



# PIMCO Municipal Bond Fund



Quarterly Investment Report | 4Q23

## **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.

# Executive summary

## Portfolio Performance

Municipals posted positive returns in the fourth quarter as tax-exempt and taxable yields rallied significantly. The Fund's institutional share class underperformed its benchmark, driven by the Fund's underweight exposure to the education sector.

### CONTRIBUTORS

- An overweight duration position contributed to performance.
- Select exposure within the industrial revenue sector contributed to performance.
- An overweight exposure to the special tax sector contributed to performance.

### DETRACTORS

- An underweight exposure to the education sector detracted from performance.
- Select exposure within the water and sewer sector detracted from performance.
- An underweight exposure to the lease-backed sector detracted from performance.

Performance periods ended 31 Dec '23	3 mos.	6 mos.	1 yr.	3 yrs.	5 yrs.	10 yrs.	SI
Fund before fees	7.95	4.78	8.87	0.22	3.11	4.15	4.28
Fund after fees	7.83	4.55	8.40	-0.22	2.65	3.70	3.80
Benchmark*	7.89	3.63	6.40	-0.40	2.25	3.03	4.18

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](http://pimco.com) or call 888.87.PIMCO.

### Portfolio strategy

Market sentiment shifted positive after favorable data suggested fed cuts are on the horizon in 2024. Our baseline view is that recessionary risks are likely greater than markets are currently pricing in. We are maintaining a slight overweight duration position in our muni funds but continue to monitor duration exposure after the recent rally.

We are selectively taking exposure to higher quality munis given their current richness relative to treasuries but see increasing value in the high yield segment for funds that allow sub investment grade exposure. The overall credit environment within the asset class remains strong as resilient revenue streams and strong balance sheets support fundamentals.

\*Bloomberg Municipal Bond Index;

Yield to Maturity (YTM) is the estimated total return of a bond if held to maturity. YTM accounts for the present value of a bond's future coupon payments. Refer to the Important Disclosures at the conclusion of this report for additional important information.

Class:	INST
Inception date:	31 Dec '97
Fund assets (in millions):	\$2,519.70
Gross expense ratio:	0.47%
Adjusted expense ratio:	0.44%

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 Dec '23
Estimated yield to maturity (Gross of fee)	4.65%
30-day SEC yield	3.67%
Distribution yield	3.88%
Effective duration (yrs)	6.12
Benchmark duration - provider (yrs)	6.05
Benchmark duration - PIMCO (yrs)	6.08
Effective maturity (yrs)	8.29
Average coupon	4.08%
Tracking error (10 yrs)	1.04
Information ratio (10 yrs)	0.63

Top 5 municipal sectors	Portfolio
Transportation	15.15%
Ind Dev/Pollution Ctrl	15.11%
Special Tax	14.50%
State/Local GO	10.69%
Hospital Rev.	7.84%

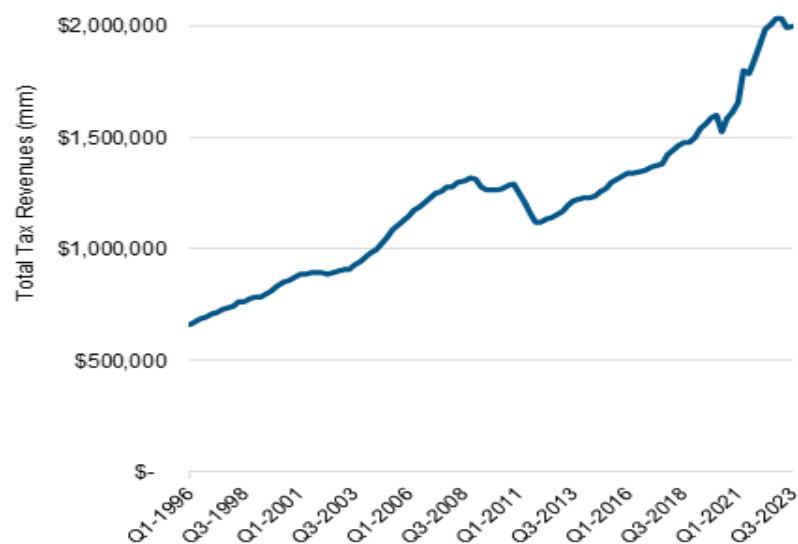
Top 5 state concentrations	Portfolio
Other	17.62%
New York	13.67%
California	10.69%
Texas	7.99%
Illinois	6.03%

# Quarter in Review

## Falling Municipal Yields Drive Strong Returns

Municipals saw meaningful gains in Q4, ending the year on a positive note. The Bloomberg Municipal Bond Index posted total returns of 7.89%, while the Bloomberg High Yield Municipal Bond Index posted a fourth quarter total return of 9.21%. While many segments within the municipal market experienced a strong recovery in Q4, the muni market as a whole has not yet seen a stabilization of fund flows. Issuance totaled \$96bn in the fourth quarter compared to \$94bn in Q3 and \$71bn in Q42022. Gross tax-exempt issuance totaled \$79bn, up 36% year-over-year while taxable muni supply recovered, totaling \$10bn, up 25% year over year, although significantly lower than the trailing 5-year Q4 average.

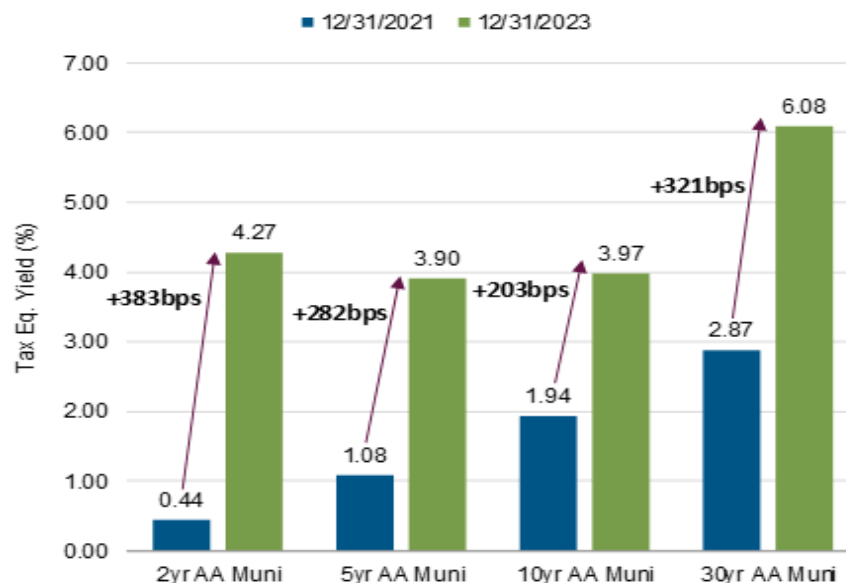
**Rolling 12 month State and Local Government Tax Revenues**



3Q23 state and local tax collections increased 2.6% annually and are up 30% compared to the trailing 5 year Q3 average. Additionally, Moody's municipal ratings upgrades outpaced downgrades in Q3, marking the 11th consecutive quarter of this trend.

Source: United States Census Bureau

**Tax Equivalent yields have increased significantly**



Despite the Q4 rally, investment grade muni yields remain high relative to historic levels. Additionally, PIMCO's capital market assumptions project munis to be the highest returning US fixed income asset class over the secular horizon on a tax and loss adjusted basis.

Source: Refinitiv TM3

# Market Summary

## Munis posted positive returns in the fourth quarter as rates rallied

The Fund's underweight exposure to the education and lease-backed sectors along with select exposure within the water and sewer sector detracted from performance.

### Interest rate strategies

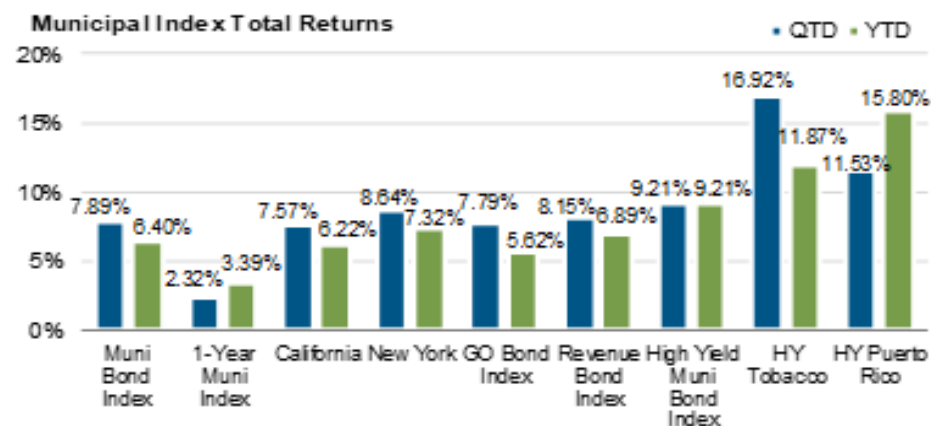
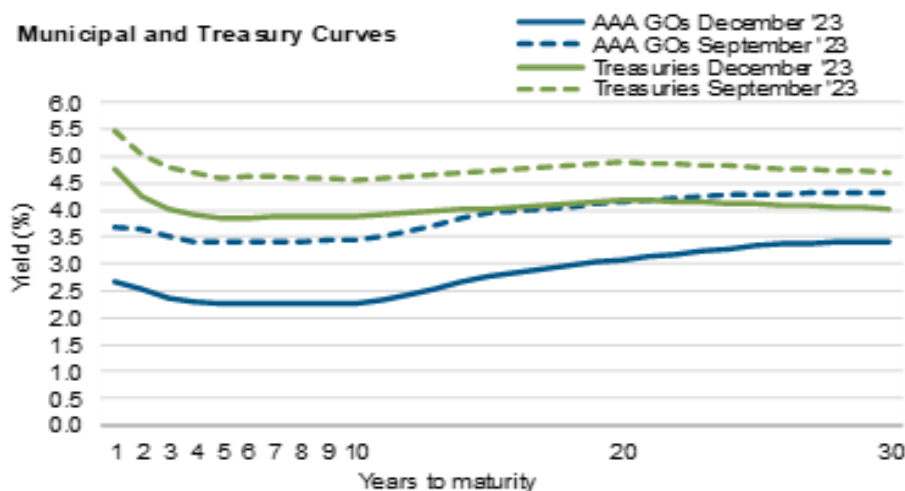
Markets rallied off the anticipation of potential rate cuts in 2024 and AAA tax-exempt rates fell between 92-119bps across the curve as market volatility persisted.

### Sector strategies

The revenue segment outperformed general obligation debt during the quarter. Within the revenue segment, the healthcare and housing sectors were the top performing sectors. The industrial revenue and electric utility sectors were the worst performing revenue sectors in the investment grade segment of the market.

### Quality

Within the investment grade municipal market, AAA, A and BBB-rated munis outperformed the index. AA munis underperformed the broader investment grade index. The high yield muni market outperformed the investment grade segment.



Source: Municipal yields: Thomson Reuters; Treasury yields: Bloomberg; Municipal Total Returns: Barclays live where Muni Bond Index is the Bloomberg Muni Bond Index, 1-Year Muni Index is the 1-Year component of the Bloomberg Muni Bond Index, California is the California component of the Bloomberg Muni Bond Index, New York is the New York component of the Bloomberg Muni Bond Index, GO Bond Index is the General Obligation Bond component of the Bloomberg Muni Bond Index, Revenue is the Revenue Bond component of the Bloomberg Muni Bond Index, High Yield Muni Bond Index is a proxy for the Bloomberg High Yield Muni Bond Index, HY Tobacco is the High Yield Tobacco component of the Bloomberg High Yield Muni Bond Index, and HY Puerto Rico is the High Yield Puerto Rico component of the Bloomberg High Yield Muni Bond 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.

## Navigating the Descent: Four economic themes

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**Peak inflation and rising unemployment consistent with rate cuts**



**Soft landings are possible, but risks remain**



**Markets already price a substantial cutting cycle**



**Global divergence in monetary policy**

# Portfolio Outlook

## Strategic Outlook

Further disinflation and the potential for a faster cutting cycle should, in our view, raise the prospects for a soft landing. However, this is not to say that we believe that the path toward a soft landing is the only possible path. It is our view that the tighter-for-longer strategy that central banks have been communicating along with the strong possibility of stagnation in developed market supply and demand growth leave recession risks elevated.

## Key strategies

### Interest rate strategies

While we continue to monitor duration exposure due to the recent rally, we maintain a slightly overweight duration position relative to benchmarks while barbellizing maturities given the current shape of the benchmark municipal yield curve. We anticipate market volatility will continue, as muni fund flows remain inconsistent.

### General obligation securities

We remain selective with respect to general obligation debt due to credit pressures created by unfunded pension liabilities. Seek exposures to issuers with attractive relative valuations, and issuers that benefit from stronger economic trends with more robust pension systems.

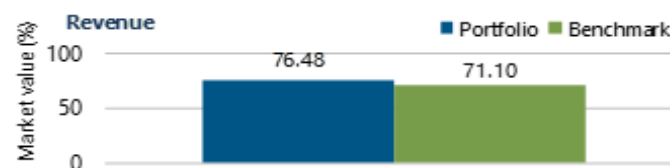
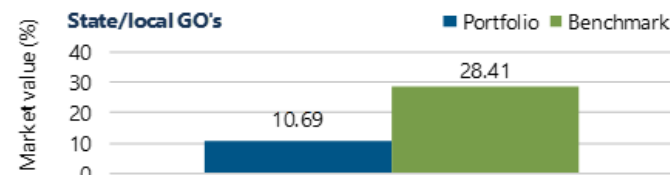
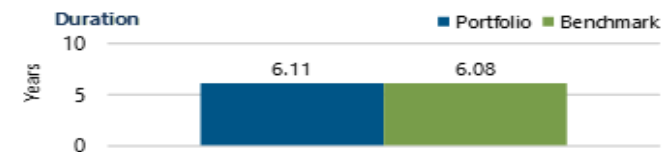
### Revenue securities

The strategy favors revenue securities where we can better use our credit research capabilities to ascertain the underlying health of issuers.

Seek exposure to high quality issuers in the transportation and special tax sectors along with Puerto Rico in the lower quality space.

Source: PIMCO  
Benchmark: Bloomberg Municipal Bond Index

## Position



# Sector exposure

	Portfolio				Benchmark	
	% of Market value		Duration in years		% of Market value	Duration in years
	30 Sep '23	31 Dec '23	30 Sep '23	31 Dec '23	31 Dec '23	31 Dec '23
State/Local GO	11.43	10.69	0.84	0.80	28.41	1.60
Pre-Refunded	0.05	0.04	0.00	0.00	0.43	0.01
Education Rev.	2.10	2.28	0.18	0.19	6.48	0.40
Hospital Rev.	11.33	7.84	0.63	0.60	9.07	0.59
Housing Rev.	4.11	5.03	0.35	0.48	3.31	0.29
Ind Dev/Pollution Ctrl	15.67	15.11	0.78	0.80	4.51	0.24
Lease Rev.	5.89	5.27	0.47	0.39	6.57	0.41
Power Rev.	5.04	4.18	0.38	0.30	4.94	0.28
Resource Recovery	0.38	0.34	0.04	0.03	0.06	0.00
Special Tax	12.62	14.50	1.04	1.14	11.46	0.72
Transportation	14.31	15.15	1.09	1.13	15.86	0.98
Water & Sewer	4.96	5.44	0.36	0.41	8.77	0.51
Tobacco	1.22	1.33	0.05	0.04	0.07	0.00
Net Other Short Duration Instruments Muni****	0.17	0.14	0.00	0.00	0.00	0.00
Other Muni	2.87	2.02	0.23	0.17	0.00	0.00
Net Other Short Duration Instruments ex-Muni****	7.31	17.70	0.01	0.01	0.00	0.00
US Government Related	-0.93	-9.18	-0.14	-0.60	0.00	0.00
Mortgage	0.19	1.48	0.02	0.17	0.00	0.00
Invest. Grade Credit	1.03	0.45	0.13	0.06	0.00	0.00
High Yield Credit	0.22	0.19	0.01	0.01	0.00	0.00
Non-USD Developed	0.00	0.00	0.00	0.00	0.00	0.00
Emerging Markets**	0.00	0.00	0.00	0.00	0.00	0.00
Other***	0.00	0.00	0.00	0.00	0.05	0.01
EM Short Duration Instruments	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>	<b>6.48</b>	<b>6.12</b>	<b>100</b>	<b>6.05</b>

\*\*Emerging markets 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. Emerging Markets includes the value of short duration emerging markets instruments previously reported in another category.

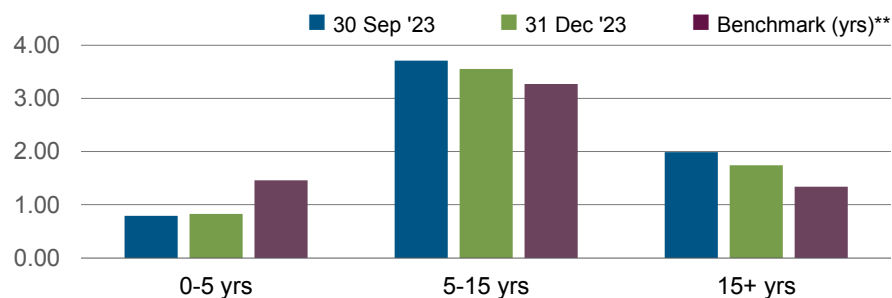
\*\*\*Investment vehicles not listed, allowed by prospectus.

\*\*\*\*Net Other Short Duration Instruments includes securities and other instruments (except those 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, short duration derivatives and derivatives offsets. With respect to certain categories of short duration securities, the Adviser reserves the discretion to require a minimum credit rating higher than investment grade or take into account other pertinent factors for inclusion in this category. Derivatives Offsets includes offsets associated with investments in futures, swaps and other derivatives. Such offsets may be taken at the notional value of the derivative position.

Benchmark: Bloomberg Municipal Bond Index

# Portfolio characteristics

## Key rate duration exposure



	Portfolio (yrs)		Benchmark (yrs)**
	30 Sep '23	31 Dec '23	31 Dec '23
0-5 yrs	0.79	0.83	1.46
5-15 yrs	3.71	3.55	3.27
15+ yrs	1.99	1.74	1.34
<b>Total</b>	<b>6.49</b>	<b>6.12</b>	<b>6.07</b>

## Interest rate exposure

	Portfolio (yrs)		Benchmark (yrs)**
	30 Sep '23	31 Dec '23	31 Dec '23
Effective duration	6.48	6.12	6.08
Bull market duration	6.23	5.80	5.69
Bear market duration	6.60	6.37	6.43
<b>Spread duration</b>			
Mortgage spread duration	0.04	0.00	0.00
Corporate spread duration	0.47	0.26	0.00
Emerging markets spread duration	0.00	0.00	0.00
Swap spread duration	0.00	0.00	0.00
Covered bond spread duration	0.00	0.00	0.00
Sovereign related spread duration	0.00	0.00	0.00

## Derivative exposure (% of duration)

	30 Sep '23	31 Dec '23
<b>Government futures</b>	-2.11	-9.83
<b>Interest rate swaps</b>	0.00	0.00
<b>Credit default swaps*</b>	0.00	0.00
Purchased swaps	0.00	0.00
Written swaps	0.00	0.00
<b>Options</b>	0.00	0.00
Purchased Options	0.00	0.00
Written Options	0.00	0.00
<b>Mortgage Derivatives</b>	0.00	0.00
<b>Money Market Derivatives</b>	0.00	0.00
Futures	0.00	0.00
Interest rate swaps	0.00	0.00
<b>Other Derivatives</b>	0.00	0.00

\* Shown as a percentage of market value

\*\*Benchmark duration is calculated by PIMCO  
Benchmark: Bloomberg Municipal Bond Index



# Additional share class performance

PIMCO Municipal Bond Fund (net of fees performance)

Performance periods ended: 31 Dec '23	Gross expense ratio	Net expense ratio	Adjusted expense ratio	NAV currency	Class Inception date	3 mos.	6 mos.	1 yr.	3 yrs.	5 yrs.	10 yrs.	SI
Class A (at NAV)	0.78	-	0.75	USD	01 Apr '98	7.75	4.39	8.06	-0.53	2.34	3.38	3.46
Class A (at MOP)	0.78	-	0.75	USD	01 Apr '98	5.33	2.04	5.63	-1.28	1.87	3.14	3.34
Class C (at NAV)	1.28	-	1.25	USD	01 Apr '98	7.62	4.13	7.53	-1.02	1.83	2.86	2.95
Class C (at MOP)	1.28	-	1.25	USD	01 Apr '98	6.62	3.13	6.53	-1.02	1.83	2.86	2.95
Class I-2	0.57	-	0.54	USD	30 Apr '08	7.81	4.50	8.29	-0.32	2.55	3.59	3.69
Class I-3	0.67	0.62	0.59	USD	30 Jul '21	7.80	4.48	8.24	-0.37	2.50	3.54	3.67
Class INST	0.47	-	0.44	USD	31 Dec '97	7.83	4.55	8.40	-0.22	2.65	3.70	3.80
Bloomberg Municipal Bond Index						7.89	3.63	6.40	-0.40	2.25	3.03	4.18
Lipper General & Insured Municipal Debt Funds Index						7.64	3.64	6.83	-0.72	2.10	3.17	3.83

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](http://pimco.com) or call 888.87.PIMCO. The maximum offering price (MOP) returns take into account the Class A maximum initial sales charge of 2.25%. 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%.*

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

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*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. **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. Investors will, at times, incur a tax liability. Income from **municipal bonds** is exempt from federal income tax and may be subject to state and local taxes and at times the alternative minimum tax. **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

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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.

Bloomberg Municipal Bond Index consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. The index is made up of all investment grade municipal bonds issued after 12/31/90 having a remaining maturity of at least one year. 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.

**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)