P I M C O

# PIMCO Short-Term Fund

## Quarterly Investment Report | 3Q22

REFINITIV LIPPER FUND AWARDS

2022 WINNER
UNITED STATES

The Lipper Fund Awards recognized the PIMCO Short-Term Fund, Institutional for the 10 year performance period out of 29 funds under the Ultra-Short Obligation Funds Classification.

**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.

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# Executive summary

## Portfolio Performance

The Fund's interest rate and spread sector strategies contributed to performance, while currency strategies were neutral for performance.

| | |
|---|---|
| Class: | INST |
| Inception date: | 07 Oct '87 |
| Fund assets (in millions): | $13,471.74 |
| Gross expense ratio: | 0.45% |

**CONTRIBUTORS**

- Holdings of investment grade corporate credit
- U.S. interest rate positioning

**DETRACTORS**

- Holdings of Agency MBS

| Summary information | 30 Sep '22 |
|---|---|
| 30-day SEC yield | 3.25% |
| Distribution yield | 2.10% |
| Effective duration (yrs) | 0.00 |
| Effective maturity (yrs) | -1.03 |
| Average coupon | 3.04% |
| Net currency exposure | 0.07% |
| Tracking error (10 yrs) | 1.53 |
| Information ratio (10 yrs) | 0.53 |

| Performance periods ended 30 Sep '22 | 3 mos. | 6 mos. | 1 yr. | 3 yrs. | 5 yrs. | 10 yrs. | SI |
|---|---|---|---|---|---|---|---|
| Fund before fees | 0.71 | 0.31 | -0.88 | 1.17 | 1.76 | 1.92 | 4.40 |
| Fund after fees | 0.60 | 0.09 | -1.32 | 0.72 | 1.30 | 1.46 | 3.92 |
| Benchmark* | 0.45 | 0.59 | 0.63 | 0.57 | 1.13 | 0.66 | 2.91 |

*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.*

| Sector allocation | Dur. (yrs) | MV |
|---|---|---|
| US Government Related | -0.68 | -13.60% |
| Securitized | 0.21 | 26.39% |
| Invest. Grade Credit | 0.36 | 24.87% |
| High Yield Credit | 0.00 | 0.73% |
| Non-USD Developed | 0.02 | 8.55% |
| Emerging Markets | 0.00 | 0.01% |
| Other | 0.03 | 0.95% |
| Net Other Short Duration Instruments | 0.06 | 52.09% |
| **Total** | **0.00** | **100%** |

## Portfolio strategy

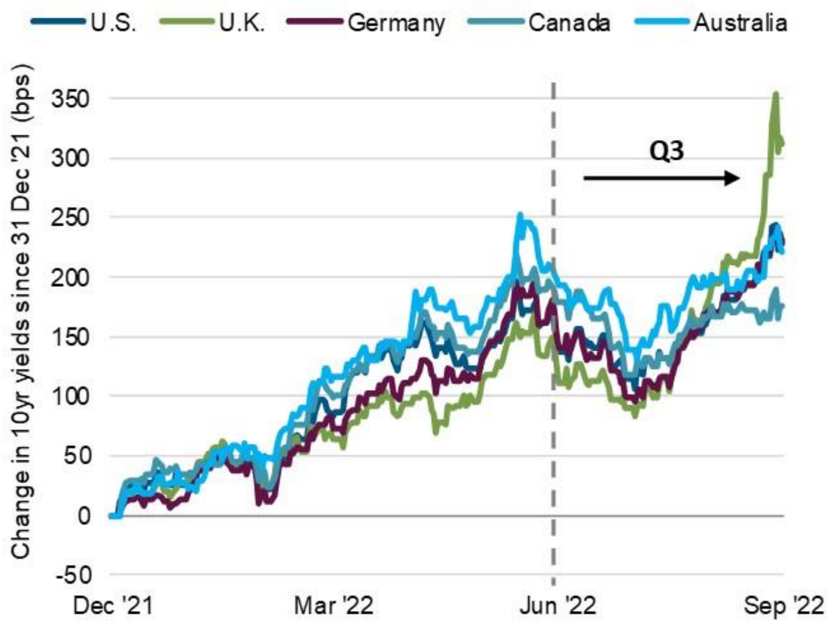
- Underweight duration: Limit headline interest rate risk in the portfolio as the potential for sticky inflation prints biases the Fed towards further policy rate increases
- Curve positioning: Reduce overall curve exposure. Favor portions of the curve which provide attractive levels of roll-down
- Selectively allocate to high quality spread sectors: Emphasize opportunities within securitized credit, favor select investment grade corporates over generic beta
- Global Opportunities: Hedge select non-US dollar positions back to USD to capture additional, diversifying yield. Active currency positions remain minimal

*FTSE 3-Month Treasury Bill Index;

# Quarter in Review

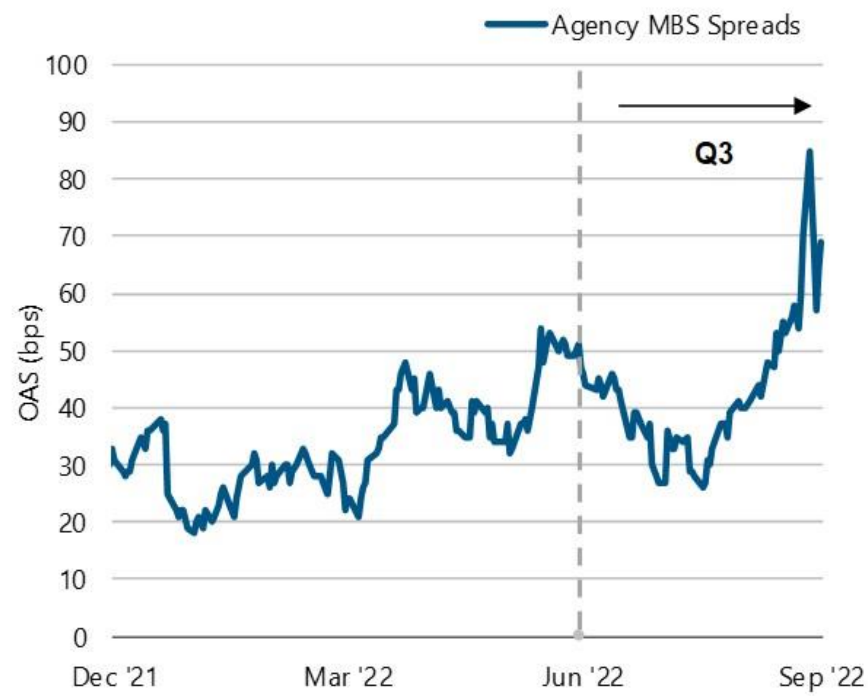
## A challenging environment for fixed income as yields rose

The fundamental backdrop showed signs of a slowdown amid weakening economic data releases, while inflation remained elevated. In response, central banks accelerated the pace of tightening. The Fed hiked its policy rate aggressively (net 150 bps over the quarter) and shifted their projected terminal rate higher. In turn, the dollar strengthened, prompting global currency market volatility. Meanwhile, performance was challenged for both "safe-haven" and risk assets as global yields rose meaningfully and risk sentiment waned. Equities broadly ended lower, while credit and EM external spreads widened.




Developed market yields broadly rose over the quarter, as central banks continued to pursue tighter monetary policies in response to persistent inflationary pressures. Yields in the U.K. rose significantly more than in other regions after the government announced a new fiscal package.

Source: Bloomberg




Agency MBS spreads widened meaningfully in Q3. The sector experienced dispersion along the coupon stack as higher coupons underperformed lower coupons. Meanwhile, mortgage credit, alongside most spread assets, also underperformed across the quality spectrum.

SOURCE: Bloomberg. "Agency MBS Spreads" are represented by Bloomberg US MBS Fixed Rate Avg OAS index



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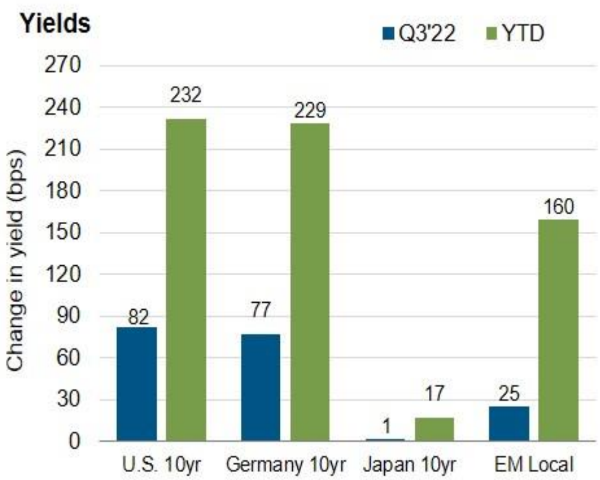
# Market Summary

## Q3'22: Rising yields constituted a notable headwind to most asset classes

The Fund's interest rate and spread sector strategies contributed to performance, while currency strategies were neutral for performance.

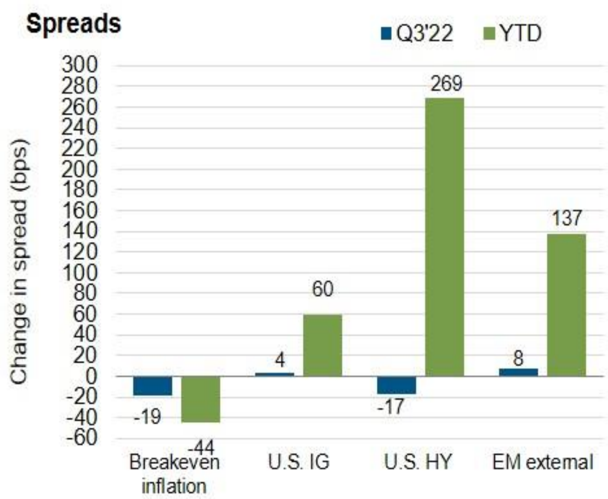
### Developed market debt

Developed market yields broadly rose as central banks continued to pursue tighter monetary policies. In the U.S., front-end yields rose more meaningfully than those on long-dated bonds as the Fed raised the federal funds rate by a total of 150 basis points and signaled additional rate hikes before year end. Persistent inflation and large central bank hikes pushed up yields in the U.K. and Germany, while Japanese rates remained largely range-bound.



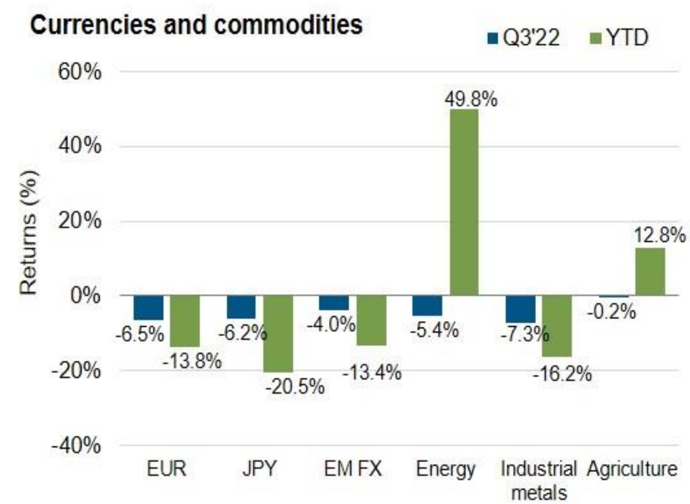

### Mortgage-backed securities

Agency MBS returned -5.35% during Q3, underperforming like-duration Treasuries by 169 bps. Challenged Agency MBS performance persisted in Q3 amidst heightened rate volatility and Fed balance sheet reductions. Legacy non-Agency residential MBS spreads tightened during the quarter, while non-Agency commercial MBS returned -3.19%, outperforming like-duration Treasuries by 4 bps.




### Credit

U.S. investment grade credit spreads widened 4 bps, ending the quarter at 147 bps. The sector returned -4.95%, underperforming like-duration treasuries by -0.33%. Credit spreads widened due to rising rates, inflationary concerns, and weaker economic data. Demand remains sensitive amid rate and macro volatility but is expected to pick up at higher yield levels.

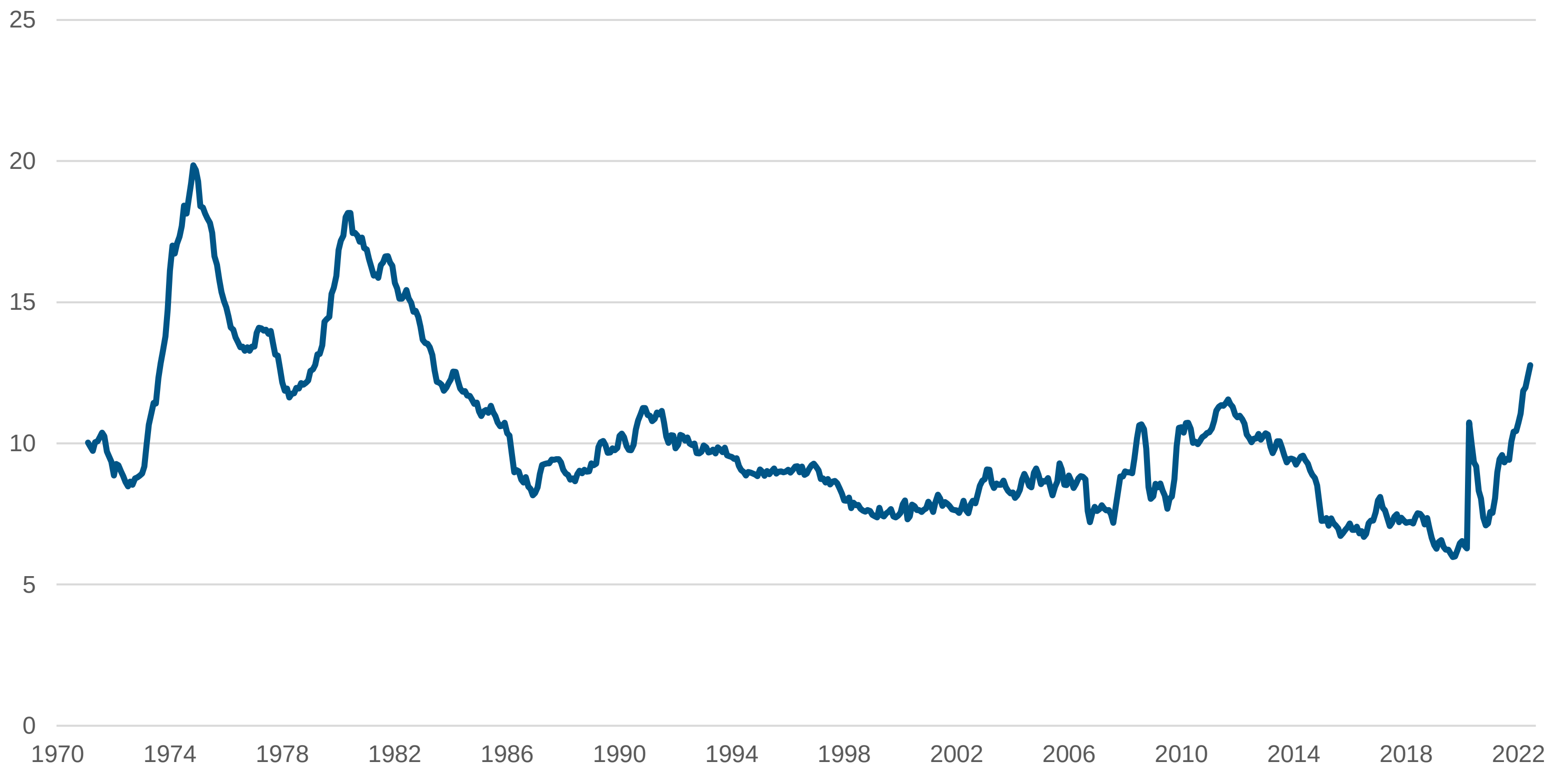



Source: U.S. 10yr, Germany 10yr, Japan 10yr, Breakeven inflation (Bloomberg); EM local (JPMorgan GBI-EM Global Diversified Composite Yield to Maturity Index); U.S. investment grade credit (Bloomberg U.S. Credit Index); U.S. high yield credit (Bloomberg U.S. Corporate High Yield Average OAS Index); EM external (JPMorgan Emerging Bond Index Global Sovereign Spread); EUR (EUR/USD Spot Exchange Rate - Price of 1 EUR in USD); JPY (USD/JPY Spot Exchange Rate - Price of 1 USD in JPY); EM currencies (JPMorgan ELMI Plus Composite); Energy (Bloomberg Energy Subindex Total Return Index); Industrial metals (Bloomberg Industrial Metals Subindex Total Return Index); Agriculture (Bloomberg Agriculture Total Return Index); Agency MBS (Bloomberg US Agency Fixed Rate Index); Non-Agency commercial MBS (Bloomberg Investment Grade Non-Agency CMBS Index); Like-duration treasuries or global government bonds are calculated by the index provider by comparing the index return to a hypothetical matched position of treasuries or global government bond, respectively.

# Cyclical Outlook: Prevailing Under Pressure

With yields now higher, we believe bonds offer compelling value in this challenging macro environment

**Misery Index – Developed Markets**




**We believe:**

Shallow but longer recession

Inflation is sticky

Monetary policy: tighter for longer

Source: Haver, Arthur Okun, PIMCO calculations as of September 2022.
The misery index displays the sum of inflation and unemployment rates. Developed market data encompasses the U.S., U.K., Japan, Canada, and Euro area.



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# Portfolio Outlook

## Strategic outlook

Our baseline forecast is for shallow recessions across developed markets, especially in the euro area and the U.K., which face disruptions from the war in Ukraine. U.S. real GDP will also likely experience a period of modest contraction. Meanwhile, core inflation rates that are above central bank targets now appear more entrenched, and although headline inflation is still likely to eventually moderate meaningfully over our cyclical horizon, it now looks likely to take more time. The combination of higher unemployment and stubbornly above-target inflation has put central bankers in a tough spot, but their overall actions to date suggest they are squarely focused on bringing inflation down. In the U.S., for example, we expect the Fed will raise its policy rate to a range of 4.5%–5%.

### Key strategies

#### Duration

- Limit headline interest rate risk in the portfolio as the potential for sticky inflation prints biases the Fed towards further policy rate increases
- Utilize floating-rate securities to generate attractive yield, reduce volatility, and preserve optionality

#### Curve

- Look to capture roll-down from steepness at the front-end of the U.S. yield curve
- Maintain defensive, tactical positioning to minimize overall interest rate risk in the portfolio

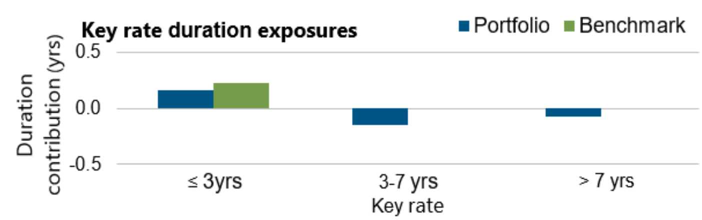
#### Credit selection

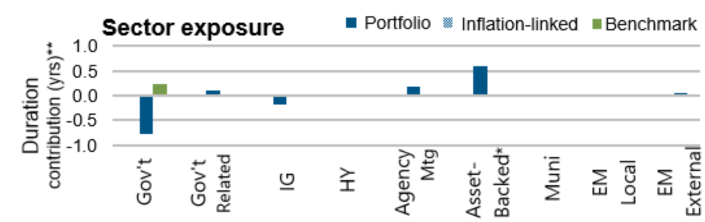
- Emphasize risk and liquidity management to appropriately size select opportunities in securitized credit including ABS, CMBS, and CLOs
- Favor bottom up security selection in corporate credit to find attractive opportunities and actively limit exposure to generic corporate beta

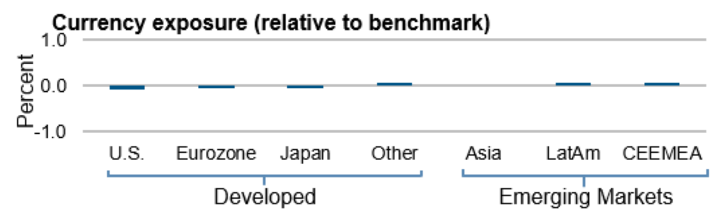
#### Non-U.S. and currency exposure

- Emphasize non-USD denominated opportunities with attractive yields when hedged back to USD
- We have minimal exposure to currencies, but seek opportunities from overshoots and undershoots that provide attractive risk-reward profiles and the ability to diversify sources of return

### Position




Source: PIMCO

*Non-agency may include non-agency mortgage backed securities, asset backed securities, and commercial mortgage backed securities

**For spread sectors, the relevant spread duration contribution is used



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# Sector exposure

| | Portfolio | | | | Benchmark | |
|---|---|---|---|---|---|---|
| | % of Market value | | Duration in years | | % of Market value | Duration in years |
| | 30 Jun '22 | 30 Sep '22 | 30 Jun '22 | 30 Sep '22 | 30 Sep '22 | 30 Sep '22 |
| **US Government Related** | 13.24 | -13.60 | -0.54 | -0.68 | 100.00 | 0.23 |
| Government - Treasury | -25.30 | -16.34 | -1.43 | -0.77 | 100.00 | 0.23 |
| US Agency | 9.58 | 2.74 | 0.38 | 0.09 | 0.00 | 0.00 |
| Swaps and Liquid Rates | 28.96 | 0.00 | 0.51 | 0.00 | 0.00 | 0.00 |
| **Securitized*** | 25.83 | 26.39 | 0.18 | 0.21 | 0.00 | 0.00 |
| **Invest. Grade Credit** | 35.73 | 24.87 | 0.42 | 0.36 | 0.00 | 0.00 |
| **High Yield Credit** | 1.06 | 0.73 | 0.01 | 0.00 | 0.00 | 0.00 |
| **Non-USD Developed** | 9.65 | 8.55 | 0.02 | 0.02 | 0.00 | 0.00 |
| **Emerging Markets** | 0.34 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| Bonds and Other Long Duration Instruments | 0.34 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| EM Short Duration Instruments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Other***** | 0.94 | 0.95 | 0.03 | 0.03 | 0.00 | 0.00 |
| **Net Other Short Duration Instruments**** | 13.21 | 52.09 | 0.06 | 0.06 | 0.00 | 0.00 |
| Commingled Cash Vehicles | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Certificate of Deposit/Commercial Paper/STIF | 1.55 | 2.52 | 0.00 | 0.00 | 0.00 | 0.00 |
| Government Related | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| MBS/ABS | 3.26 | 3.25 | 0.06 | 0.06 | 0.00 | 0.00 |
| Credit | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Bankers Acceptance | 0.00 | 1.09 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other*** | 0.09 | 14.19 | 0.00 | 0.00 | 0.00 | 0.00 |
| Short Duration Derivatives and Derivative Offsets | 9.18 | 48.34 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Unsettled Trades | -0.87 | -17.31 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total** | **100** | **100** | **0.18** | **0.00** | **100** | **0.23** |

*Securitized includes Agency MBS, non-Agency MBS, CMBS, ABS, CDO, CLO, and Pooled Funds.

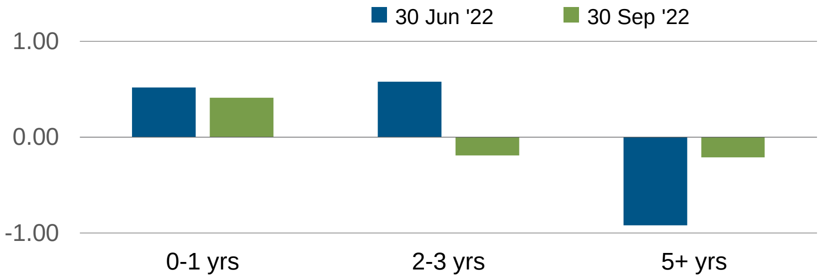
**Net Other Short Duration Instruments includes securities and other instruments (except instruments tied to emerging markets by country of risk) with an effective duration less than one year and rated investment grade or higher or, if unrated, determined by PIMCO to be of comparable quality, commingled 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.

***Investment vehicles not listed, allowed by prospectus.

Benchmark: FTSE 3-Month Treasury Bill Index

# Portfolio characteristics

## Key rate duration exposure




| | Portfolio (yrs) | |
|---|---|---|
| | **30 Jun '22** | **30 Sep '22** |
| 0-1 yrs | 0.52 | 0.41 |
| 2-3 yrs | 0.58 | -0.19 |
| 5+ yrs | -0.92 | -0.21 |
| **Total** | **0.18** | **0.00** |

## Interest rate exposure

| | Portfolio (yrs) | |
|---|---|---|
| | **30 Jun '22** | **30 Sep '22** |
| Effective duration | 0.18 | 0.00 |
| Bull market duration | 0.12 | -0.06 |
| Bear market duration | 0.16 | -0.03 |
| **Spread duration** | | |
| Mortgage spread duration | 0.82 | 0.77 |
| Corporate spread duration | 0.23 | -0.17 |
| Emerging markets spread duration | 0.06 | 0.04 |
| Swap spread duration | 0.51 | 0.00 |
| Covered bond spread duration | 0.00 | 0.00 |
| Sovereign related spread duration | 0.40 | 0.12 |

## Derivative exposure (duration in yrs)

| | 30 Jun '22 | 30 Sep '22 |
|---|---|---|
| **Government futures** | -1.43 | -0.78 |
| **Interest rate swaps** | 0.51 | 0.00 |
| **Credit default swaps*** | -12.84 | -21.44 |
| Purchased swaps | -13.00 | -21.61 |
| Written swaps | 0.16 | 0.17 |
| **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

# Country and currency exposure

Country exposure by currency of settlement

| | 30 Jun '22 | | 30 Sep '22 | |
|---|---|---|---|---|
| | Duration (yrs) | FX (%) | Duration (yrs) | FX (%) |
| **United States** | **0.17** | **99.97** | **0.00** | **99.93** |
| **Japan** | **0.00** | **-0.01** | **0.00** | **-0.01** |
| **Eurozone** | **0.00** | **-0.01** | **0.00** | **-0.02** |
| Euro Currency | 0.00 | -0.01 | 0.00 | -0.02 |
| **United Kingdom** | **0.00** | **0.01** | **0.00** | **0.03** |
| **Europe non-EMU** | **0.00** | **0.00** | **0.00** | **0.00** |
| **Dollar Block** | **0.01** | **-0.01** | **0.01** | **0.02** |
| Australia | 0.00 | -0.01 | 0.00 | 0.01 |
| Canada | 0.01 | 0.00 | 0.00 | 0.00 |
| **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** | **0.05** | **0.00** | **0.06** |
| Mexico | 0.00 | 0.05 | 0.00 | 0.06 |
| **EM - CEEMEA** | **0.00** | **0.00** | **0.00** | **0.00** |
| **Total** | **0.18** | **100** | **0.00** | **100** |

Emerging markets exposure by country of risk

| | 30 Jun '22 | | | 30 Sep '22 | | |
|---|---|---|---|---|---|---|
| | % of MV short duration Instruments | % of MV bonds | Duration (yrs) | % of MV short duration Instruments | % of MV bonds | Duration (yrs) |
| India | 0.00 | 0.29 | 0.00 | 0.00 | 0.00 | 0.00 |
| Thailand | 0.00 | 0.05 | 0.00 | 0.00 | 0.01 | 0.00 |
| **Total** | **0.00** | **0.34** | **0.00** | **0.00** | **0.01** | **0.00** |

# Additional share class performance

PIMCO Short-Term Fund (net of fees performance)

| Performance periods ended: 30 Sep '22 | Gross expense ratio | Net expense ratio | NAV currency | Class Inception date | 3 mos. | 6 mos. | 1 yr. | 3 yrs. | 5 yrs. | 10 yrs. | SI |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Class A (at NAV) | 0.70 | - | USD | 20 Jan '97 | 0.53 | -0.04 | -1.57 | 0.47 | 1.05 | 1.21 | 3.57 |
| Class A (at MOP) | 0.70 | - | USD | 20 Jan '97 | -1.73 | -2.29 | -3.78 | -0.29 | 0.59 | 0.98 | 3.51 |
| Class ADMIN | 0.70 | - | USD | 01 Feb '96 | 0.53 | -0.04 | -1.57 | 0.47 | 1.05 | 1.20 | 3.67 |
| Class C (at NAV) | 1.00 | - | USD | 20 Jan '97 | 0.45 | -0.19 | -1.87 | 0.17 | 0.75 | 0.90 | 3.26 |
| Class C (at MOP) | 1.00 | - | USD | 20 Jan '97 | -0.55 | -1.18 | -2.84 | 0.17 | 0.75 | 0.90 | 3.26 |
| Class I-2 | 0.55 | - | USD | 30 Apr '08 | 0.57 | 0.04 | -1.42 | 0.62 | 1.20 | 1.36 | 3.83 |
| Class I-3 | 0.65 | 0.60 | USD | 27 Apr '18 | 0.56 | 0.01 | -1.47 | 0.57 | 1.15 | 1.31 | 3.78 |
| Class INST | 0.45 | - | USD | 07 Oct '87 | 0.60 | 0.09 | -1.32 | 0.72 | 1.30 | 1.46 | 3.92 |
| Class R | 0.95 | - | USD | 31 Dec '02 | 0.47 | -0.16 | -1.82 | 0.22 | 0.80 | 0.95 | 3.38 |
| FTSE 3-Month Treasury Bill Index | | | | | 0.45 | 0.59 | 0.63 | 0.57 | 1.13 | 0.66 | 2.91 |

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 2023 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.

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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:** 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. **Mortgage and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market’s perception of issuer creditworthiness; while generally supported by some form of government or private guarantee there is no assurance that private guarantors will meet their obligations. **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. **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.

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# Important Disclosures

The Refinitiv Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. The fund with the highest Lipper Leader for Consistent Return (Effective Return) value in each eligible classification wins the Refinitiv Lipper Fund Award. For more information, see lipperfundawards.com. Although Refinitiv Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Refinitiv Lipper. © 2022 Refinitiv. All rights reserved. Used under license. Past rankings are no guarantee of future rankings.

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FTSE 3-Month Treasury Bill Index is an unmanaged index representing monthly return equivalents of yield averages of the last 3 month Treasury Bill issues. It is not possible to invest directly in an unmanaged 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.

**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.

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.

**"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.

The **SEC yield** is an annualized yield based on the most recent 30 day period.

**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)

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