

PIMCO Income Instl PIMIX

Still one of the best.

Morningstar's Take PIMIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Gold

Morningstar Pillars

| | |
|-------------|---------------|
| Process | Above Average |
| Performance | — |
| People | High |
| Parent | Above Average |
| Price | — |

Role In Portfolio

Supporting Player

Fund Performance

| Year | Total Return (%) | +/- Category |
|------|------------------|--------------|
| YTD | -5.59 | 0.62 |
| 2019 | 8.05 | -1.75 |
| 2018 | 0.58 | 2.10 |
| 2017 | 8.60 | 2.53 |
| 2016 | 8.72 | 1.20 |

Data through 4-30-20

5-20-20 | by Eric Jacobson

Pimco Income brings together great investors and a hallmark process in a multisector package that has soared. Under our enhanced ratings methodology, its attractively priced Institutional class earns a Morningstar Analyst Rating of Gold, while its other shares carry a mix of Silver, Bronze, and Neutral ratings.

Dan Ivascyn and Alfred Murata have leveraged Pimco's bountiful--and growing--human and analytical resources, including mortgage and real estate specialists, and newer staff focused on special credit situations. Long-term returns are near the top of the multisector-bond Morningstar Category as of April 30, 2020.

Notwithstanding a rough early 2020 when the coronavirus-related sell-off sapped liquidity, the strategy's nonagency residential mortgages have been a consistent contributor to its success. Pre-

financial-crisis supply in the sector has been shrinking, while until recently the strategy has grown at a furious clip. Pimco still likes the sector for its return potential and modest volatility: The team has even managed to raise and lower exposure to the sector, at times acquiring chunks from sellers wanting or needing to unload them; they totaled 37% as of March 2020. The allocation mainly comprises a mix of legacy nonagency Residential mortgage-backed securities and reperforming loan securitizations, and the team has shunned newer untested sectors or drifted into subordinated tranches in search of higher yields as the strategy has grown. Absent a sea change in the market, the nonagency mortgage sector will continue to shrink. We'd prefer Pimco consider closing the strategy to new money should the managers have trouble keeping the exposure as large as they'd like, but the firm has no plans to consider it.

The strategy saw large outflows during March and April 2020--including \$14 billion from the U.S. fund and \$16 billion from its cross-border portfolio--but it had built liquidity over the prior 12-18 months as Pimco backed away from tightening valuations. Managing those flows while keeping returns in healthy range of its peers underscores the management team's appeal.

Process Pillar Above Average | Eric Jacobson 05/20/2020

Like all Pimco's strategies, this one relies on numerous top-down and bottom-up calls. Thanks to its income focus, the portfolio has weightings in higher-income areas, such as high-yield corporates and non-U.S. bonds, and it has for years had a strong taste for nonagency mortgages relative to the multisector-bond category. This also means that while the strategy will reflect Pimco's macro themes, it will diverge from higher-quality siblings such as Pimco Total Return PTRX. It also typically employs some leverage, mostly via derivatives.

The team sets a monthly dividend and attempts to stick with it for at least a year. Prudence demands that number be set lower than what the portfolio's holdings actually produce each month to avoid a shortfall, and there's usually undistributed income at each year-end, which is paid as an extra dividend to avoid running afoul of IRS tax rules.

Our main quibble here is a difference of opinion with Pimco on its unwillingness to entertain closing the fund should asset growth make it difficult to maintain the managers' sector preferences (in the nonagency mortgage sector, for example). The firm views the question differently, focusing instead on whether the portfolio can remain competitive with its peers--and believes that's possible with an even much larger asset base. Overall, the fund earns an Above Average Process rating.

The strategy has navigated several rough periods better than many peers, even avoiding the stumbles of sibling offerings, but nonagency RMBS have been a cornerstone of the portfolio. Pre-financial-crisis, nonagency RMBS supply has been shrinking at a rate of 10%-15% per year, yet Pimco has managed to raise and lower that exposure, at times acquiring big chunks from sellers wanting or needing to unload them. After drifting down to 23% of the fund at the end of 2017--its lowest weighting since mid-2010--the team built it up to 41% a year later. (It was 37% on March 31, 2020.) The team has focused on senior tranches of legacy assets whose fundamentals have improved over the years and has avoided new sectors such as nonqualified mortgages and credit-risk transfer debt that are less seasoned and untested.

The team slashed its agency MBS stake to 5.8% by August 2017 from 45% at the end of 2011, in particular as valuations tightened, but brought it back to 31% by March 2020. It has rounded out the portfolio with emerging-markets debt (16%), a mix of high-yield (13%) and investment-grade

corporates (10.3%), and modest developed-markets exposure of roughly 5% combined with a notable Japan short (16% of the fund's market value). The fund was 92.5% exposed to the dollar, with the largest remaining allocations in Mexico (1.9%), Russia (1.5%), Brazil (1.2%), and Peru (0.8%).

Performance Pillar | Eric Jacobson 05/20/2020

Between the early 2020 coronavirus sell-off and nascent recovery that followed, the strategy placed around the middle of the multisector-bond category for the year through April. Even with that baked in, the strategy has posted long-term returns among the category's best, with modest volatility. It has been as or more resilient in other times of stress, too, such as late 2011 and the summer of 2013. That's notable given the difficulty that Pimco's macro positioning triggered for others in the complex during those stretches. And with a high-yield stake less than a third that of most rivals, it sailed through the fourth-quarter 2018 sell-off with top-quartile returns.

The fund has picked up help from several areas in recent years, including at times exposure to falling global government-bond yields, rallying corporates, and a strong U.S. dollar, and it has banked contributions from its rates exposures during most years since inception. Its emerging-markets allocation has had mixed results but has been mostly helpful since 2015.

All that said, the fund's nonagency mortgage exposures have been healthy contributors to its success in recent years, the primary exception being the sector's March 2020 liquidity shock. That notwithstanding, the sector has otherwise posted strong returns with comparatively little volatility.

People Pillar ● High | Eric Jacobson 05/20/2020

Dan Ivascyn, longtime head of Pimco's mortgage credit effort, has called the shots since the fund's 2007 inception and heads the firm's mortgage credit effort. His profile soared in 2014, first named a deputy CIO following Mohamed El-Erian's departure in January, and then group CIO (effectively Pimco's top investor) when Bill Gross resigned in September 2014. Alfred Murata, who joined Pimco in 2001, has been a comanager on this fund in March 2013. The duo was named

Morningstar Fixed-Income Fund Manager of 2013. They were joined in July 2018 by Joshua Anderson, a specialist in structured product, real estate, and specialty finance securitizations who has worked at Pimco since 2003.

Ivascyn and other sector specialists were added to the firm's investment committee in January 2014, which brought the group into better balance. The size and depth of the firm's mortgage desk--including roughly 50 nonagency mortgage specialists--have been crucial to this fund, in particular, given the esoteric nature of that market's subgroups and structures. It will be important to monitor how Pimco manages that resource, but no less so the others this fund will eventually need to rely on as the nonagency mortgage sector continues to dwindle. Of course, Pimco has many other strengths, and this fund's management is still among the industry's best. The fund earns a High People rating.

Parent Pillar ● Above Average | Eric

Jacobson 04/16/2020

The state of Pimco is strong, and the firm earns an Above Average Parent rating.

Morningstar has taken Pimco to task for expensive retail share classes and big price tags outside the United States. The firm also gets lots of attention for its intense working culture, invariably sparking speculation of whether it leads to dysfunction that might drive away the firm's best investors. In defiance of that narrative, Pimco has consistently hired highly skilled people who thrive in its pressure cooker--and stick around for a long time. People do leave, and some of its best and brightest have occasionally departed or retired earlier than one would have hoped. Even so, the firm's record of filling in the gaps has been remarkable and Pimco has managed to promote and broaden leadership responsibility across its talent pool.

The persistence of Pimco's investment culture has been critical. Despite the acrimony of Bill Gross' 2014 departure, an experienced and critical-thinking investor--rather than a prototypical corporate manager--took over as the firm's cultural force in the form of Dan Ivascyn. Now effectively the firm's CIO, Ivascyn had material influence in the

later hiring of industry-veteran Manny Roman as CEO. Whether or not the pair's bonhomie is as genuine as it appears, Ivascyn and Roman have kept the firm in excellent stead as both a strong steward of investor capital and a thriving business.

Price Pillar | Eric Jacobson 05/20/2020

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's cheapest quintile. Based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Gold.

PIMCO

| Average Annual Returns (%) | 1-yr | 5-yr | 10-yr | Since Inception 03/30/2007 |
|---|-------------|-------------|--------------|-----------------------------------|
| Income Fund (at NAV) | -3.16 | 3.59 | 7.33 | 7.42 |
| Bloomberg Barclays U.S. Aggregate Index | 8.93 | 3.36 | 3.88 | 4.40 |
| Lipper Multi-Sector Income Funds Avg. | -3.58 | 1.76 | 3.87 | 4.30 |

As of 31 March 2020. SOURCE: PIMCO Performance displayed is for the Institutional Class Shares, net of fees.

Gross Expense Ratio: 1.05%
Adjusted Expense Ratio: 0.50%

The Adjusted Expense Ratio excludes certain investment expenses, such as interest expense from borrowings and repurchase agreements and dividend expense from investments on short sales, incurred directly by the Fund or indirectly through the Fund's investments in underlying PIMCO Funds (if applicable), none of which are paid to PIMCO.

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Current performance may be lower or higher than performance shown. For performance current to the most recent month-end, visit www.pimco.com or call (888) 87-PIMCO.

Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital ("ROC") of your investment in the Fund. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. The amounts and composition of distributions reported on any Section 19 Notice issued by the Fund are only estimates and should not be used for tax reporting purposes. The actual amounts and composition of distributions for tax reporting purposes will depend upon the Fund's investment experience during its entire fiscal year and may be subject to changes based on tax regulations. Final determination of a distribution's tax character will be reported on Form 1099 DIV sent to shareholders for the calendar year.

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 investment professional or PIMCO representative or by visiting www.pimco.com. Please read them carefully before you invest or send money.

The performance figures presented reflect the total return performance for the Institutional Class shares (after fees) 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, 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.

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.

It is important to note that differences exist between the fund's daily internal accounting records, the fund's financial statements prepared in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. It is possible that the fund may not issue a Section 19 Notice in situations where the fund's financial statements prepared later and in accordance with U.S. GAAP and/or the final tax character of those distributions might later report that the sources of those distributions included capital gains and/or a return of capital. Please see the fund's most recent shareholder report for more details.

Although the Fund may seek to maintain stable distributions, the Fund's distribution rates may be affected by numerous factors, including but not limited to changes in realized and projected market returns, fluctuations in market interest rates, Fund performance, and other factors. There can be no assurance that a change in market conditions or other factors will not result in a change in the Fund's distribution rate or that the rate will be sustainable in the future.

For instance, during periods of low or declining interest rates, the Fund's distributable income and dividend levels may decline for many reasons. For example, the Fund may have to deploy uninvested assets (whether from purchases of Fund shares, proceeds from matured, traded or called debt obligations or other sources) in new, lower yielding instruments. Additionally, payments from certain instruments that may be held by the Fund (such as variable and floating rate securities) may be negatively impacted by declining interest rates, which may also lead to a decline in the Fund's distributable income and dividend levels.

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.

Funds typically offer different share classes, which are subject to different fees and expenses (which may affect performance), having different minimum investment requirements and are entitled to different services.

The **Morningstar Analyst Rating™** is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from an expected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. For active funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that an active fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The level of the rating relates to the level of expected positive net alpha relative to Morningstar category peers for active funds. For passive funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will be able to deliver a higher alpha net of fees than the lesser of the relevant Morningstar category median or 0. The level of the rating relates to the level of expected net alpha relative to Morningstar category peers for passive funds. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will deliver a weighted pillar score above a predetermined threshold within its peer group. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months.

For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <https://shareholders.morningstar.com/investor-relations/governance/Compliance--Disclosure/default.aspx>.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause the Manager Research Group's expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

Morningstar Rating™ is for the Inst share class only; other classes may have different performance characteristics. PIMIX was rated against the following numbers of multi-sector bond funds over the following time periods: 5 stars out of 282 funds overall; 4 stars out of 282 funds in the last three years, 5 stars out of 229 funds in the last five years, and 5 stars out of 128 funds in the last ten years. **Past performance is no guarantee of future results.**

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Morningstar Fund Rankings: 1Yr. 128 out of 316; 3Yrs. 40 out of 271; 5Yrs. 9 out of 226, and; 10 Yrs. 1 out of 128. Morningstar Ranking for the Multisector Bond category as of 31 March 2020 for the Inst Class Shares; other classes may have different performance characteristics. The Morningstar Rankings are calculated by Morningstar and are based on the total return performance, with distributions reinvested and operating expenses deducted. Morningstar does not take into account sales charges. **Past rankings are no guarantee of future rankings.**

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. 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. **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. **Equities** may decline in value due to both real and perceived general market, economic, and industry conditions. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. Diversification does not ensure against loss.

Bloomberg Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed

securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest directly in an unmanaged index.

The Lipper Category returns and rankings are calculated by Lipper Inc., a Reuters Company, which is a nationally recognized organization that compares the performance of mutual funds with similar investment objectives. The Category returns represent the average performance of included funds, while rankings compare an individual fund's returns to those of the other funds in its category. Both are based on total return performance, with capital gains and dividends reinvested, with annual operating expenses deducted, but without including front- or back-end sales charges.

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