

PIMCO

# PIMCO Research Affiliates Equity (RAE) Strategies

Seek to get more from your equity allocation with a systematic strategy that captures the key benefits of a passive equity approach, with the potential for meaningful excess return.



**LIPPER FUND AWARDS  
FROM REFINITIV**

2019 WINNER  
UNITED STATES

Equity Asset Class Winner | Large Company

Lipper Asset Class Group Awards are awarded to eligible fund family groups and not individual funds.

A company of **Allianz** 

# A strategy for the current environment

Since the 2009 market bottom, equities have returned well above historical averages. As a result, investors with simple market beta exposure likely achieved their return objectives. And, because of widespread underperformance, investors using traditional active equity managers would have been better off in passive index strategies. In fact, recent trends indicate that investors are increasingly allocating to passive equity.

Importantly, one of the key concerns for investors is whether the equity markets will continue to deliver above average returns going forward. If markets deliver lower returns, as PIMCO believes, market beta may not be sufficient.

Systematic active equity strategies like PIMCO RAE are designed to give investors some of the benefits of passive investing, such as broad diversification, economic representation and lower fees versus traditional active management, with the potential for excess returns.

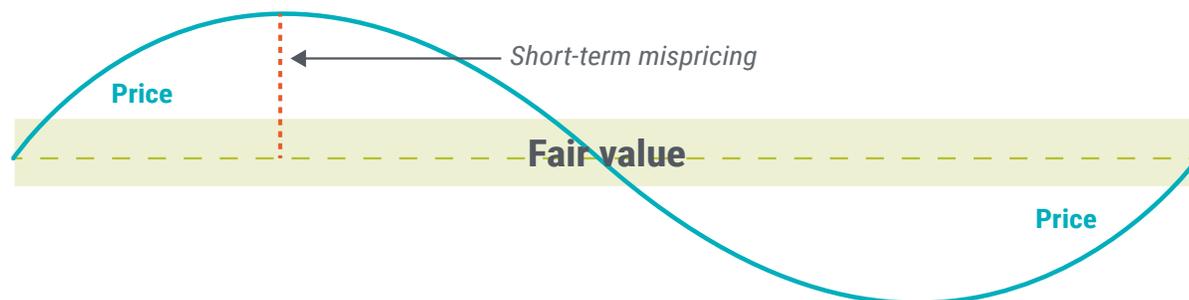


# PIMCO Research Affiliates Equity (RAE): A systematic approach to equity investing

Research Affiliates pioneered smart beta when it developed systematic rebalancing strategies in 2004. The original concept: A stock selection and weighting approach that was not linked to price and a thoughtful, efficient implementation process. Their goal was to design a better-performing strategy that could take advantage of short-term mispricings and market distortions common in capitalization-weighted indexes – yet preserve diversification, low turnover, lower fees and other benefits of passive investing. Over the ensuing decade, Research Affiliates incorporated additional insights into equity investing that created a more active approach in RAE, exclusively available through PIMCO.

## PHILOSOPHY OF RAE

- 1** Select and weight stocks by non-price measures of company size (i.e. economic footprint)
- 2** Incorporate quantitative enhancements to improve portfolio returns
- 3** Rebalance the portfolio back to fundamental weights, contra-trading recent price movements



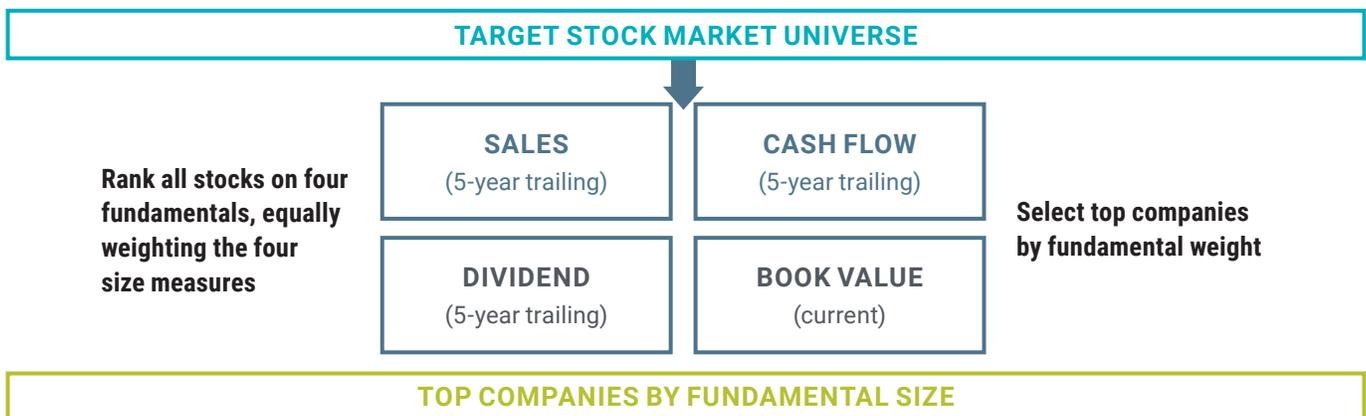
## STEP 1: WEIGHT STOCKS BASED ON FUNDAMENTAL SIZE

RAE begins by weighting stocks according to their economic size, such as sales, cash flow, dividends and book value, rather than their price-driven market capitalization (Figure 1). These measures provide a balanced and stable representation of a company's economic footprint, therefore breaking the link between price and portfolio weight. As near-term sentiment drives stocks above or below their fair value, this rules-based approach systematically sells overpriced stocks and buys

underpriced ones converting the market's tendency of mean reversion into a source of excess return.

Rebalancing back to fundamental size results in trading against the market's most extreme bets. This contra-trading produces a value bias relative to the cap-weighted market. As a result, this first step seeks to generate outperformance over time by capitalizing on short-term equity market inefficiencies.

Figure 1: Step one – Begin with fundamental size



## STEP 2: REFINE THE WEIGHTS

After weighting stocks by fundamental size, the strategy then applies well-researched active insights into quality, momentum and diversification of active share to refine certain aspects of an otherwise simple rebalancing strategy (Figure 2). PIMCO and Research Affiliates believe these insights increase return potential without increasing risk. The goal is to deliver attractive excess returns relative to the market (i.e., the core cap-weighted index).

Whereas naïve rebalancing rules are static and do not change, RAE enhancements are live and evolve to incorporate the portfolio managers' ongoing research into improving risk-adjusted returns.

The RAE portfolio construction process uses multiple measures of quality to reduce or eliminate weights to "value traps" – companies that are justifiably cheap and less likely to mean revert to past economic size. Insights on quality are obtained by the current score of a company's financial health.

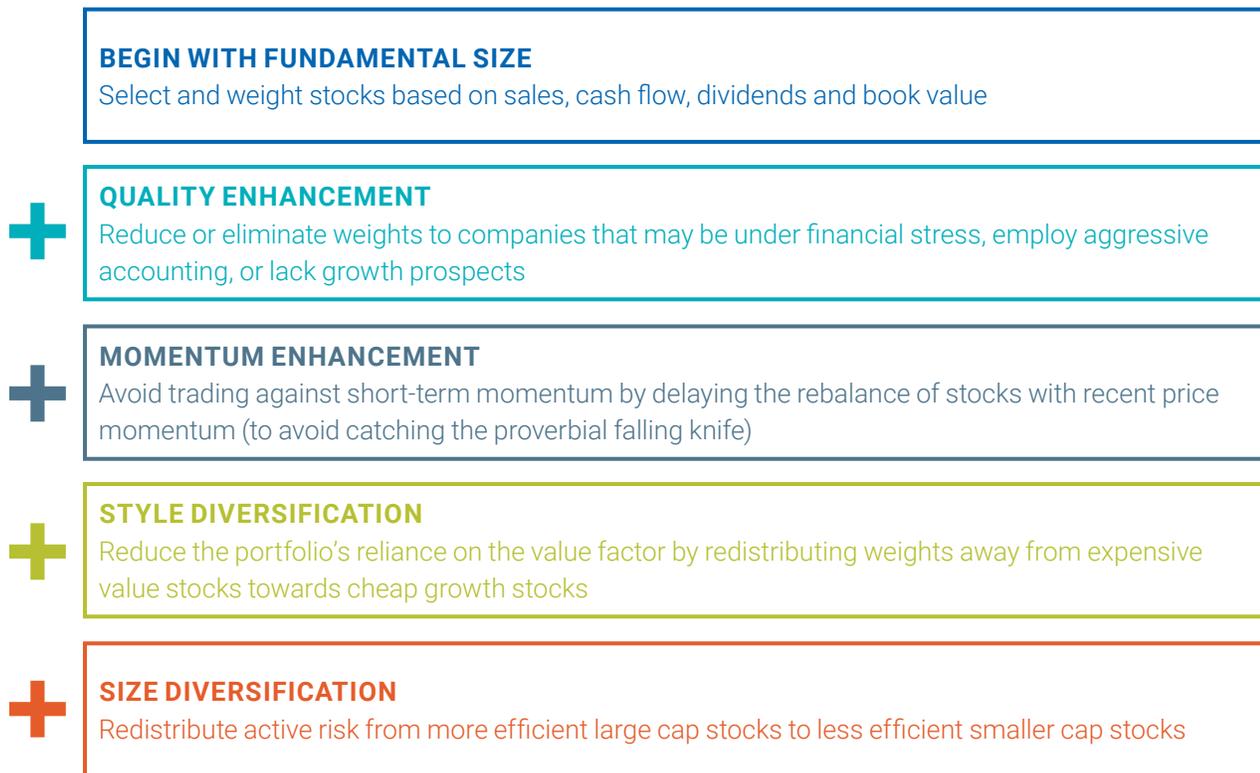
A poor quality score acts as a punitive guardrail against companies with distressed balanced sheets, aggressive accounting practices or poor growth prospects. Consequently, quality enhancements boost exposure to companies that appear to be relatively healthy.

The process also recognizes that the market can be slow to react to new information, exhibiting short-term persistence in their performance. Simple rebalancing strategies that systematically buy low and sell high typically result in trading against such market momentum. Therefore, RAE incorporates momentum into the portfolio construction by increasing weights in stocks that have outperformed over the past year and lowering weights in stocks that have underperformed. This process reduces the risk of catching the proverbial "falling knife" or taking profits early and missing additional upside. The net result is that RAE's momentum insight gives the portfolio a neutral exposure to momentum.

Research Affiliates has found that value stocks tend to be correlated and clustered in certain sectors of the market. This often results in value strategies that are highly exposed to the value factor. In addition, cheap growth-like stocks offer more upside potential when prices mean revert. RAE's diversification of style insight allocates away from expensive value-like stocks and toward cheap growth-like stocks. In addition to rebalancing, this insight contributes to RAE's dynamic exposure to value, increasing the value bias when value stocks are cheapest and decreasing the value bias when value stocks are expensive.

Finally, weighting stocks by their fundamental size typically results in significant absolute active weights in the largest companies of a given market. Larger companies are often more efficiently priced than smaller ones, offering less benefit when prices mean revert. RAE tends to redistribute active weights from larger companies into smaller companies that are more likely to be mispriced. This diversification of size insight aims to increase active weights in less efficient areas of the market. Because RAE redistributes both overweights and underweights across the portfolio, this insight does not meaningfully impact the portfolio's weighted average market cap.

**Figure 2: Step two – add active equity research insights**



### STEP 3: IMPROVE REBALANCING

Many rebalancing strategies typically rebalance once per year, but the timing of a rebalance can have a significant impact on short-term performance. For example, extreme market dislocations can result in sensitivity to a single ill-timed rebalancing date. As opposed to a simple once-a-year rebalance, RAE employs an improved rebalancing process that spreads it across all four quarters, reducing market impact and

mitigating trading risk. An RAE portfolio is divided into four identical tranches; each tranche is a full-fledged model portfolio and is traded once a year. At each quarterly rebalance, RAE's active insight screens are refreshed to incorporate current data. Research Affiliates has found that this staggered approach to rebalancing results in lower implementation costs and increased capacity, while keeping portfolio turnover low.

# PIMCO RAE Strategies

Average annual returns (%) as of 31 March 2019

<b>PIMCO RAE US Fund</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>	<b>Since Inception</b>	<b>Total / Net Expense Ratio<sup>1</sup></b>	<b>Inception date</b>	<b>Overall Morningstar Rating (Inst. Share Class)</b>
Class Inst. (PKAIX)	5.19	10.47	8.05	15.63	8.08	0.52% / 0.41%	12/31/2004 <sup>2</sup>	★★★ (out of 1,096 funds) Category: Large Value
Russell 1000® Value Index	5.67	10.45	7.72	14.52	7.12			
S&P 500 Index	9.50	13.51	10.91	15.92	8.38			
<b>PIMCO RAE US Small Fund</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>	<b>Since Inception</b>	<b>Total / Net Expense Ratio<sup>1</sup></b>	<b>Inception date</b>	<b>Overall Morningstar Rating (Inst. Share Class)</b>
Class Inst. (PMJIX)	0.65	10.20	5.74	16.17	7.88	0.63% / 0.51%	9/29/2005 <sup>2</sup>	★★★★★ (out of 393 funds) Category: Small Value
Russell 2000® Value Index	0.17	10.86	5.59	14.12	6.72			
Russell 2000® Index	2.05	12.92	7.05	15.36	7.84			
<b>PIMCO RAE Emerging Markets Fund</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>	<b>Since Inception</b>	<b>Total / Net Expense Ratio<sup>1</sup></b>	<b>Inception date</b>	<b>Overall Morningstar Rating (Inst. Share Class)</b>
Class Inst. (PEIFX)	-10.25	12.33	3.99	10.23	6.04	0.97% / 0.76%	5/31/2006 <sup>2</sup>	★★★★★ (out of 707 funds) Category: Diversified Emerging Mkts
MSCI Emerging Markets Value Index	-5.27	9.54	2.21	7.83	4.77			
MSCI Emerging Markets Index	-7.41	10.68	3.68	8.94	5.14			
<b>PIMCO RAE International Fund</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>	<b>Since Inception</b>	<b>Total / Net Expense Ratio<sup>1</sup></b>	<b>Inception date</b>	<b>Overall Morningstar Rating (Inst. Share Class)</b>
Class Inst. (PPYIX)	-7.43	7.61	—	—	2.43	0.62% / 0.51%	6/05/2015	★★★★★ (out of 275 funds) Category: Foreign Large Value
MSCI EAFE Value Index	-6.13	6.90	—	—	1.21			
MSCI EAFE Index	-3.71	7.27	—	—	2.83			
<b>PIMCO RAE Global ex-US Fund</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>	<b>Since Inception</b>	<b>Total / Net Expense Ratio<sup>1</sup></b>	<b>Inception date</b>	<b>Overall Morningstar Rating (Inst. Share Class)</b>
Class Inst. (PZRIX)	-7.87	8.75	—	—	2.99	1.32% / 0.55%	6/05/2015	★★★★★ (out of 275 funds) Category: Foreign Large Value
MSCI All Country World ex US Value Index	-5.39	7.73	—	—	1.95			
MSCI All Country World ex US Index	-4.22	8.09	—	—	3.21			
<b>PIMCO RAE Global Fund</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>	<b>Since Inception</b>	<b>Total / Net Expense Ratio<sup>1</sup></b>	<b>Inception date</b>	<b>Overall Morningstar Rating (Inst. Share Class)</b>
Class Inst. (PFQIX)	-2.64	9.60	—	—	5.34	1.21% / 0.51%	6/05/2015	★★★★★ (out of 732 funds) Category: World Large Stock
MSCI All Country World Value Index	0.68	9.00	—	—	4.90			
MSCI All Country World Index	2.60	10.67	—	—	6.60			

**If this material is used after 30 June 2019, it must be accompanied by the most recent Performance Supplement.**

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 by calling 888.87.PIMCO. The maximum offering price (MOP) returns take into account the 3.75% maximum initial sales charge.

<sup>1</sup> The Net Expense Ratio reflects a contractual fee waiver and/or expense reduction, which is in place through 10/31/2019 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.

Prior to 28 February 2019 the PIMCO RAE US Fund benchmark was the S&P 500 Index. Prior to 28 February 2019 the PIMCO RAE US Small Fund benchmark was the Russell 2000 Index. Prior to 28 February 2019 the PIMCO RAE Emerging Markets Fund benchmark was the MSCI Emerging Markets Index. Prior to 28 February 2019 the PIMCO RAE International Fund benchmark was the MSCI EAFE Index. Prior to 28 February 2019 the PIMCO RAE Global ex-US Fund benchmark was the MSCI All Country World Free ex-U.S. Index. Prior to 28 February 2019 the PIMCO RAE Global Fund benchmark was the MSCI All Country World Index.

# How do clients use PIMCO RAE strategies?

PIMCO RAE strategies are available across a range of equity exposures, including U.S. large cap, U.S. small cap, international, emerging and global markets – and can serve a number of important roles in a portfolio.

## REPLACING TRADITIONAL ACTIVE MANAGERS

PIMCO RAE takes a systematic approach, which results in a completely emotionless, disciplined strategy that seeks to consistently buy low and sell high.

## ENHANCING THE CORE

In the environment ahead, beta alone may no longer be enough, and passive allocations may not deliver the returns investors need to meet their goals. PIMCO RAE strategies may serve as a core solution, providing many of the benefits of passive, such as broad diversification, economic representation and low turnover, while adding the potential for needed excess returns.

## BENEFITING FROM THE RETURN OF THE VALUE PREMIUM

Given their dynamic exposure to value stocks, PIMCO RAE strategies can be a reliable way to benefit from potential value outperformance. The rules-based aspect of the process and the active insights that are applied result in portfolios that “load up” on value stocks when they are cheap, but also reduce that deep value bias when value stocks become more expensive.

2 PIMCO RAE US Small Fund was a privately offered fund managed by the Fund's Sub-Adviser was reorganized into the Fund as of 5 June 2015. For periods prior to the commencement of Fund operations, the Fund's performance is that of the privately offered fund. The performance of the privately offered fund has not been restated to reflect the fees, estimated expenses and fee waivers and/or expense limitations applicable to each class of shares of the Fund. If the performance of the privately offered fund had been restated to reflect the applicable fees and expenses of each share class of the Fund, the performance may have been higher or lower. The privately offered fund began operations on 29 September 2005 and, on 5 June 2015, was reorganized into the Fund. PIMCO RAE US Fund was a privately offered fund managed by the Fund's Sub-Adviser was reorganized into the Fund as of 5 June 2015. For periods prior to the commencement of Fund operations, the Fund's performance is that of the privately offered fund. The performance of the privately offered fund has not been restated to reflect the fees, estimated expenses and fee waivers and/or expense limitations applicable to each class of shares of the Fund. If the performance of the privately offered fund had been restated to reflect the applicable fees and expenses of each share class of the Fund, the performance may have been higher or lower. The privately offered fund began operations on 22 December 2004 and, on 5 June 2015, was reorganized into the Fund.

PIMCO RAE Emerging Markets Fund was a privately offered fund managed by the Fund's Sub-Adviser was reorganized into the Fund as of 5 June 2015. For periods prior to the commencement of Fund operations, the Fund's performance is that of the privately offered fund. The performance of the privately offered fund has not been restated to reflect the fees, estimated expenses and fee waivers and/or expense limitations applicable to each class of shares of the Fund. If the performance of the privately offered fund had been restated to reflect the applicable fees and expenses of each share class of the Fund, the performance may have been higher or lower. The privately offered fund began operations on 31 May 2006 and, on 5 June 2015, was reorganized into the Fund.

Prior to the reorganization of the above named funds (PIMCO RAE US Fund, PIMCO RAE US Small Fund, and PIMCO RAE Emerging Markets Fund, hereinafter referred to as the “Funds”), their corresponding privately offered funds had each had an investment objective and investment strategies that were, in all material respects, the same as those as the corresponding Funds, and were managed in a manner that, in all material respects, complied with the investment guidelines and restrictions of the corresponding Funds. However, as privately offered funds, they were not registered as investment companies under the Investment Company Act of 1940 and were not subject to its requirements or requirements imposed by the Internal Revenue Code of 1986 which, if applicable, may have adversely affected their performance. The performance of each class of shares of the Funds will differ as a result of the different levels of fees and expenses applicable to each class of shares.

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 as compared to its 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 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 Lipper Fund Award. For more information, see [lipperfundawards.com](http://lipperfundawards.com). Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Lipper Fund Awards from Refinitiv, © 2019 Refinitiv. All rights reserved. Used under license. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited.

**Morningstar Star Rating** as of 31 March 2019 for Institutional Class Shares; other classes may have different performance characteristics. Fund ratings are out of 5 Stars. The Morningstar Rating™ for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Morningstar, Inc. © 2019. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its affiliates; (2) may not be copied or distributed; (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Fund Ticker	Morningstar Category	Overall Rating	Overall Group	3-Year Rating	3-Year Group
PKAIX	Large Value	3	1096	3	1096
PMJIX	Small Value	4	393	4	393
PEIFX	Diversified Emerging Mkts	4	707	4	707
PPYIX	Foreign Large Value	4	275	4	275
PZRIX	Foreign Large Value	5	275	5	275
PFQIX	World Large Stock	3	732	3	732

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, which may be obtained by visiting pimco.com or contacting your PIMCO representative. Please read the prospectus carefully before you invest.

**Past performance is not a guarantee or a reliable indicator of future results.** The performance figures presented reflect the total return performance for the Class A and Institutional shares and reflect changes in share price and reinvestment of dividend and capital gain distributions. All periods longer than one year are annualized. 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.

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.

**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. Investing in **distressed companies (both debt and equity)** is speculative and may be subject to greater levels of credit, issuer and liquidity risks, and the repayment of default obligations contains significant uncertainties; such companies may be engaged in restructurings or bankruptcy proceedings. Currency rates may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. Investing in **securities of smaller companies** tends to be more volatile and less liquid than investing in securities of larger companies. **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 cost of investing in any of the funds will generally be higher than the cost of investing in funds that invest directly in individual stocks and bonds. The funds are non-diversified, which means that they may invest their assets in a smaller number of issuers than a diversified fund.

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 long-term, especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision.

The **Russell 1000® Value Index** measures the performance of large and midcapitalization value sectors of the U.S. equity market, as defined by FTSE Russell. The **Russell 1000® Value Index** is a subset of the **Russell 1000® Index**, which measures the performance of the large and mid-capitalization sector of the U.S. equity market. **S&P 500 Index** is an unmanaged market index generally considered representative of the stock market as a whole. The Index focuses on the large-cap segment of the U.S. equities market. It is not possible to invest directly in an unmanaged index. The **Russell 2000® Value Index** measures the performance of the small-capitalization value sector of the U.S. equity market, as defined by FTSE Russell. The **Russell 2000® Value Index** is a subset of the **Russell 2000® Index**. **Russell 2000® Index** is composed of 2,000 of the smallest companies in the **Russell 3000 Index** and is considered to be representative of the small cap market in general. It is not possible to invest directly in an unmanaged index. The **MSCI Emerging Markets Value Index** captures large and mid-cap securities exhibiting overall value style characteristics across 24 emerging markets countries. The value investment style characteristics for index construction of the **MSCI Emerging Markets Value Index** are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. It is not possible to invest directly in the index. 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. **MSCI EAFE Index** is an unmanaged index designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. It is not possible to invest directly in the index. The **MSCI All Country World ex US Value Index** captures large and mid-cap securities exhibiting overall value style characteristics across 22 developed and 24 emerging markets countries. The value investment style characteristics for index construction of the **MSCI All Country World ex US Value Index** are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The **MSCI All Country World ex US Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Index consists of 46 country indices comprising 22 developed and 24 emerging market country indices. It is not possible to invest directly in an unmanaged index. The **MSCI All Country World Value Index** captures large and mid-cap securities exhibiting overall value style characteristics across 23 developed markets countries and 24 emerging markets countries. The value investment style characteristics for index construction of the **MSCI All Country World Value Index** are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The **MSCI All Country World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Index consists of 47 country indices comprising 23 developed and 24 emerging market country indices. It is not possible to invest directly in an unmanaged index.

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. ©2019, PIMCO

**PIMCO Investments LLC**, distributor, 1633 Broadway, New York, NY 10019 is a company of PIMCO.

Investment Products

Not FDIC Insured | May Lose Value | Not Bank Guaranteed