

Fund information

Fund inception date	31 July 2006	
Strategy	Municipal	
Total Net Assets (in millions)	\$2,795.7	
Portfolio manager(s)	David Hammer Rachel Betton	
Effective duration (yrs)	6.49	
Benchmark duration (yrs)	7.25	
Effective maturity (yrs)	8.90	
Inst. share 30-day SEC yield	1.88%	
Class	CUSIP	Ticker
Institutional	72201F672	PHMIX

Expenses

Gross Expense Ratio (%)	0.63
Adjusted Expense Ratio (%)	0.55

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 summary

The PIMCO High Yield Municipal Bond Fund returned 1.87% after fees in December, and performed in line with the Bloomberg Barclays High Yield Municipal Bond Index. Year-to-date the Fund has returned 6.21% after fees, outperforming the benchmark by 1.32%.

The Bloomberg Barclays High Yield Municipal Bond Index returned 1.87% in December. The Fund's overweight exposure to the general obligation sector, select exposure within the electric utility sector, and underweight exposure to the water and sewer sector contributed to performance. This was somewhat offset by the Fund's duration positioning, along with select exposure within the special tax and tobacco sectors.

Contributors

- An overweight exposure to the general obligation sector contributed to performance.
- Select exposure within the electric utility sector contributed to performance.
- An underweight exposure to the water and sewer sector contributed to performance.

Detractors

- Duration positioning detracted from performance.
- Select exposure within the special tax sector detracted from performance.
- Select exposure within the tobacco sector detracted from performance.



- PIMCO High Yield Municipal Bond Fund net of fees (%)
- Bloomberg Barclays High Yield Municipal Bond Index (%)
- Lipper High Yield Municipal Debt Funds Index (%)

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 by calling 888.87.PIMCO.

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. 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.

The minimum initial investment for institutional class shares is \$1 million; however, it may be modified for certain financial intermediaries who submit trades on behalf of eligible investors.

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.

Municipal sectors as of 31 December 2020

	% Market Value	Duration (years)	
	Fund	Fund	Index
State/Local GO	10.71	0.65	0.50
Pre-Refunded	0.30	0.00	0.00
Education Rev.	5.31	0.42	0.80
Hospital Rev.	14.65	1.15	1.43
Housing Rev.	1.89	0.14	0.42
Ind Dev/Pollution Ctrl	16.69	1.19	1.28
Lease Rev.	2.24	0.12	0.24
Power Rev.	5.32	0.32	0.00
Resource Recovery	0.44	0.02	0.02
Special Tax	13.09	1.14	1.81
Transportation	7.51	0.55	0.31
Water & Sewer	4.31	0.29	0.14
Tobacco	2.64	0.28	0.28
Net Other Short Duration Instruments Muni	1.45	0.01	0.00
Other Muni	0.55	0.00	0.01
Net Other Short Duration Instruments ex-Muni	10.68	0.01	0.00
Non-Municipal Sectors	2.22	0.20	0.00

Portfolio structure is subject to change without notice and may not be representative of current or future allocations.

MV% may not equal 100 due to rounding.

Portfolio positioning

PIMCO continues to believe municipals provide attractive value when considering taxable equivalent yields relative to taxable fixed income, particularly on a risk-adjusted basis. The Fund maintains a neutral to slight underweight duration position, as we have taken advantage of richening on the long end of the yield curve to pare back some high quality long duration positions that we believed to be fully valued. After the prolonged rally in the highest quality segment of the municipal bond market in recent months, we're continuing to see more attractive relative value opportunities in high yield munis and lower-rated investment grade issues with strong fundamentals and limited sensitivity to a weaker than expected economic recovery.

The strategy currently and has historically favored revenue backed bonds, where we see better value and opportunity to use our credit research to ascertain the underlying health of individual issuers. We remain selective with respect to general obligation (GO) debt but have exposure to certain issuers with attractive valuation relative to fundamentals, and issuers that generally benefit from stronger economic and population trends along with more robust pension systems.

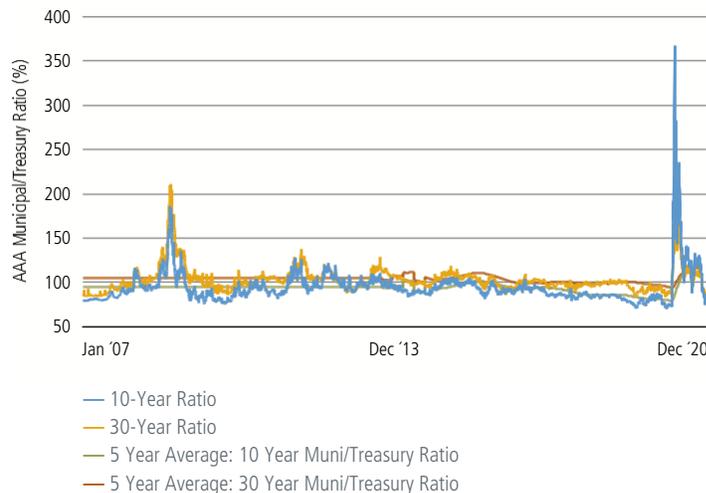
Month in review

The Bloomberg Barclays Municipal Bond Index posted a return of 0.61% in December, increasing total return for the year to 5.21%. High yield munis outperformed their investment grade counterparts, generating a total return of 1.87%, increasing total return for 2020 to 4.89%. While the high yield portion of the market outperformed investment grade over the month, this segment of the market has yet to fully recover. One reason for this can be attributed to flows, with high yield muni funds experiencing outflows in 2020 while the market as a whole reported net inflows.

Municipal bond mutual funds experienced inflows of \$6.6bn in December, according to Lipper. This brought year-to-date inflows to \$39.7bn, a significant rebound after the record outflows in March and April. Total muni supply of \$33bn in December was up 73% versus November. In 2020, total primary issuance hit a record high of \$496bn, with a record \$181bn in taxable issuance.

Market activity was low throughout the holiday season while fund flows persisted, resulting in muni yields declining 1-2bps across the curve.¹ Munis underperformed Treasuries in the short end but outperformed in longer-dated maturities, as Treasury yields moved 0-3bps lower in short-dated maturities while increasing 8bps in the long end.

Municipal/Treasury Yield Ratio



Source: Thomson Reuters Municipal Market Data (MMD)

Outlook and strategy

Going forward, PIMCO is constructive on the municipal asset class over the secular horizon, as we believe tax-exempt income will remain in high demand given aging demographics and the potential for higher tax rates.

We believe that the municipal market could be subject to a slight uptick in default rates relative to historical norms, though we generally expect risk in the investment grade portion of the market to be skewed towards downgrades rather than defaults. We see attractive value in select issuers in the BBB and sub-investment grade portions of the municipal market as credit spreads have narrowed materially but still remain at elevated levels. We also see potential for volatility related opportunities given uncertainty around vaccine distribution and negative headlines in the muni market. However, we continue to avoid areas we see at higher risk of default given Covid-related uncertainties, as well as less-liquid, lower quality issuers in the sub-investment grade space.

While the additional \$900bn fiscal stimulus package passed by congress does not include direct funding for state and local governments specifically, the final agreement included funds for education, energy, public transit, state highways, and airports. These funds will benefit muni revenue sectors while provisions like stimulus checks, and enhanced unemployment insurance will ultimately flow through to muni tax revenues. With the conclusion of the runoffs, Democrats now control the Senate which will make passing legislation regarding additional stimulus, taxes, and healthcare more feasible. However, a closely divided Senate will make passing big-ticket items challenging.

Management profile



David Hammer
Executive Vice President



Rachel Betton
Senior Vice President

2006
31 JUL
INCEPTION DATE

17
DEDICATED
MUNICIPAL
TEAM MEMBERS

13YRS
AVERAGE TEAM
MEMBER
EXPERIENCE

Tax-advantaged income opportunities

Investors should consider the investment objectives, risks, charges and expenses of the funds carefully before investing. This and other information are contained in the fund's prospectus and summary prospectus, if available, which may be obtained by contacting your financial advisor or PIMCO representative or by visiting www.pimco.com. Please read them carefully before you invest or send money.

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** may be subject to state and local taxes and at times the alternative minimum tax; a fund concentrating in a single state is subject to greater risk of adverse economic conditions and regulatory changes. **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. The Fund is **non-diversified**, which means that it may invest its assets in a smaller number of issuers than a diversified fund.

Morningstar ratings are only shown for those funds that have achieved a 4 or 5 star rating. Ratings for other share classes are either lower or not available.

High Yield Municipal Bond Fund

Duration is a measure of a portfolio's price sensitivity 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.

The Bloomberg Barclays High Yield Municipal Bond Index measures the non-investment grade and non-rated U.S. tax-exempt bond market. It is an unmanaged index made up of dollar-denominated, fixed-rate municipal securities that are rated Ba1/BB+/BB+ or below or non-rated and that meet specified maturity, liquidity, and quality requirements. Lipper High Yield Municipal Debt Funds Index consists of Funds that typically invest 50% or more of their assets in municipal debt issues rated BBB or less. It does not reflect deductions for fees, expenses or taxes. It is not possible to invest directly It is not possible to invest directly in an unmanaged index.

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 suitable 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. Performance reflects changes in share price, reinvestment of dividends and capital gains distributions. All periods longer than one year are annualized. This material contains the current opinions of the manager but not necessarily those of PIMCO and such opinions are subject to change without notice. This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America L.P. in the United States and throughout the world. ©2021, PIMCO.

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¹ Muni yields are from Thomson Reuters; MMD - Municipal Market Data. MMD Yield refers to the Thomson Reuters Municipal Market Data yield for AAA rated municipal bonds.

² The US Treasury yields are from the Bloomberg On/Off the run Treasury Curve

U.S. Federal Reserve (Fed); basis point (bp); Municipal Liquidity Facility (MLF)

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.

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