 2018.

After raising interest rates three times in 2017, the U.S. Federal Reserve (the Fed) again raised rates at its meetings in March and June 2018. The last hike pushed the federal funds rate to a range between 1.75% and 2.00%. At its meeting in June 2018, the Fed announced that it anticipated raising rates an additional two times before the end of the year. In

September 2018 after the reporting period ended the Fed raised the federal funds rate to a range between 2.00% and 2.25%.

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Outlook

Economic growth in the U.S. accelerated during the second quarter of 2018, but the end of the economic cycle may be closer than anticipated by the consensus forecast. In our view, a pro-growth mix of economic policies has set conditions conducive to more rapid increases in consumer spending, business investment and labor compensation. Consumer spending is brisk and measures of business optimism seem to break records every month.

Looking ahead to the last few months of the year,

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however, these outcomes cannot be assured. Households and businesses may well rethink their spending plans over the months ahead as they evaluate the meaning of tax changes, government spending, economic policy adjustments and new risks to their well-being. If capital expenditures by businesses go to unproductive investment, productivity fails to accelerate and inflation-adjusted workers compensation does not increase, real economic growth could languish.

While Fed monetary policymakers will continue to base their interest-rate decisions on the flow of inflation, wage and labor market data, how the Fed implements monetary policy over the next several years may be at least as important as the timing and magnitude of its policy decisions.

Meanwhile, the interconnectedness of the U.S. economy to other countries remains intricate and deep. Even as trade relations deteriorate, we believe the forces of globalization and technological revolution promise to defeat the forces of nationalism, populism and withdrawal from multilateral arrangements. Even if U.S.-China and U.S.-European Union trade relations play out acrimoniously over the years ahead, for example, a complicated and extensive flow of goods, services, resources and intellectual property between the nations will continue based, for the time being, on a co-dependency built up over the last three decades.

For specific information on the Funds and their performance, please refer to the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources are available on our website, us.allianzgi.com/closedendfunds.

On behalf of Allianz Global Investors U.S. LLC, the Funds investment manager, thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Thomas J. Fuccillo
President & Chief Executive Officer

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Fund Insights

AllianzGI Convertible & Income 2024 Target Term Fund / AllianzGI Convertible & Income Fund /AllianzGI Convertible & Income Fund II

August 31, 2018 (unaudited)

AllianzGI Convertible & Income 2024 Target Term Fund

For the period of March 1, 2018 through August 31, 2018, as provided by Douglas G. Forsyth, CFA, Managing Director, Portfolio Manager.

For the six-month period ended August 31, 2018, the AllianzGI Convertible & Income 2024 Target Term Fund (the Fund) returned 4.52% on net asset value (NAV) and 4.01% on market price.

Market Environment

A number of factors influenced the convertible, high yield, and senior secured loan markets during the reporting period, including improving corporate fundamentals, healthy U.S. economic trends, rising interest rates, U.S. Federal Reserve (Fed) actions and commentary, and the impact of growing geopolitical concerns on international markets.

Corporate fundamentals continued to improve with most issuers reporting better-than-expected financial results and positive outlooks, citing increasing demand, a more favorable regulatory environment and recent tax-reform benefits. In fact, first and second quarter earnings growth for U.S. companies were the strongest recorded in years.

U.S. economic reports revealed a strengthening labor market, higher consumer confidence and small business optimism, plus healthy retail sales growth. Yet, inflation readings rose and home sales slowed.

Against this favorable economic and corporate backdrop, the Fed raised its key interest rate 25 basis points twice during the reporting period,

to a range of 1.75% to 2.00%. Additionally, the U.S. central bank continued to reduce its balance sheet and signaled two more hikes before year-end.

While the U.S. economy remained healthy, the global environment was mixed. Rising global trade tensions, a surging U.S. dollar, Brexit and Italian debt concerns, emerging market stress, and continued conflicts in the Middle East weighed on global markets during the reporting period. While these issues impacted investor sentiment, the U.S. markets remained resilient and reflected a relative safe-haven for investors.

Portfolio Specifics

The convertible bond, high-yield bond, and senior secured loan asset classes all finished the reporting period higher. In addition to providing a strong total return, the Fund also provided a high level of income over the reporting period.

In the convertible bond sleeve, sectors that helped relative performance were financials, consumer discretionary, and media. On the other hand, technology, energy, and transportation sectors pressured relative performance.

In the high-yield bond sleeve, industry exposure that helped relative performance included automotive, banking, and retail. Conversely, the financial services, metals/mining ex-steel, and building materials industries hindered relative performance.

In the senior secured loan sleeve, the top-contributing industries included technology & electronics, retail, and gaming. The top-detracting industries included healthcare, building materials, and energy.

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Outlook

In our view, the U.S. economy remains healthy. We believe growth is supported by elevated consumer and business confidence, low unemployment, favorable lending conditions, government spending growth and tax cuts. In addition, corporate profits are estimated to grow significantly in 2018.

We also believe the Tax Cuts and Jobs Act implemented in December 2017 should provide upside benefits to earnings estimates with tax obligations of U.S. corporations likely moving notably lower. Based on bottom-up estimates, the current earnings trajectory could result in double-digit year-over-year earnings growth for the S&P 500 Index in 2018. Potential risks to the economy include geopolitical issues, including rising global trade tensions, higher energy prices, a stronger U.S. dollar, monetary policy surprises by the Fed or higher than expected inflation.

The Fed is expected to take a gradual approach toward monetary policy adjustments. Interest-rate hikes and balance-sheet reduction efforts signal confidence in the U.S. economy s ability to grow. The purpose of these adjustments would be to achieve a normalized environment after an extended period of extreme accommodation. Until the Fed either moves aggressively or is well into the tightening cycle, monetary policy should not be expected to drive an extended sell-off of risk-assets. Overseas, monetary policies continue to be constructive. Over the past 30 years, the U.S. has not fallen into a recession without being preceded by an inverted yield curve. The difference between the three-month Treasury bill and the 10-year Treasury note has narrowed, but the curve remains positive sloping and, in our view, accommodative for growth.

AllianzGI Convertible & Income Fund / AllianzGI Convertible & Income Fund II

For the period of March 1, 2018 through August 31, 2018, as provided by Douglas G. Forsyth, CFA, Managing Director, Portfolio Manager.

For the six-month period ended August 31, 2018, the AllianzGI Convertible & Income Fund returned 3.90% on net asset value (NAV) and 9.13% on market price.

For the six-month period ended August 31, 2018, the AllianzGI Convertible & Income Fund II returned 3.89% on net asset value (NAV) and 7.89% on market price.

Market Environment

A number of factors influenced the convertible and high yield bond markets during the reporting period, including improving corporate fundamentals, healthy U.S. economic trends, rising interest rates, U.S. Federal Reserve (Fed) actions and commentary, and the impact of growing geopolitical concerns on international markets.

Corporate fundamentals continued to improve with most issuers reporting better-than-expected financial results and positive outlooks, citing increasing demand, a more favorable regulatory environment and recent tax-reform benefits. In fact, first-quarter and second-quarter earnings growth for U.S. companies were the strongest recorded in years.

U.S. economic reports revealed a strengthening labor market, higher consumer confidence and small business optimism, plus healthy retail sales growth. Yet, inflation readings rose and home sales slowed.

Against this favorable economic and corporate backdrop, the Fed raised its key interest rate 25 basis points twice during the reporting period to a range of 1.75% to 2.00%. Additionally, the U.S. central bank continued to reduce its balance sheet and signaled two more hikes before year-end.

While the U.S. economy remained healthy, the global environment was mixed. Rising global trade tensions, a surging U.S. dollar, Brexit and Italian debt concerns, emerging market stress, and continued conflicts in the Middle East weighed on global markets during the reporting period. While these issues impacted investor sentiment, the U.S. markets remained resilient and reflected a relative safe-haven for investors.

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Portfolio Specifics

The convertible bond and high-yield bond asset classes finished the reporting period higher. In addition to providing a strong total return, the Fund also provided a high level of income over the reporting period.

In the convertible bond sleeve, sectors that helped relative performance were financials and media. On the other hand, consumer discretionary, healthcare, and energy sectors hindered relative performance.

In the high-yield bond sleeve, industry exposure that helped relative performance included automotive, theatres & entertainment, and banking. Conversely, the financial services, support-services, and printing & publishing industries hindered relative performance.

Outlook

In our view, the U.S. economy remains healthy. We believe growth is supported by elevated consumer and business confidence, low unemployment, favorable lending conditions, government spending growth and tax cuts. In addition, corporate profits are estimated to grow significantly in 2018.

We also believe the Tax Cuts and Jobs Act implemented in December 2017 should provide

upside benefits to earnings estimates with tax obligations of U.S. corporations likely moving notably lower. Based on bottom-up estimates, the current earnings trajectory could result in double-digit year-over-year earnings growth for the S&P 500 Index in 2018. Potential risks to the economy include geopolitical issues, including rising global trade tensions, higher energy prices, a stronger U.S. dollar, monetary policy surprises by the Federal Reserve or higher than expected inflation.

The Fed is expected to take a gradual approach toward monetary policy adjustments. Interest-rate hikes and balance-sheet reduction efforts signal confidence in the U.S. economy s ability to grow. The purpose of these adjustments would be to achieve a normalized environment after an extended period of extreme accommodation. Until the Fed either moves aggressively or is well into the tightening cycle, monetary policy should not be expected to drive an extended sell-off of risk-assets. Overseas, monetary policies continue to be constructive. Over the past 30 years, the U.S. has not fallen into a recession without being preceded by an inverted yield curve. The difference between the three-month Treasury bill and the 10-year Treasury note has narrowed, but the curve remains positive sloping and, in our view, accommodative for growth.

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Performance & Statistics

AllianzGI Convertible & Income 2024 Target Term Fund

August 31, 2018 (unaudited)

Total Return[1]:	Market Price	NAV
Six Month	4.01%	4.52%
1 Year	-0.23%	7.18%
Commencement of Operations (6/30/17) to 8/31/18	-0.65%	6.38%

Market Price/NAV Performance:
Commencement of Operations (6/30/17) to 8/31/18

Market Price/NAV:	
Market Price	$9.31
NAV[2]	$9.95
Discount to NAV	-6.43%
Market Price Yield[3]	5.93%
Leverage[4]	27.73%

S&P Global Ratings*

(as a % of total investments)

See Notes to Performance & Statistics on page 10.

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Performance & Statistics

AllianzGI Convertible & Income Fund

August 31, 2018 (unaudited)

Total Return[1]:	Market Price	NAV
Six Month	9.13%	3.90%
1 Year	14.32%	9.05%
5 Year	7.20%	5.50%
10 Year	8.38%	7.81%
Commencement of Operations (3/31/03) to 8/31/18	8.07%	7.78%

Market Price/NAV Performance:
Commencement of Operations (3/31/03) to 8/31/18

Market Price/NAV:	
Market Price	$7.13
NAV[2]	$6.39
Premium to NAV	11.58%
Market Price Yield[3]	7.66%
Leverage[5]	37.98%

S&P Global Ratings*

(as a % of total investments)

See Notes to Performance & Statistics on page 10.

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Performance & Statistics

AllianzGI Convertible & Income Fund II

August 31, 2018 (unaudited)

Total Return[1]:	Market Price	NAV
Six Month	7.89%	3.89%
1 Year	11.71%	9.01%
5 Year	5.80%	5.52%
10 Year	7.86%	7.22%
Commencement of Operations (7/31/03) to 8/31/18	6.83%	6.80%

Market Price/NAV Performance:
Commencement of Operations (7/31/03) to 8/31/18

Market Price/NAV:	
Market Price	$6.20
NAV[2]	$5.74
Premium to NAV	8.01%
Market Price Yield[3]	7.83%
Leverage[5]	38.22%

S&P Global Ratings*

(as a % of total investments)

See Notes to Performance & Statistics on page 10.

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Performance and Statistics

AllianzGI Convertible & Income Funds

August 31, 2018 (unaudited)

Notes to Performance & Statistics:

* Credit ratings apply to the underlying holdings of the Funds and not the Funds themselves and are divided into categories ranging from highest to lowest credit quality, determined for purposes of presentations in this report by using ratings provided by S&P Global Ratings (S&P). Presentations of credit ratings information in this report use ratings provided by S&P for this purpose, among other reasons, because of the access to background information and other materials provided by S&P, as well as the Funds considerations of industry practice. Bonds not rated by S&P, or bonds that do not have a rating available from S&P, or bonds that had a rating withdrawn by S&P are designated as NR or NA , respectively. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change periodically, even as frequently as daily. Ratings assigned by S&P or another rating agency are not absolute standards of credit quality and do not evaluate market risk. Rating agencies may fail to make timely changes in credit ratings, and an issuer s current financial condition may be better or worse than a rating indicates. In formulating investment decisions for the Funds, Allianz Global Investors U.S. LLC develops its own analysis of the credit quality and risks associated with individual debt instruments, rather than relying exclusively on rating agencies or third-party research.

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return. Total return for a period of less than one year is not annualized.

Performance at market price will differ from results at NAV. Although market price returns tend to reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Funds, market conditions, supply and demand for each Fund s shares, or changes in each Fund s dividends.

An investment in each Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) The NAV disclosed in the Funds financial statements may differ from this NAV due to accounting principles generally accepted in the United States of America.

(3) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at August 31, 2018.

(4) Represents amounts drawn under the liquidity facility (Leverage) outstanding, as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

(5) Represents Preferred Shares and amounts drawn under the liquidity facility (Leverage) outstanding, as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

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Schedule of Investments

AllianzGI Convertible & Income 2024 Target Term Fund

August 31, 2018 (unaudited)

Principal Amount (000s)		Value
Convertible Bonds & Notes 58.3%		
	Auto Manufacturers 0.6%	
$1,000	Navistar International Corp., 4.75%, 4/15/19	$1,042,189
	Biotechnology 3.3%	
2,000	Acorda Therapeutics, Inc., 1.75%, 6/15/21	1,955,000
1,500	Innoviva, Inc., 2.125%, 1/15/23	1,484,377
1,000	Intercept Pharmaceuticals, Inc., 3.25%, 7/1/23	967,399
1,500	PTC Therapeutics, Inc., 3.00%, 8/15/22	1,617,267
		6,024,043
	Building Materials 0.8%	
1,500	Patrick Industries, Inc., 1.00%, 2/1/23 (a)(c)	1,471,616
	Commercial Services 1.2%	
2,500	Macquarie Infrastructure Corp., 2.00%, 10/1/23 (f)	2,243,940
	Computers 0.8%	
1,500	Western Digital Corp., 1.50%, 2/1/24 (a)(c)(f)	1,443,803
	Distribution/Wholesale 1.1%	
2,000	Titan Machinery, Inc., 3.75%, 5/1/19	1,987,644
	Diversified Financial Services 4.1%	
2,000	Encore Capital Europe Finance Ltd., 4.50%, 9/1/23	2,156,240
2,550	Encore Capital Group, Inc., 2.875%, 3/15/21 (e)	2,437,519
3,000	PRA Group, Inc., 3.00%, 8/1/20	2,910,564
		7,504,323
	Electrical Equipment 1.4%	
3,215	SunPower Corp., 4.00%, 1/15/23 (f)	2,618,814
	Electronics 1.6%	
3,000	OSI Systems, Inc., 1.25%, 9/1/22	2,938,845
	Energy-Alternate Sources 3.2%	
500	NextEra Energy Partners L.P., 1.50%, 9/15/20 (a)(c)	512,305
3,000	Pattern Energy Group, Inc., 4.00%, 7/15/20	2,991,000
2,500	Tesla Energy Operations, Inc., 1.625%, 11/1/19 (f)	2,289,735
		5,793,040
	Engineering & Construction 1.8%	
1,000	Dycom Industries, Inc., 0.75%, 9/15/21 (f)	1,110,956
2,000	Tutor Perini Corp., 2.875%, 6/15/21 (f)	2,074,694
		3,185,650
	Entertainment 0.9%	
1,500	Live Nation Entertainment, Inc., 2.50%, 3/15/23 (a)(c)	1,557,179

	Equity Real Estate Investment Trusts (REITs) 5.6%	
3,000	PennyMac Corp., 5.375%, 5/1/20	3,003,765
2,850	Starwood Property Trust, Inc., 4.375%, 4/1/23 (f)	2,848,390
2,750	Two Harbors Investment Corp., 6.25%, 1/15/22	2,853,625
1,500	Western Asset Mortgage Capital Corp., 6.75%, 10/1/22	1,553,853
		10,259,633
	Healthcare-Products 1.4%	
2,500	Nevro Corp., 1.75%, 6/1/21	2,564,460
	Insurance 1.6%	
3,000	HCI Group, Inc., 4.25%, 3/1/37 (a)	2,878,605

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Schedule of Investments

AllianzGI Convertible & Income 2024 Target Term Fund

August 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Internet 2.7%	
$3,000	FireEye, Inc., 1.625%, 6/1/35, Ser. B	$2,749,533
1,500	Twitter, Inc., 1.00%, 9/15/21 (f)	1,410,256