PIMCO

PIMCO Research Affiliates Equity (RAE) Funds

Seek more from your value allocation with a systematic strategy that is designed to exploit what is potentially the largest and most persistent active investment opportunity: mean reversion.

LIPPER FUND AWARDS FROM REFINITIV

Equity Asset Class Winner | Large Company
2019 | 2013 | 2012 | 2011 |2010

For Investment Professional Use Only

A company of **Allianz**

Value investing: Be a contrarian

Being a contrarian in any arena has never been easy. Impatience, discomfort, delayed gratification, and a general sense of FOMO[1] can all come with the territory and persist for long periods of time. On a more positive note, the contrarian that sets aside emotion and embraces discipline, consistency, and a long-term horizon can ultimately be rewarded for their patience. Being a contrarian has never been easy, but it has always been at the heart of successful value equity investing.

In search of a better approach to value investing

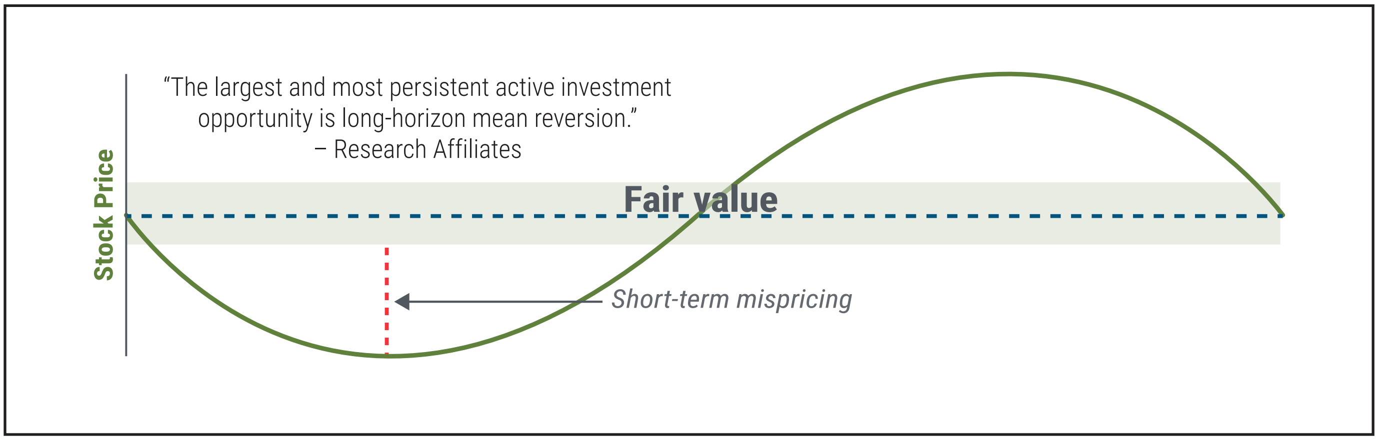
Now more than ever, after the value style's longest and deepest drawdown on record[2], many investors are evaluating their strategic allocations to ensure that they benefit from the potential of value's diversifying returns. Selecting the right manager to fulfill this role in the portfolio requires an analysis of a strategy's investment philosophy, process and team. Additional considerations include track records, consistency, and fees.

Based on Research Affiliates' conviction that the largest and most persistent equity investment opportunity is long-horizon mean reversion, PIMCO's RAE strategy is a systematic active approach to value investing that is the result of over 15 years of quantitative investment research and time tested over a variety of market cycles. This brochure will walk through the RAE investment process, highlight key differentiators and explain why PIMCO believes RAE is a better approach to value investing.

PIMCO RAE: Systematic. Active. Value.

Research Affiliates believes that while equity markets tend to move towards efficient pricing over the long term, near-term sentiment can drive the price of stocks above or below their fair value. A rules-based approach that systematically buys low and sells high, an inherently contrarian strategy, takes advantage of this short-term mispricing and potentially converts the market's tendency towards long-horizon mean reversion to excess returns.

PHILOSOPHY OF RAE



Source: Research Affiliates
For illustrative purposes only.

The question is, what measures can be used to select the most attractive companies in a given universe of stocks? And importantly: what approximation of a company's size should be used to anchor such contra-trading over time? These questions get to the heart of the RAE investment process: the signals used for stock selection and the methodology that drives the weight of each stock in an RAE portfolio.

STEP 1: SELECTING STOCKS BASED ON THEIR RAE SCORE

Portfolio construction for an RAE strategy begins by assigning an "RAE Score" to each eligible company in the proprietary universe maintained by Research Affiliates. Eligible companies are those that meet certain size, liquidity, and regional criteria based on the investment objective (e.g., U.S. large cap, U.S. small cap, international, emerging markets, etc.). Companies with the highest RAE Score are selected for the portfolio.

The RAE Score is a composite of the attractiveness of a stock based on value, quality and momentum signals designed by Research Affiliates. These signals and their implementation benefit from the ongoing research of the investment team and evolve based on the team's latest insights. Each component signal in the RAE Score combines several measures into a diverse composite that seeks to reduce noise and capture excess returns over time. Research Affiliates believes that quantitative strategies are prone to data mining and an overreliance on a single measure of a signal can introduce noise.

Value signal

Research Affiliates designed the RAE value signal to exploit short-term mispricing of stocks. Valuation determines how "cheap" or "expensive" a company is by comparing a company's fundamental size (specifically, the size of its sales, cash flow, dividends and book value – equally considered) to its market capitalization (or the stock's current price). Research Affiliates believes that the ratio of a company's fundamental size to its market capitalization has information – companies with a high ratio are relatively cheap, companies with a low ratio are relatively expensive. Valuation is quantitatively adjusted to avoid extreme sector biases. Such a holistic measure goes beyond value's classic definition of high book-to-price and captures companies which derive more of their economic size from cash flows, dividends, intangibles, and other metrics that can drive a company's valuation.

Research Affiliates also incorporates style exposure into RAE's value signal to ensure the model avoids owning expensive "value stocks" and includes cheap "growth stocks." Limiting value investing to only those stocks that co-move with other value stocks can result in strategies that are highly exposed to the value factor regardless of relative valuation. In addition, cheap growth-like stocks (or those that have low correlation to the value factor) offer upside potential when prices mean revert.

This composite value signal comprised of multiple ratios adjusted for sector and style exposure represents the largest contributor to the RAE Score. In tandem with the contrarian rebalancing described below, this signal contributes to RAE's dynamic value orientation, increasing the discount of the portfolio when value stocks are cheapest and decreasing the discount when value stocks trade at narrower discounts to their growth counterparts.

Quality signal

The quality signal aims to avoid value traps. Some cheap companies deserve to be cheap when permanently impaired. The RAE model incorporates more than 20 measures of quality across four broad categories in order to reach a holistic measure of a company's financial health. Earnings integrity, distress, investment and profitability represent the four categories that comprise the composite quality score. Earnings integrity favors companies which do not regularly report accrual revenue in excess of cash revenue. Measures of distress such as interest coverage ratio and leverage flag struggling companies in advance of insolvency. The final two components go hand in hand as the RAE model rewards companies which are simultaneously profitable without the need of significant investments to maintain that profitability.

Research Affiliates is a prolific publisher on the topic of quality. The team at Research Affiliates won the 2019 Graham and Dodd Award of Excellence[3] from the CFA Institute for its paper entitled, "What is Quality?" which examined the robustness of various measures of quality when investing.

Momentum signal

While cheaper stocks often represent an opportunity to benefit from mean reversion, immediately buying as prices decline (or immediately selling as prices rise) introduces the risk of trading too early. The RAE investment process recognizes that the market can be slow to react to new information, exhibiting short-term persistence (or momentum) in their performance. Accordingly, RAE incorporates a composite momentum signal to seek excess return and avoid catching the proverbial falling knife.

PIMCO RAE METHODOLOGY

1 Select stocks from starting universe using signals that historically indicate higher expected returns

1. Value
2. Quality
3. Momentum

RAE Score

2 Weight stocks by RAE Score and fundamental measure of company size

1. Sales
2. Cash flow
3. Dividends
4. Book Value

3 Rebalance the portfolio back to model weights, contra-trading against recent price movements

Quarterly Rebalance

Source: Research Affiliates

The momentum signal used in RAE is a combination of three measures: beta-adjusted momentum, volatility-adjusted momentum, and "fresh" momentum. The first two measures incorporate risk to improve performance during momentum turning points by focusing on stocks with strong recent returns not simply explained by market beta or high volatility. The final measure focuses on stocks with strong price momentum that has only recently begun, or is "fresh." Research Affiliates labels the momentum of stocks that have appreciated faster than the broad market two years in a row as "stale" (suggesting that momentum may be about to run out of steam and mean revert), as opposed to stocks which have exhibited momentum only during the recent one year and therefore more likely to persist, or "fresh."

STEP 2: WEIGHTING SELECTED STOCKS BASED ON THEIR RAE SCORE AND FUNDAMENTAL SIZE

Once stocks are selected for the portfolio based on their RAE Score, each holding's weight is a product of the strength of that score and the company's fundamental size. Companies with the strongest RAE Score and the largest fundamental size will get the highest weights in the portfolio. Fundamental measures of size serve as proxies for liquidity. Their use as anchors of position size ensures the RAE process results in highly liquid portfolios, potentially lowering transaction costs as a result.

STEP 3: IMPROVING REBALANCING AS PRICES MOVE

RAE employs an improved rebalancing process that spreads trading of the portfolio across all four quarters of the year, reducing market impact and mitigating trading risk. At each quarterly rebalance point, the RAE Score for each company is refreshed to incorporate current data. Research Affiliates has found that this approach to rebalancing results in lower implementation costs and increased capacity while keeping portfolio turnover low.

How do investors use PIMCO RAE Funds?

PIMCO RAE Funds 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 buy low and sell high. The strategy has the same objectives as a traditional active value manager but seeks more consistent excess returns at lower fees.

Enhancing the core. In today's environment of high asset prices, 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 enhance equity exposure by providing broad diversification, economic representation, low turnover, and the potential for needed excess returns.

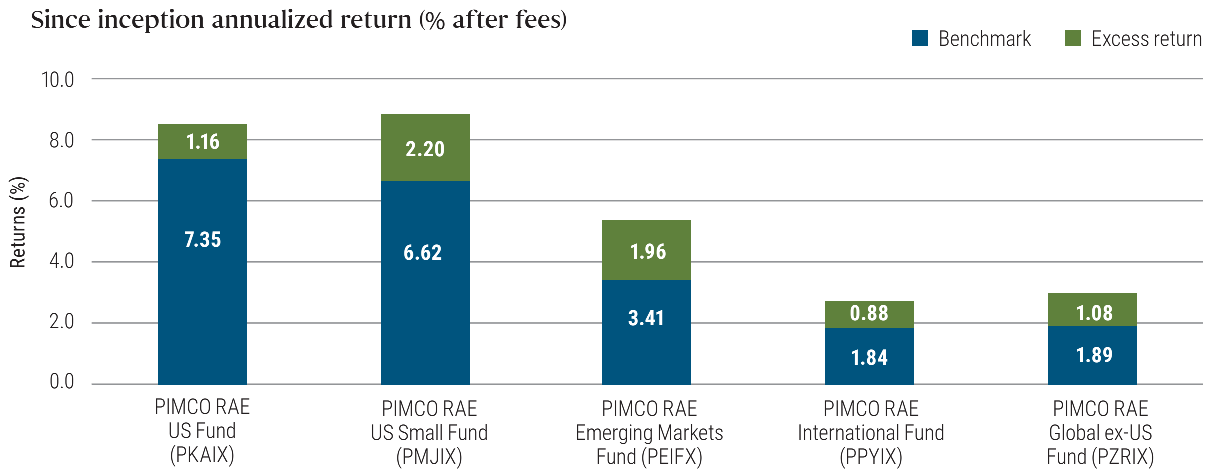
Benefiting from the return of the value premium. Given their dynamic exposure to value stocks, PIMCO RAE strategies can be a reliable way to benefit from potential value outperformance. The systematic nature of the process and the ongoing research that evolve the model result in portfolios that "load up" on value stocks when they are cheap but also reduce that deep value bias when value stocks become more expensive.

1 FOMO = Fear Of Missing Out

2 Most reliable records of value's performance go back to 1963. Source: Research Affiliates, LLC

3 GRAHAM AND DODD AWARD OF EXCELENCE – The annual Graham and Dodd Awards of Excellence include the top G&D Award to recognize the best research article and up to two Scroll Awards to acknowledge the runners-up. Winners are chosen through a two-stage selection process. First, all members of the Financial Analysts Journal Advisory Council and Editorial Board are invited to vote, producing a shortlist of peer-reviewed research articles published in Financial Analysts Journal throughout the year. Second, the G&D Awards Committee (six members selected from the CFA Institute Board of Governors, the CFA Institute Leadership Team, CFA Society Leadership, and the Financial Analysts Journal editorial team) collectively decides the award winners from the shortlist.

PIMCO RAE: Solid Long-Term Track Record



Inception date	22 Dec '04[1]	29 Sep '05[1]	31 May '06[1]	05 Jun '15	05 Jun '15
Benchmark	Russell 1000 Value	Russell 2000 Value	MSCI EM Value	MSCI EAFE Value	MSCI ACWI ex-US Value
Morningstar category	Large Value	Small Value	Diversified Emerging Markets	Foreign Large Value	Foreign Large Value

As of 31 December 2022. Source: PIMCO. Performance net of fees. **Past performance is not a guarantee or a reliable indicator of future results.**

1 Performance presented prior to June 2015 represents the historical track record of the sub-adviser and should not be interpreted as the actual historical performance of PIMCO.

Fund Performance (%, Net)	MTD	QTD	YTD	3 yr.	5 yr.	10 yr.	S.I.	S.I. Date
PIMCO RAE US	**-5.47**	**14.39**	**-3.38**	**8.67**	**8.30**	**11.48**	**8.51**	**22 Dec '04**
Russell 1000 Value Index	-4.03	12.42	-7.54	5.96	6.67	10.29	7.35	
alpha vs. Russell 1000 Value Index (bps)	*-144*	*197*	*416*	*271*	*163*	*119*	*116*	
PIMCO RAE US Small	**-7.22**	**14.72**	**-4.64**	**12.68**	**8.72**	**11.39**	**8.82**	**29 Sep '05**
Russell 2000 Value Index	-6.56	8.42	-14.48	4.70	4.13	8.48	6.62	
alpha vs. Russell 2000 Value Index (bps)	*-66*	*630*	*984*	*798*	*459*	*291*	*220*	
PIMCO RAE International	**-1.09**	**17.81**	**-8.65**	**1.19**	**0.41**	**-**	**2.72**	**05 Jun '15**
MSCI EAFE Value Index	1.26	19.64	-5.58	0.65	0.17	-	1.84	
alpha vs. MSCI EAFE Value Index (bps)	*-235*	*-183*	*-307*	*54*	*24*	*-*	*88*	
PIMCO RAE Emerging Markets	**-0.51**	**14.73**	**-10.44**	**1.55**	**0.79**	**2.52**	**5.37**	**31 May '06**
MSCI EM Value Index	-1.52	9.77	-15.83	-2.62	-1.59	0.06	3.41	
alpha vs. MSCI EM Value Index (bps)	*101*	*496*	*539*	*417*	*238*	*246*	*196*	
PIMCO RAE Global ex-US	**-0.97**	**16.96**	**-9.14**	**1.20**	**0.44**	**-**	**2.97**	**05 Jun '15**
MSCI ACWI ex-US Value Index	0.03	15.70	-8.59	0.06	-0.05	-	1.89	
alpha vs. MSCI ACWI Value Index (bps)	*-100*	*126*	*-55*	*114*	*49*	*-*	*108*	

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Current performance may be lower or higher than performance shown. For performance current to the most recent month end, visit pimco.com or call 888.87.PIMCO.

Performance is shown for the institutional share class after fees. Performance is average annualized total return. Periods longer than 1 year are annualized.

As of 31 December 2022.

Source: PIMCO, MSCI, Russell, Standard & Poor's, Bloomberg These strategies experienced high or unusual performance for one or more periods. High performance is defined as an unusual growth in alpha between reporting periods or total return when measured to historical returns. Unusual performance is defined as an unusual change in performance (+/-) between reporting periods and the portfolio experienced unusual performance for one or more periods. No assurance is being made that this favorable market activity will be repeated.

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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. Encourage your clients to read them carefully.

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, for the Institutional shares 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 class shares is $1 million; however, it may be modified for certain financial intermediaries who submit trades on behalf of eligible investors.

1 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 private fund. The performance of the private fund has not been restated to reflect the fees, estimated expenses and fee waivers and/or expense limitations applicable to each share class of the fund. If the performance of the private 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 private fund began operations on the inception date specified and, on 5 June 2015, was reorganized into the fund. Prior to the reorganization, the private fund had an investment objective and investment strategies that were substantially similar to the fund, and was managed in a manner that complied, in all material respects, with the guidelines and restrictions of the fund. However, the private fund was not registered as an investment company under the Investment Company Act of 1940 and was not subject to its requirements or requirements imposed by the Internal Revenue Code of 1986 which, if applicable, may have adversely affected its performance. The performance of each class of shares of the fund will differ as a result of the different levels of fees and expenses applicable to each class of shares.

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.

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.

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. **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. The RAE Global Fund invests in other PIMCO funds and performance is subject to underlying investment weightings which will vary. The cost of investing in this fund will generally be higher than the cost of investing in funds that invest directly in individual stocks and bonds. **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 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.

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 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. 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 27 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 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. The **MSCI All Country World Value Index** captures large and mid-cap securities exhibiting overall value style characteristics across 23 developed markets countries and 27 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. It is not possible to invest directly in an unmanaged index.

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

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