PIMCO

# PIMCO Preferred and Capital Securities Fund

Quarterly Investment Report | 1Q24

**IMPORTANT NOTICE**
Please note that this material contains the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

A company of Allianz

# Executive summary

## Portfolio Performance

The portfolio generated a positive return during the first quarter as sentiment in the global bank capital market continued to improve, leading to tighter spreads and lower yields. An overweight to Dutch and UK Additional Tier 1 securities and duration positioning contributed, while security selection within US insurance capital, security selection within US financial seniors, and an underweight to US non-financial retail preferreds detracted.

**CONTRIBUTORS**

- Overweight Dutch and UK Additional Tier 1 securities
- Duration positioning

**DETRACTORS**

- Security selection within US insurance capital
- Security selection within US financial seniors
- Underweight US non-financial retail preferreds

| Performance periods ended 31 Mar '24 | 3 mos. | 6 mos. | 1 yr. | 3 yrs. | 5 yrs. | SI |
|---|---|---|---|---|---|---|
| Fund before fees | 4.04 | 12.19 | 16.49 | 0.46 | 4.59 | 5.58 |
| Fund after fees | 3.83 | 11.76 | 15.58 | -0.33 | 3.77 | 4.75 |
| Benchmark* | 4.31 | 11.60 | 14.80 | 0.77 | 3.97 | 4.67 |

*Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Current performance may be lower or higher than performance shown. For performance current to the most recent month end, visit pimco.com or call 888.87.PIMCO.*

## Portfolio strategy

PIMCO favors investments in US Preferred and European Additional Tier 1 ("AT1") bonds from large systemic banks which benefit from high capital levels, years of balance sheet de-risking and positive regulatory developments. The Fund is well diversified across geographies and capital structure and maintains exposure to senior bank debt which provides a more defensive source of spread.

By region, the Fund's highest exposures are in the US, UK, and core European issuers given strong fundamentals, continued capital cushions, and attractive valuations. In Southern Europe, we prefer Spanish over Italian banks given stronger perceived asset quality and balance sheet build-up. We maintain a small allocation to Tier 2 Contingent Convertible and senior financial securities where we find pockets of attractive subordination premia and risk-adjusted yields, respectively.

*70% ICE BofAML 8% Constrained Core West Preferred & Jr Subordinated Securities Index and 30% ICE BofAML Contingent Capital Index;

| | |
|---|---|
| **Class:** | **INST** |
| **Inception date:** | **13 Apr '15** |
| **Fund assets (in millions):** | **$889.76** |
| **Gross expense ratio:** | **1.11%** |
| **Net expense ratio:** | **1.02%** |

The Net Expense Ratio reflects a contractual fee waiver and/or expense reduction, which is in place through 31 July 2024 and renews automatically for a full year unless terminated by PIMCO in accordance with the terms of the agreement. See the Fund's prospectus for more information. The Net Expense Ratio reflects a contractual fee waiver related to the Fund's subsidiary that will not terminate so long as PIMCO's advisory contract with the Fund's subsidiary is in place.

**Adjusted expense ratio: 0.79%**

The Adjusted Expense Ratio excludes certain investment expenses, such as interest expense from borrowings and repurchase agreements and dividend expense from investments on short sales, incurred directly by the Fund or indirectly through the Fund's investments in underlying PIMCO Funds (if applicable), none of which are paid to PIMCO.

| Summary information | 31 Mar '24 |
|---|---|
| 30 Day SEC Yield | |
| Subsidized | 5.54% |
| Unsubsidized | 5.44% |
| Distribution yield | 5.16% |
| Effective duration (yrs) | 4.13 |
| Benchmark duration - provider (yrs) | 4.13 |
| Benchmark duration - PIMCO (yrs) | 4.17 |
| Effective maturity (yrs) | 5.07 |
| Average coupon | 5.95% |
| Net currency exposure | 0.03% |
| Tracking error (5 yrs) | 2.88 |
| Information ratio (5 yrs) | -0.03 |

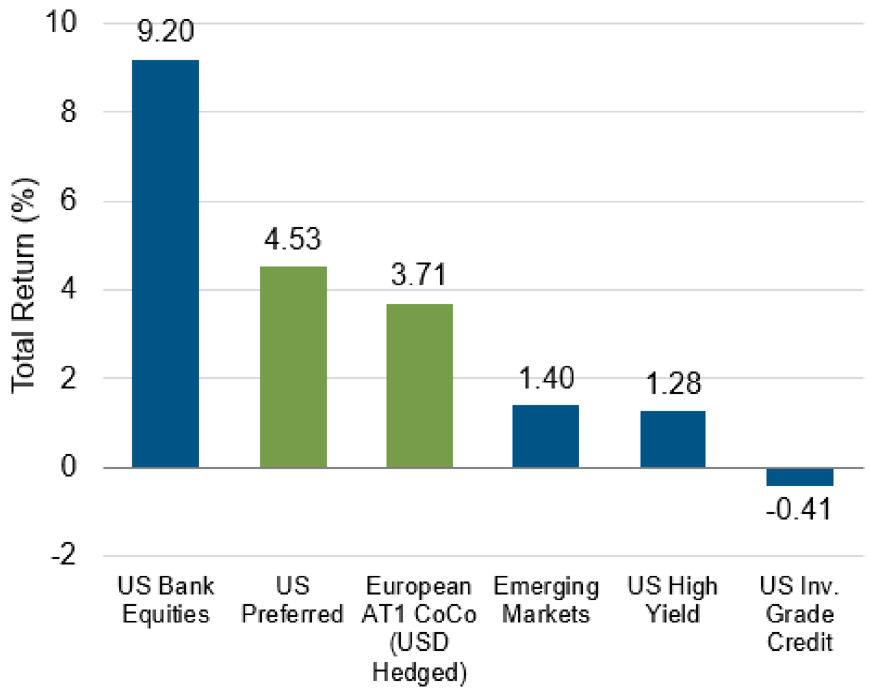
| Capital structure positioning | Dur (yrs) | MV (%) |
|---|---|---|
| Senior | 0.04 | 0.78 |
| Tier 2 | 0.41 | 7.54 |
| Sub. debt/Tier 2 | 0.04 | 0.56 |
| Preferred/Additional Tier 1 | 1.69 | 41.98 |
| Additional Tier 1 | 1.24 | 37.45 |
| Equity | 0.00 | 0.00 |
| Bank Loans | 0.00 | 0.00 |
| Non-Financials | 0.71 | 6.52 |
| Net Short Duration Instruments | 0.00 | 5.17 |

# Quarter in Review

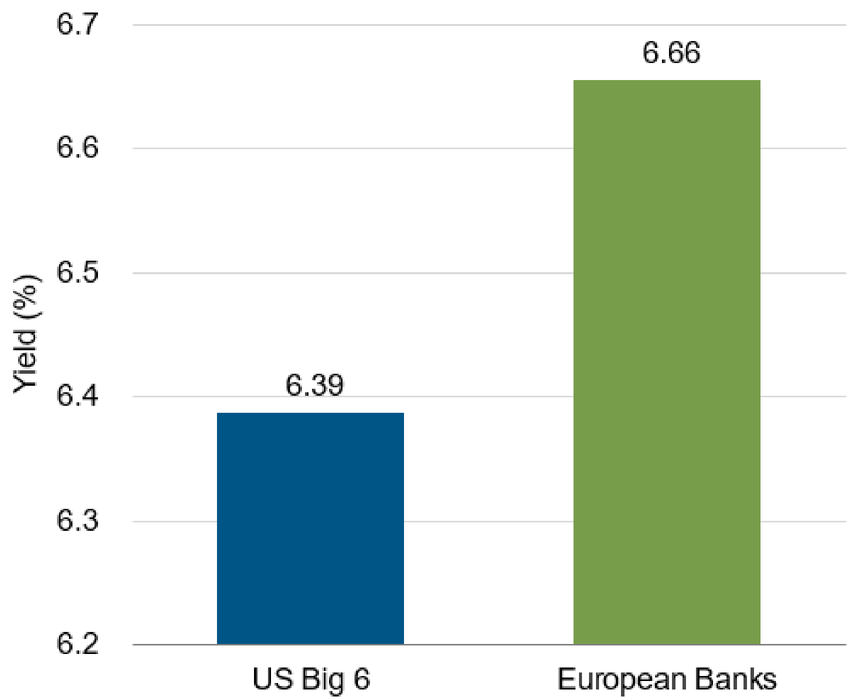
## Spreads in subordinated and senior financial debt tightened during the quarter

The global bank capital market, and in particular the more subordinated parts of banks' capital structure continued to rally over the quarter. This rally was driven by tighter credit spreads, as the resilience of the macro-economic environment raised the prospects for a soft landing. Commentary from the Federal Reserve dampened expectations for a Q1 rate cut and US inflation data proved to be stickier than expected, which led to rising rates. The negative impact from rising interest rates, however, was more than offset by spread compression.

The first quarter of the year has seen relatively strong performance from the capital securities markets, particularly subordinated bank debt, with the Bloomberg European Banks Additional Tier 1 (AT1) Index generating returns of +3.71% (USD hedged) while the Bloomberg Global Agg Corp Senior Financials Index rose by +0.6% (USD hedged).




In the first quarter, the European AT1 market returned +3.7% (USD hedged) while Global Senior Financials returned +0.6% (USD hedged). Both AT1s and senior bonds benefitted from a recovery in risk appetite as spreads continued to tighten, after they had widened significantly in March last year. Rates rose as US inflation data appeared stickier than expected, which negatively affected returns.




On an excess return basis, AT1s from peripheral banks outperformed as select banks within these countries continued to report increases in net interest margins and net interest income. Irish and Nordic banks underperformed over the quarter as spreads of bonds from these issuers experienced more limited compression.

US High Yield (ICE BofAML BB-B US HY Index); US Preferreds: (BofAML 8% Constrained Core West Preferred & Jr Subordinated Securities Index); Emerging Markets (JPMorgan EMBI Global); US Inv. Grade Credit (BBG Investment Grade Credit Index); European AT1 (ICE BofAML Contingent Capital Index); US Bank Equities (KBW Bank Index)

As of 28 March 2024. "Yield" is represented by the yield to worst for US Big 6 and current yield for European Banks. Source: US Big Six (PIMCO, Bloomberg), European Banks (COCO Index)



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# Market Summary

The portfolio generated a positive return during the first quarter as sentiment in the global bank capital market continued to improve, leading to tighter spreads and lower yields.

### Exposure to AT1s

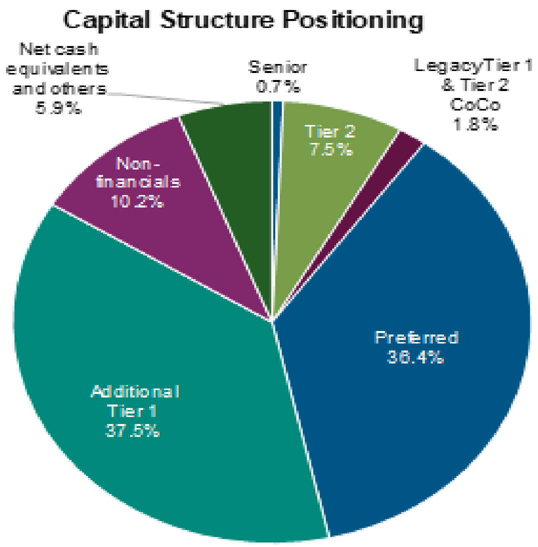
Our exposure to AT1 bonds was the main contributor to performance. Spreads tightened over the quarter as the broader AT1 market continued to benefit from a recovery in risk appetite after the events in March 2023 and the resilience of the macro-economic environment.

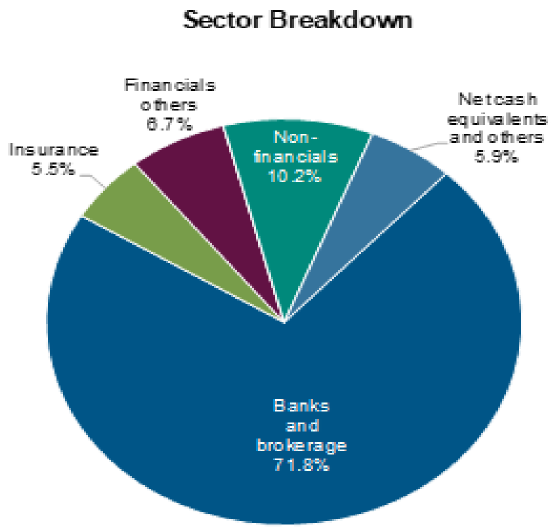
### Duration positioning

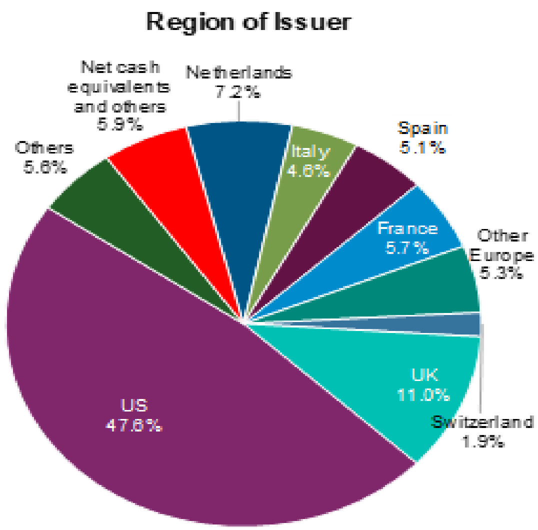
Our duration positioning contributed as rates rose over the period.

### Security selection within US insurance capital

Security selection within US insurance capital detracted from performance as select credits underperformed.




Charts show positioning of PIMCO Preferred and Capital Securities Fund.

## Investment implications:
## Opportune time to consider going active in global fixed income

| | |
|---|---|
| **Look global** | Greater-than-usual focus on bond markets outside of the U.S. |
| **Lock in elevated yields** | Intermediate maturities can offer a "sweet spot" with markets expecting cash rates to fall |
| **Favor high quality** | Up-in-quality bias in both public and private credit markets |
| **Go active** | Differentiated macro paths present compelling opportunities for active investors |

Source: PIMCO

# Portfolio Outlook

## Bank capital provides attractive yield

While Capital Securities remain exposed to the ongoing economic uncertainty, sector fundamentals continue to show resiliency and valuations look attractive compared to other parts of the fixed income universe, particularly given AT1 yields remain elevated versus history. The Fund is designed to offer an attractive combination of yield and duration while maintaining an average investment grade rating. The core of the strategy remains centered on national champions[1] in each country, all of them benefiting from strong capital positions, as highlighted by their solid performance across various central bank stress tests.

**Key strategies**

### Solid fundamentals

The banking sector is entering this period of economic uncertainty with strong initial conditions in credit fundamentals. Banks' asset quality has remained resilient and capital buffers are at or close to record highs. While elevated inflation, higher interest rates and tighter financial conditions will inevitably have an impact on the broader economy, banks are well positioned given their strong fundamentals following more than a decade of restructuring, de-risking and de-leveraging and remain more insulated from inflationary pressures relative to other sectors in corporate credit.

### Benefitting from higher rates

Most banks are uniquely positioned to continue to benefit from higher rates, particularly in Europe. Financial results published in the fourth quarter of 2023 continued to indicate that the benefits of abandoning negative rates have become visible on banks' P&Ls. While we believe 2023 likely marked peak earnings for banks in the US and Europe, it is important to stress that we do not expect a return to an environment of extremely low or negative interest rates, which was the case for much of the last decade and which put bank earnings under significant pressure.

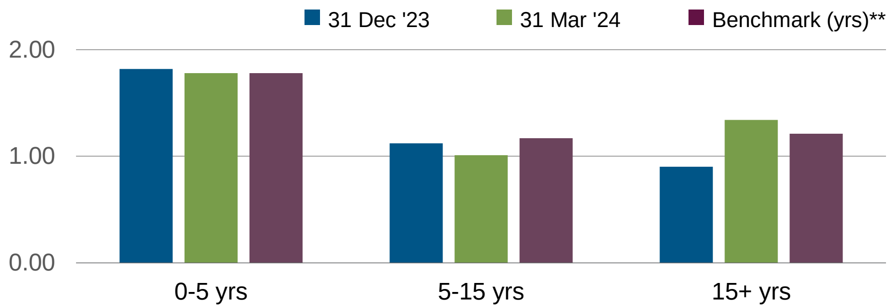
### Attractive valuations

Valuations look attractive compared to other parts of the fixed income universe, particularly given AT1 yields remain elevated versus history. While market stress related to events over the course of March 2023 propagated primarily to the most junior part of banks' capital structures, over the last year we have seen a strong recovery in prices, particularly in November and December 2023, with AT1s now trading at the 20th percentile of daily spread data since inception of the index in 2014. More senior parts of the capital structure also sold off last year, despite not being subject to the write-down/conversion mechanism of AT1s. Senior Financials are currently trading at the 45th percentile of daily spread data since the inception of the AT1 index in 2014, thus providing attractive spreads compared to historical levels.

[1]National champions are banks that represent large and important shares of the lending that occurs in a country's economy.
Capital Ratios based on 4Q23 bank earnings (most recent data available). Banks include Barclays, BNP, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, Intesa, JPMorgan, Morgan Stanley, UBS, and Unicredit.

# Portfolio characteristics

Key rate duration exposure




| | Portfolio (yrs) | | Benchmark (yrs)** |
|---|---|---|---|
| | 31 Dec '23 | 31 Mar '24 | 31 Mar '24 |
| 0-5 yrs | 1.82 | 1.78 | 1.78 |
| 5-15 yrs | 1.12 | 1.01 | 1.17 |
| 15+ yrs | 0.90 | 1.34 | 1.21 |
| **Total** | **3.84** | **4.13** | **4.16** |

| Coupon structure | Dur (yrs) | MV (%) |
|---|---|---|
| Fixed rate securities | 0.73 | 3.58 |
| Fixed-to-floating rate | 2.88 | 87.26 |
| Floating rate securities | 0.52 | 3.99 |
| Net Other Short Duration Instruments | 0.00 | 5.17 |

| Sector allocation | Dur (yrs) | MV(%) |
|---|---|---|
| Banking | 2.87 | 71.82 |
| Insurance | 0.29 | 5.45 |
| Finance Corporation | 0.11 | 7.82 |
| Government | 0.29 | -0.61 |
| Non-Financials | 0.57 | 10.33 |
| Net Short Duration Instruments | 0.00 | 5.17 |

Interest rate exposure

| | Portfolio (yrs) | | Benchmark (yrs)** |
|---|---|---|---|
| | 31 Dec '23 | 31 Mar '24 | 31 Mar '24 |
| Effective duration | 3.84 | 4.13 | 4.17 |
| Bull market duration | 3.85 | 4.15 | 3.97 |
| Bear market duration | 3.81 | 4.10 | 4.31 |
| **Spread duration** | | | |
| Mortgage spread duration | 0.00 | 0.00 | 0.00 |
| Corporate spread duration | 6.23 | 6.22 | 6.27 |
| Emerging markets spread duration | 0.12 | 0.11 | 0.11 |
| Swap spread duration | 0.16 | 0.15 | 0.00 |
| Covered bond spread duration | 0.00 | 0.00 | 0.00 |
| Sovereign related spread duration | 0.00 | 0.00 | 0.01 |

Derivative exposure (% of duration)

| | 31 Dec '23 | 31 Mar '24 |
|---|---|---|
| **Government futures** | 8.87 | 6.93 |
| **Interest rate swaps** | 4.11 | 3.51 |
| **Credit default swaps*** | 0.00 | 0.00 |
| Purchased swaps | 0.00 | 0.00 |
| Written swaps | 0.00 | 0.00 |
| **Options** | 0.00 | 0.00 |
| Purchased Options | 0.00 | 0.00 |
| Written Options | 0.00 | 0.00 |
| **Mortgage Derivatives** | 0.00 | 0.00 |
| **Money Market Derivatives** | 0.00 | 0.00 |
| Futures | 0.00 | 0.00 |
| Interest rate swaps | 0.00 | 0.00 |
| **Other Derivatives** | 0.00 | 0.00 |

* Shown as a percentage of market value

**Benchmark duration is calculated by PIMCO
Benchmark: 70% ICE BofAML 8% Constrained Core West Preferred & Jr Subordinated Securities Index and 30% ICE BofAML Contingent Capital Index

# Country and currency exposure

Country exposure by currency of settlement

| | 31 Dec '23 | | 31 Mar '24 | |
|---|---|---|---|---|
| | Duration (yrs) | FX (%) | Duration (yrs) | FX (%) |
| **United States** | **3.29** | **99.92** | **3.77** | **99.97** |
| **Japan** | **0.00** | **0.01** | **0.00** | **0.00** |
| **Eurozone** | **0.46** | **0.04** | **0.28** | **0.00** |
| Austria | 0.04 | 0.00 | 0.04 | 0.00 |
| Belgium | 0.03 | 0.00 | 0.03 | 0.00 |
| Euro Currency | 0.00 | 0.04 | 0.00 | 0.00 |
| European Union | 0.00 | 0.00 | -0.01 | 0.00 |
| France | 0.02 | 0.00 | 0.02 | 0.00 |
| Germany | -0.24 | 0.00 | -0.44 | 0.00 |
| Ireland | 0.02 | 0.00 | 0.01 | 0.00 |
| Italy | 0.08 | 0.00 | 0.08 | 0.00 |
| Netherlands | 0.39 | 0.00 | 0.44 | 0.00 |
| Spain | 0.13 | 0.00 | 0.10 | 0.00 |
| **United Kingdom** | **0.08** | **0.01** | **0.08** | **-0.00** |
| **Europe non-EMU** | **0.00** | **0.04** | **0.00** | **0.04** |
| Switzerland | 0.00 | 0.04 | 0.00 | 0.04 |
| **Dollar Block** | **-0.00** | **-0.01** | **-0.00** | **-0.02** |
| Australia | -0.00 | -0.01 | -0.00 | -0.02 |
| **Other Industrialized Countries** | **0.00** | **-0.00** | **0.00** | **-0.00** |
| **EM - Asia** | **0.00** | **0.00** | **0.00** | **0.00** |
| **EM - Latin America** | **0.00** | **0.00** | **0.00** | **0.00** |
| **Total** | **3.84** | **100** | **4.13** | **100** |

Emerging markets exposure by country of risk

| | 31 Dec '23 | | | 31 Mar '24 | | |
|---|---|---|---|---|---|---|
| | % of MV short duration Instruments | % of MV bonds | Duration (yrs) | % of MV short duration Instruments | % of MV bonds | Duration (yrs) |
| Mexico | 0.00 | 1.73 | 0.09 | 0.00 | 1.63 | 0.09 |
| Russia | 0.00 | 0.03 | 0.00 | 0.00 | 0.03 | 0.00 |
| **Total** | **0.00** | **1.76** | **0.09** | **0.00** | **1.67** | **0.09** |



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# Additional share class performance

PIMCO Preferred and Capital Securities Fund (net of fees performance)

| Performance periods ended: 31 Mar '24 | Maximum Charge (Load) | Maximum Deferred Sales Charge (Load) | Gross expense ratio | Net expense ratio | Adjusted expense ratio | NAV currency | Class Inception date | 3 mos. | 6 mos. | 1 yr. | 3 yrs. | 5 yrs. | SI |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class A (at NAV) | 3.75 | 1.00 | 1.46 | 1.37 | 1.14 | USD | 13 Apr '15 | 3.77 | 11.62 | 15.16 | -0.66 | 3.42 | 4.39 |
| Class A (at MOP) | 3.75 | 1.00 | 1.46 | 1.37 | 1.14 | USD | 13 Apr '15 | -0.09 | 7.47 | 10.84 | -1.92 | 2.62 | 3.94 |
| Class C (at NAV) | - | 1.00 | 2.21 | 2.12 | 1.89 | USD | 23 Aug '19 | 3.62 | 11.25 | 14.42 | -1.40 | 2.67 | 3.62 |
| Class C (at MOP) | - | 1.00 | 2.21 | 2.12 | 1.89 | USD | 23 Aug '19 | 2.62 | 10.25 | 13.42 | -1.40 | 2.67 | 3.62 |
| Class I-2 | - | - | 1.21 | 1.12 | 0.89 | USD | 13 Apr '15 | 3.82 | 11.86 | 15.50 | -0.39 | 3.66 | 4.65 |
| Class I-3 | - | - | 1.31 | 1.17 | 0.94 | USD | 27 Apr '18 | 3.83 | 11.63 | 15.39 | -0.48 | 3.62 | 4.59 |
| Class INST | - | - | 1.11 | 1.02 | 0.79 | USD | 13 Apr '15 | 3.83 | 11.76 | 15.58 | -0.33 | 3.77 | 4.75 |
| 70% ICE BofAML 8% Constrained Core West Preferred & Jr Subordinated Securities Index and 30% ICE BofAML Contingent Capital Index | | | | | | | | 4.31 | 11.60 | 14.80 | 0.77 | 3.97 | 4.67 |

The Net Expense Ratio reflects a contractual fee waiver and/or expense reduction, which is in place through 31 July 2024 and renews automatically for a full year unless terminated by PIMCO in accordance with the terms of the agreement. See the Fund's prospectus for more information. The Net Expense Ratio for the I-3 Class reflects a contractual supervisory and administrative fee waiver and/or expense reduction in place through 31 July 2024 and renews automatically for a full year unless terminated by PIMCO in accordance with the terms of the agreement. See the Fund's prospectus for more information.

The Adjusted Expense Ratio excludes certain investment expenses, such as interest expense from borrowings and repurchase agreements and dividend expense from investments on short sales, incurred directly by the Fund or indirectly through the Fund's investments in underlying PIMCO Funds (if applicable), none of which are paid to PIMCO.

*Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Current performance may be lower or higher than performance shown. For performance current to the most recent month end, visit pimco.com or call 888.87.PIMCO.The maximum offering price (MOP) returns take into account the Class A maximum initial sales charge of 3.75%.The maximum offering price (MOP) returns take into account the contingent deferred sales charge (CDSC) for Class C shares, which for this fund is 1.00%.*

Class A shares are subject to an initial sales charge (as a percentage of offering price). A CDSC (as a percentage of the lower of the original purchase price or redemption price) may be imposed in certain circumstances on Class A shares that are purchased without an initial sales charge and then redeemed during the first 12 months after purchase. Class C shares are subject to a CDSC, which may apply in the first year.

For the periods prior to the inception date of a share class, performance information is based on the performance of the Fund's oldest class shares, adjusted to reflect the fees and expenses paid by that class of shares.

# Important Disclosures

*This material is authorized for use only when preceded or accompanied by the current PIMCO funds prospectus or summary prospectus, if available.*

**Past performance is not a guarantee or a reliable indicator of future results.** The performance figures presented reflect the total return performance, unless otherwise noted, after fees and reflect changes in share price and reinvestment of dividend and capital gain distributions. All periods longer than one year are annualized. Periods less than one year are cumulative. The minimum initial investment for Institutional, I-2, I-3 and Administrative class shares is $1 million; however, it may be modified for certain financial intermediaries who submit trades on behalf of eligible investors.

There is no assurance that any fund, including any fund that has experienced **high or unusual performance** for one or more periods, will experience similar levels of performance in the future. High performance is defined as a significant increase in either 1) a fund’s total return in excess of that of the fund’s benchmark between reporting periods or 2) a fund’s total return in excess of the fund’s historical returns between reporting periods. Unusual performance is defined as a significant change in a fund’s performance as compared to one or more previous reporting periods.

Differences in the Fund’s performance versus the index and related attribution information with respect to particular categories of securities or individual positions may be attributable, in part, to differences in the pricing methodologies used by the Fund and the index.

Investments made by a Fund and the results achieved by a Fund are not expected to be the same as those made by any other PIMCO-advised Fund, including those with a similar name, investment objective or policies. A new or smaller Fund’s performance may not represent how the Fund is expected to or may perform in the long-term. New Funds have limited operating histories for investors to evaluate and new and smaller Funds may not attract sufficient assets to achieve investment and trading efficiencies. A Fund may be forced to sell a comparatively large portion of its portfolio to meet significant shareholder redemptions for cash, or hold a comparatively large portion of its portfolio in cash due to significant share purchases for cash, in each case when the Fund otherwise would not seek to do so, which may adversely affect performance.

**A word about risk: Contingent Convertible (“Coco”) Bonds** are bonds that are converted into equity of the issuing company if a pre-specified trigger occurs. Co-cos are subject to a different type of risk from traditional bonds and may result in a partial or total loss of value or may be converted into shares of the issuing company which may also have suffered a loss in value. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Investing in **foreign-denominated and/or -domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. Bank loans are often less liquid than other types of debt instruments and general market and financial conditions may affect the prepayment of bank loans, as such the prepayments cannot be predicted with accuracy. There is no assurance that the liquidation of any collateral from a secured bank loan would satisfy the borrower’s obligation, or that such collateral could be liquidated. **High yield, lower-rated securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. Investments in illiquid securities may reduce the returns of a portfolio because it may be not be able to sell the securities at an advantageous time or price. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. **Derivatives** may involve certain costs and risks, such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. **Diversification** does not ensure against loss.

Portfolio allocations and other information in the charts in this Quarterly Investment Report are based on the fund's net assets. These percentages may differ from those used for the fund's compliance calculations, including the fund's prospectus, regulatory, and other investment limitations and policies, which may be based on total assets of the fund or other measurements, may include or exclude various categories of investments from those covered in the portfolio allocation categories shown in this report, and may be based on different classifications and measurements of the fund's investments and other criteria. All funds are separately monitored for compliance with prospectus and regulatory requirements.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

# Important Disclosures

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be interpreted as investment advice, as an offer or solicitation, nor as the purchase or sale of any financial instrument. Forecasts and estimates have certain inherent limitations, and unlike an actual performance record, do not reflect actual trading, liquidity constraints, fees, and/or other costs. In addition, references to future results should not be construed as an estimate or promise of results that a client portfolio may achieve.

The benchmark is a blend of 70% ICE BofAML 8% Constrained Core West Preferred & Jr Subordinated Securities Index and 30% ICE BofAML Contingent Capital Index. The ICE BofAML 8% Constrained Core West Preferred & Jr Subordinated Securities Index tracks the performance of US dollar denominated high grade and high yield preferred securities and deeply subordinated corporate debt issued in the US domestic market. Qualifying securities must be rated at least B3, based on an average of Moody's, S&P and Fitch and have a country of risk of either the U.S. or a Western European country. Qualifying preferred securities must be issued as public securities or through a 144a filing, must have a fixed or floating dividend schedule and must have a minimum amount outstanding of $100 million. The ICE BofAML Contingent Capital Index tracks the performance of investment grade and below investment grade contingent capital debt publicly issued in the major domestic and eurobond markets. Qualifying securities must have a capital-dependent conversion feature and must be rated by either Moody's, S&P or Fitch. In addition, qualifying securities must have at least one month remaining term to final maturity and at least 18 months to maturity at point of issuance. For investment grade debt, qualifying currencies and their respective minimum size requirements (in local currency terms) are: AUD 100 million; CAD 100 million; EUR 250 million; JPY 20 billion; GBP 100 million; and USD 250 million. For below investment grade debt, minimum size requirements are CAD 100 million, EUR 100 million, GBP 50 million, or USD 100 million. It is not possible to invest directly in an unmanged index.

The following defined terms are used throughout the report. Emerging market short duration instruments includes an emerging market security or other instrument economically tied to an emerging market country by country of risk with an effective duration less than one year and rated investment grade or higher or if unrated, determined to be similar quality by PIMCO. Net other short duration instruments includes securities and other instruments (except instruments tied to emerging markets by country of risk) with an effective duration less than one year and rated investment grade or higher or, if unrated, determined by PIMCO to be of comparable quality, commingled liquidity funds, uninvested cash, interest receivables, net unsettled trades, broker money and derivatives offset. With respect to certain categories of short duration securities, the Adviser reserves the discretion to require a minimum credit rating higher than investment grade for inclusion in this category. Short duration derivatives and derivatives offsets include: 1) derivatives with an effective duration less than one year and where the country of risk is not an emerging market country (for example, Eurodollar futures) and 2) offsets associated with investments in futures, swaps and other derivatives. Such offsets may be taken at the notional value of the derivative position which in certain instances may exceed the actual amount owed on such positions. Municipals/Other may include convertibles, preferred and yankee bonds.

**The performance figures presented reflect the performance for the institutional class unless otherwise noted.**

**A note about Sector exposure:** Other indicates swaps and securities issued in euros.

**A note about Emerging markets exposure by country of risk:** country of risk reflects the country of incorporation of the ultimate parent company.

PIMCO uses an internal model for calculating effective duration, which may result in a different value for the duration of an index compared to the duration calculated by the index provider or another third party.

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# Important Disclosures

Acronyms and definitions of investment terms used throughout the report:

**Alpha** is a measure of performance on a risk-adjusted basis calculated by comparing the volatility (price risk) of a portfolio vs. its risk-adjusted performance to a benchmark index; the excess return relative to the benchmark is alpha.

**Average coupon** is the average of the coupon payments of the underlying bonds within the portfolio.

**Average effective maturity** is a weighted average of all the maturities of the bonds in a portfolio, computed by weighting each bond's effective maturity by the market value of the security.

**“Bend-but-not-break”** refers to credits that PIMCO would not expect to default in a credit-stressed environment.

**Beta** is a measure of price sensitivity to market movements. Market beta is 1.

**Breakeven inflation rate** (or expectation) is a market-based measure of expected inflation or the difference between the yield of a nominal and an inflation-linked bond of the same maturity.

**Carry** is the rate of interest earned by holding the respective securities.

The terms **“cheap” and “rich”** as used herein generally refer to a security or asset class that is deemed to be substantially under- or overpriced compared to both its historical average as well as to the investment manager’s future expectations. There is no guarantee of future results or that a security’s valuation will ensure a profit or protect against a loss.

**CPI** is the Consumer Price Index.

The **credit quality** of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody’s, and Fitch respectively.

**Dividend yield** is represented by the weighted average coupon divided by the weighted average price.

**Duration** is the measure of a bond's price sensitivity to interest rates and is expressed in years.

**Effective duration** is the duration for a bond with an embedded option when the value is calculated to include the expected change in cash flow caused by the option as interest rates change.

**Forward curve** is a function graph that defines the prices at which a contract for future delivery or payment can be concluded today.

**Fallen angel** is a bond that was initially given an investment grade rating but has since been reduced to below investment grade status.

**GFC** is the Global Financial Crisis.

**Information ratio** is a ratio of portfolio returns above the returns of a benchmark to the volatility of those returns.

**Like-duration Securities** are calculated by the index provider by comparing the index return to a hypothetical matched position in the security.

**LNG** is Liquefied Natural Gas.

The **Option Adjusted Spread (OAS)** measures the spread over a variety of possible interest rate paths. A security's OAS is the average return an investor will earn over Treasury returns, taking all possible future interest rate scenarios into account. The OAS is the net spread over the swap curve that will on average be earned if the security is held to maturity.

**Rising star** is the term given to a bond that was rated high yield but has since been upgraded to investment grade.

**“Risk assets”** are any financial security or instrument that are likely to fluctuate in price.

**Risk premia** is the return in excess of the risk-free rate of return an investment is expected to yield.

**Roll yield** is the yield that a futures investor captures as their long position in a futures contract converges to the spot price.

**“Safe haven”** is an investment that is expected to retain or increase in value during times of market turbulence.

**“Safe Spread”** is defined as sectors that we believe are most likely to withstand the vicissitudes of a wide range of possible economic scenarios. All investments contain risk and may lose value.

The **SEC yield** is an annualized yield based on the most recent 30 day period. The subsidized yield includes contractual expense reimbursements and it would be lower without those reimbursements. The **Unsubsidized 30 day SEC Yield** excludes contractual expense reimbursements.

**Tracking error** measures the dispersion or volatility of excess returns relative to a benchmark.

To relate the price sensitivity of ILBs to changes in nominal yields, yield beta is applied to nominal changes to arrive at a price sensitivity of ILBs to changes in nominal rates. A **yield beta** of 0.90 implies that if nominal yields move 100 basis points, real yields will move 90 basis points. ILBs with long maturity may respond differently to changes in nominal rates than shorter maturity ILBs.

The distribution yield for monthly paying Funds is calculated by annualizing actual dividends distributed for the monthly period ended on the date shown and dividing by the net asset value on the last business day for the same period. The distribution yield for quarterly paying Funds is calculated by taking the average of the prior four quarterly distribution yields. The quarterly distribution yields are calculated by annualizing actual dividends distributed for the quarterly period ended on the most recent quarterly distribution date and dividing by the net asset value for the same date. The yield does not include long- or short-term capital gains distributions.

Asset-Backed Security (ABS); Bank of England (BOE); Bank of Japan (BOJ); Breakeven Inflation (BEI); Collateralized Debt Obligation (CDO); Collateralized Loan Obligation (CLO); Commercial Mortgage-Backed Security (CMBS); Developed Markets (DM); Emerging Markets (EM); Federal Reserve Board (The Fed); Europe Central Bank (ECB); Federal Open Market Committee (FOMC); Foreign Exchange (FX); Gross Domestic Product (GDP); Gulf Cooperation Council (GCC); High Yield (HY); Inflation-Linked Bond (ILS); Investment Grade (IG); Leveraged-buyout (LBO); Loan-to-Value (LTV); Master Limited Partnership (MLP); Mortgage-Backed Security (MBS); Market Weighted Spread (MWS); Real Estate Investment Trust (REIT); Residential Mortgage-Backed Security (RMBS); Treasury Inflation-Protected Security (TIPS); Year-over-Year (YoY)