



# PIMCO RAE International Fund



Quarterly Investment Report | 2Q22

## **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

During the second quarter of 2022, PIMCO RAE International (Institutional share class, after fees) outperformed the MSCI EAFE Value Index.

### CONTRIBUTORS

- Financials
- Consumer Discretionary
- Communication Services

### DETRACTORS

- Healthcare
- Consumer Staples
- Energy

Performance periods ended 30 Jun '22	3 mos.	6 mos.	1 yr.	3 yrs.	5 yrs.	SI
Fund before fees	-10.43	-12.40	-13.71	2.31	2.18	2.78
Fund after fees	-10.55	-12.62	-14.14	1.79	1.67	2.27
Benchmark*	-12.41	-12.12	-11.95	0.18	0.52	0.95
Secondary Benchmark**	-14.51	-19.57	-17.77	1.07	2.20	2.50
After fees alpha vs. value index (bps)	1.86	-0.50	-2.19	1.62	1.15	1.33
After fees alpha vs. core index (bps)	3.97	6.95	3.63	0.72	-0.53	-0.23

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

- RAE International remains underweight to industries that trade at less attractive valuations with its largest underweights being the banking and pharmaceuticals industries.
- Similar themes persist across each of the six portfolios (Global, Global ex-US, US, US Small, International and Emerging Markets).
- The RAE International portfolio's dynamic value orientation continues to demonstrate attractive valuations. We believe this represents the potential for strong performance as valuations mean revert.

\*MSCI EAFE Value Index; \*\*MSCI EAFE Index

Class:	INST
Inception date:	05 Jun '15
Fund assets (in millions):	\$536.85
Gross expense ratio:	0.52%
Net expense ratio:	0.51%

The Net Expense Ratio reflects a contractual fee waiver and/or expense reduction, which is in place through 31 October 2022 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.

Summary information	RAE	Index*
Number of stocks	397	453
Weighted average market cap (\$MM)	37,206.32	55,792.25
Trailing P/E ratio	8.48	9.44
Forward P/E ratio	8.89	8.52
Price/Sales	0.54	0.91
Price/Book	0.98	1.09

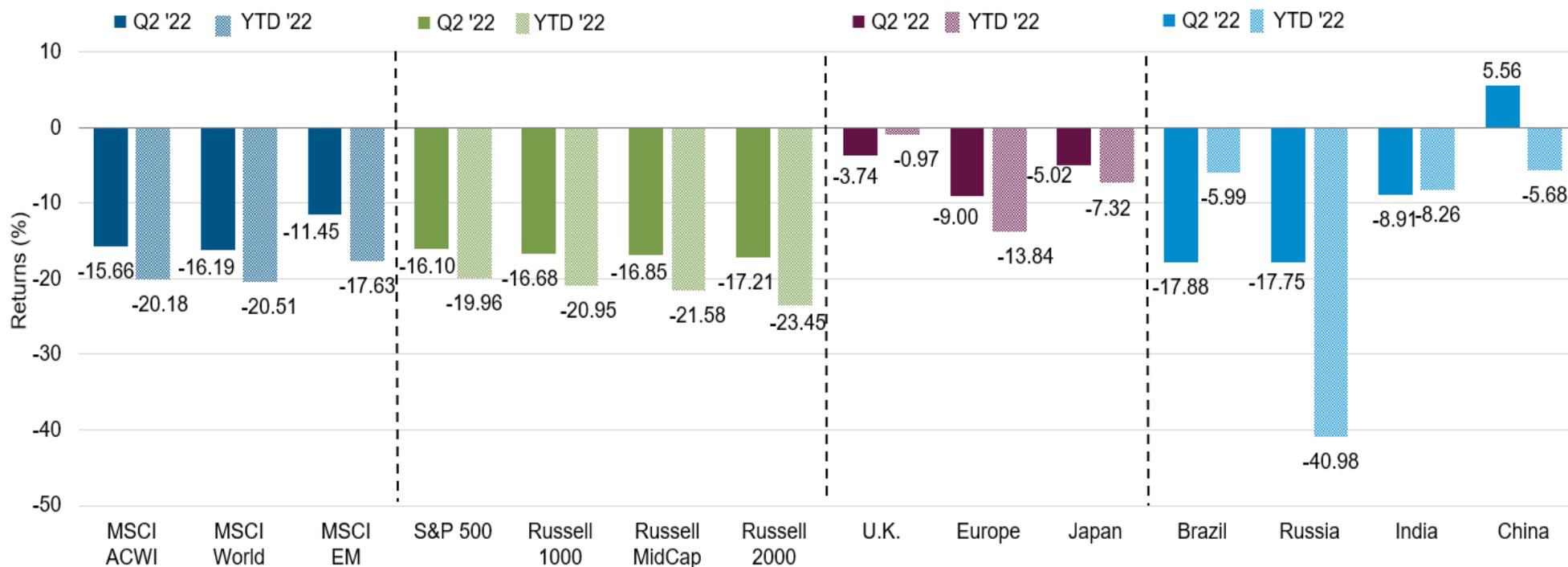
Top GICS sectors (MV%)	RAE	Index*
Consumer Discretionary	15.00	8.51
Financials	14.39	25.23
Consumer Staples	10.84	8.01
Communication Services	10.17	6.33
Industrials	9.55	10.17
Materials	8.85	9.42
Utilities	8.45	6.05
Energy	7.92	8.77
Information Technology	5.83	2.58
Health Care	4.43	10.38
Real Estate	3.82	4.57

Top 5 countries (MV%)	RAE	Index*
Japan	31.46	22.55
Netherlands	9.09	4.86
Australia	8.82	9.43
United Kingdom	7.11	15.47
Switzerland	6.98	6.45

# Quarter in Review

## Markets digested geopolitical turmoil, rising interest rates, inflation, and the prospects of recession

Developed market equities ended the second quarter 16.2% lower, as a number of major indexes fell into bear market territory. In the U.S., equities fell 16.1% in the second quarter as inflation remained in focus for investors amid hotter-than-expected CPI readings in April and May that prompted the Federal Reserve to tighten financial conditions more expeditiously than previously anticipated. In Europe, a bleak economic outlook and record levels of inflation compounded the ongoing effects of Russia's invasion of Ukraine to push European equities 8.7% lower during the quarter. Japanese equities fared better than other developed markets, falling only 5.0% as the Bank of Japan maintained their ultra-easy monetary policy despite a broader tightening environment globally. Emerging markets equities fell 11.4% in the second quarter as tightening financial conditions and weakening global demand for resources drove losses.



SOURCE: Bloomberg, PIMCO

Global and US Equity indexes represent returns in USD. Non-US Developed and EM indexes represent returns in local currency.

U.K.: FTSE 100 Index, Europe: MSCI Europe Index, Japan: Nikkei 225 Index, Brazil: Ibovespa Brazil Sao Paulo Stock Exchange Index, Russia: MOEX Russia Index, India: S&P BSE Sensex Index, China: Shanghai Composite Index

# Market Summary

## Value outperformed growth across regions and market capitalizations in Q2

Soaring inflation, weakening consumer demand, and a persistently tight labor market underscored a broad-based drawdown in global equity markets

Underweight to and selection in financials, specifically the insurance industry, contributed to performance.

Selection in consumer discretionary, specifically the automobiles industry, contributed to performance.

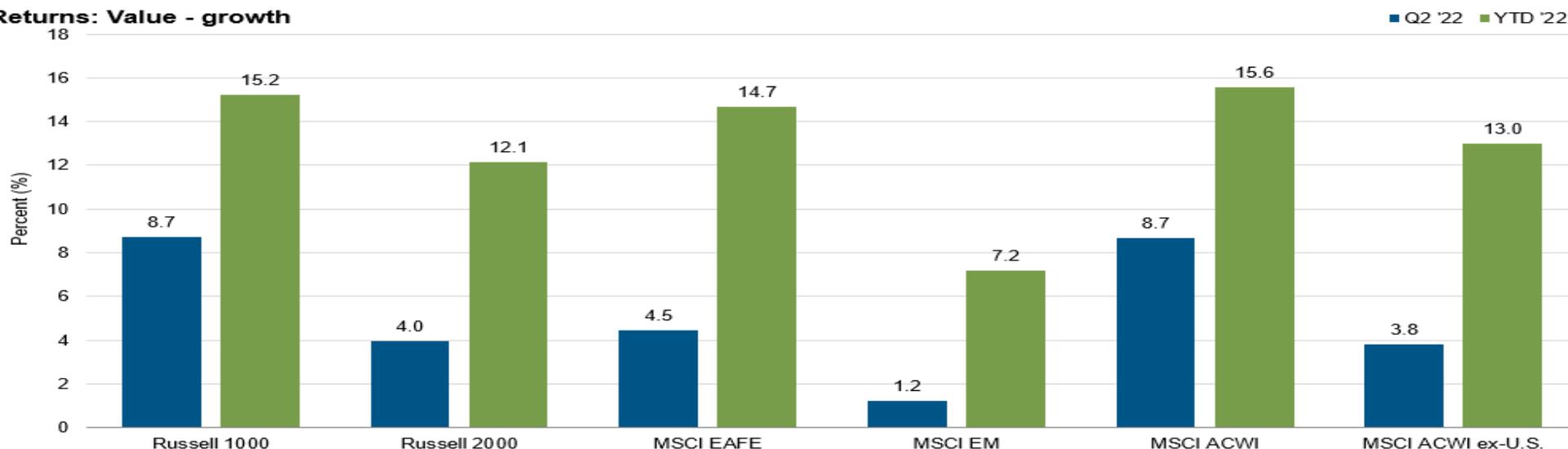
Overweight to and selection in communication services, specifically the diversified telecommunication services industry, contributed to performance.

Underweight to and selection in healthcare, specifically the pharmaceuticals industry, detracted from performance.

Selection in consumer staples, specifically the food and staples retailing and tobacco industries, detracted from performance.

Selection in energy, specifically the oil, gas, and consumable fuels industry, detracted from performance.

Returns: Value - growth



SOURCE: Bloomberg

# Cyclical Outlook: “Anti-Goldilocks” backdrop and elevated recession risks

## Activity too cold

US real GDP\*



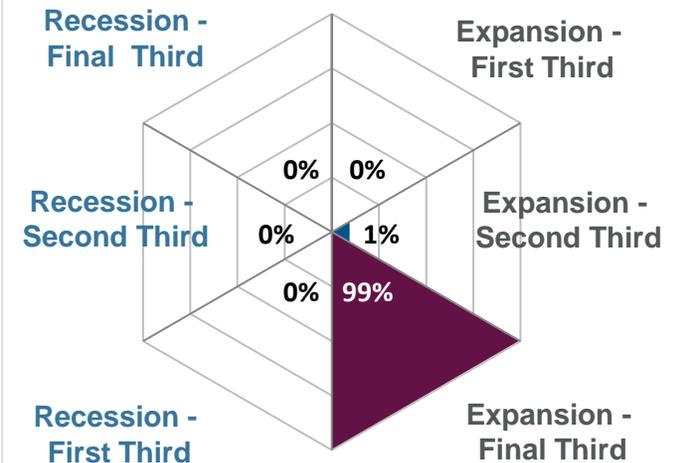
## Inflation too hot

US headline CPI y/y



## Recession risk elevated

Stylized business cycle model



For illustrative purposes only. As of June 2022. SOURCE: PIMCO

\* Figures in percentages.

The dynamic factor model (DFM) divides the business cycle into six phases; for example, 2T (second third) expansion is the mid-cycle expansion phase. The model incorporates a set of underlying factors with the potential to drive economic growth and assumes various economic time series are realizations of these factors with varying time lags. We estimate these factors based on 750 U.S. time-series variables covering a wide range of phenomena, including growth and its components, inflation components, labor market data, surveys, housing statistics, banking data, interest rates, asset price series, and more.

Refer to Appendix for additional outlook and risk information.

# Portfolio Outlook

## Equity Market Outlook

Historically high inflation, hawkish monetary policy, and slowing economic growth expectations set the stage for continued market turmoil. While uncertainty remains the key tenant for equity markets, there are several potential tailwinds for performance. The value style typically benefits from elevated inflation because value stocks tend to be valued based on current earnings, while growth stocks are valued based on future earnings. Furthermore, the relative valuations of value versus growth remain near historic cheapness, so any subsequent mean reversion towards long-term norms could result in excess returns for the value style. Lastly, while value tends to outperform during economic recoveries, value with an eye on quality can provide a margin of safety when a valuation bubble is bursting.

### Key strategies

#### A systematic approach to buying low and selling high

RAE seeks to select undervalued stocks using valuation metrics designed by Research Affiliates, while also incorporating quality and momentum signals to improve performance. Selected stocks are weighted based on fundamental measures of company size such as sales, cash flows, dividends and book value. This weighting methodology allows the fund to capitalize on market inefficiencies by systematically buying low and selling high and benefit from long-term mean reversion in stock prices.

### Position

	RAE International (%)	MSCI EAFE Value (%)	Variation (bps)
<b>Top sector overweights</b>			
Consumer Discretionary	15.00	8.51	650
Communication Services	10.17	6.33	384
Information Technology	5.83	2.58	325
<b>Top sector underweights</b>			
Financials	14.39	25.23	-1,085
Health Care	4.43	10.38	-595
Energy	7.92	8.77	-86

#### Prospective performance may be attractive given current valuation discounts

RAE's systematic strategy to buying low and selling high results in a value approach that is consistently applied across market cycles and regions. Following multiple years of strong markets, long-horizon mean reversion remains a persistent opportunity to earn excess return.

	RAE International	MSCI EAFE Value
Price/Book	0.98	1.09
Price/Cash flow	4.61	5.34
Price/Earnings	8.48	9.44
Price/Sales	0.54	0.91

SOURCE: PIMCO

# Additional share class performance

PIMCO RAE International Fund (net of fees performance)

Performance periods ended: 30 Jun '22	Gross expense ratio	Net expense ratio	NAV currency	Class Inception date	3 mos.	6 mos.	1 yr.	3 yrs.	5 yrs.	SI
Class A (at NAV)	0.87	0.86	USD	05 Jun '15	-10.64	-12.75	-14.41	1.44	1.33	1.92
Class A (at MOP)	0.87	0.86	USD	05 Jun '15	-13.97	-16.02	-17.61	0.14	0.55	1.37
Class I-2	0.62	0.61	USD	05 Jun '15	-10.60	-12.67	-14.25	1.67	1.59	2.18
Class INST	0.52	0.51	USD	05 Jun '15	-10.55	-12.62	-14.14	1.79	1.67	2.27
MSCI EAFE Value Index					-12.41	-12.12	-11.95	0.18	0.52	0.95

The Net Expense Ratio reflects a contractual fee waiver and/or expense reduction, which is in place through 31 October 2022 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.

*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 3.75%.*

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.

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.

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.

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.

**A word about risk: Equities** may decline in value due to both real and perceived general market, economic and industry conditions. Investments in value securities involve the risk the market's value assessment may differ from the manager and the performance of the securities may decline. 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. **Currency rates** may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. **REITs** are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income. **Model Risk** is the risk that the Fund's investment models used in making investment allocation decisions may not adequately take into account certain factors and may result in a decline in the value of an investment in the Fund. **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.

Price-to-book is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. Price-to-earnings (P/E) is a ratio of security price to earnings per share. Typically, an undervalued security is characterized by a low P/E ratio, while an overvalued security is characterized by a high P/E ratio. Price-to-sales is a valuation ratio that compares a company's stock price to its revenues. The price-to-sales ratio is an indicator of the value placed on each dollar of a company's sales or revenues. Price-to-cash-flow is the ratio of a stock's price to its cash flow per share; it is an indicator of a stock's valuation. The ratio takes into consideration a stock's operating cash flow, which adds non-cash earnings such as depreciation and amortization to net income.

The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across developed markets countries around the world, excluding the US and Canada. The value investment style characteristics for index construction of the MSCI EAFE Value Index are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. It is not possible to invest directly in an unmanaged index.

# Important Disclosures

---

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.

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.

**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.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This material contains the current opinions of the manager 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. **PIMCO Investments LLC**, distributor, 1633 Broadway, New York, NY, 10019 is a company of PIMCO ©2022 PIMCO.

# 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)