

PIMCO Total Return Instl PTTRX

This fund still offers the best of PIMCO's efforts for high-quality bond investing.

Morningstar's Take PTTRX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Gold

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	○	Neutral

Role In Portfolio

Core

Fund Performance PTTRX

Year	Total Return (%)	+/- Category
YTD	2.78	-0.35
2018	-0.26	0.24
2017	5.13	1.41
2016	2.60	-0.63
2015	0.73	0.99

Data through 3-31-19

4-18-19 | by Eric Jacobson

PIMCO Total Return offers a proven process and one of the bond market's best and most well-resourced management teams. It carries a Morningstar Analyst Rating of Gold.

Investors began pulling money here more than a year before Bill Gross left PIMCO. While the bleeding eventually slowed in 2017, it has mostly continued since. By the end of 2019's first quarter, the fund had lost \$230 billion in assets, leaving \$64 billion in this portfolio; assets across all of PIMCO vehicles using the strategy had shrunk to \$82 billion.

PIMCO has managed those outflows well, though, and there were few departures after Gross left. The team has since found balance among its leaders--Scott Mather, Mihir Worah, and Mark Kiesel--and benefits from massive PIMCO resources and the leadership of CIO Dan Ivascyn. Staffing has also been

augmented, in some cases by senior-level returnees to the firm.

There have been hiccups, including a few in early 2019 when shorts on non-U.S. interest rates in a few developed markets, including a notably large short against Japanese debt, hurt returns in March. And while the team made hay on U.S. rates and corporates when higher-risk markets sold off during 2018's fourth quarter, betting against other developed rate markets offset that success.

The team has gotten a lot right overall, posting returns in the best half of unique offerings in the intermediate-term bond Morningstar Category in three of the four calendar years since Gross' departure. Although their global interest-rate strategies have had mixed success, sector plays, led notably by allocations to nonagency mortgage and other securitized assets, have otherwise kept the strategy in good stead versus its category and the Bloomberg Barclays U.S. Aggregate Bond Index over those years.

Although investors have shed interest in this strategy in recent years, that arguably makes it easier to manage. It remains reasonably priced and backed by a very strong asset manager; it continues to deserve plenty of investor confidence.

Process Pillar + Positive | Eric Jacobson
04/18/2019

As managers here since September 2014, Scott Mather, Mark Kiesel, and Mihir Worah haven't made any big changes to the fund's strategy. All are members of PIMCO's Investment Committee, and while Mather serves as the tiebreaker with input from Kiesel and Worah, it has become clear that he mostly functions as lead manager.

The team starts with the firm's macro forecasting (determined by the Investment Committee) and bottom-up analysis to determine interest-rate, yield-

curve, currency, country, sector, and security-level decisions. The group has gone through iterations over the years, having been dominated by sector specialists early on, then more by those focusing on macro research. The group gained more balance a few years ago, as PIMCO added back managers with fundamental and sector level expertise. It also draws on the resources of thought leaders on global macro and policy issues, including several members of its own staff and outside consultants, several with central bank experience, who sit on the firm's Global Advisory Board. The firm uses a system of secular and cyclical forums to help inform and debate its views on the economy.

Today's Investment Committee is designed to do a better job of channeling the expertise of PIMCO's talented investors into a coherent and successful strategy, and the combined effort earns a Positive Process Pillar rating.

As of March 2019, the strategy's overall duration measured 3.8 years. That figure reflects a bearish view on several developed interest-rate markets its managers began building a few years ago that was pronounced for much of 2018. PIMCO's view is that growth in much of the developed world has bottomed. In particular, it registered sizable shorts against Japan, Italy, France, and the U.K. that otherwise contrast with overall U.S. positioning, which was less than one-half year short of the overall Aggregate Index's 5.8 year figure.

More broadly, the team had raised its emerging-markets exposure in mid 2018 but took it down to 3.8% by the end of March 2018 from several times that figure three years earlier. The position looked even less notable in the context of its contribution to the strategy's overall duration, which was de minimis.

After Scott Mather noted a year earlier that most of the firm's strategies had carried less exposure to

corporate sector duration than at any point in the prior 10 years, PIMCO became a bit more sanguine with investment-grade corporates. Exposure to low-rated debt remained light at the end of March 2019, but the contribution to the strategy's duration from investment-grade corporate names was double its February 2018 level.

Performance Pillar + Positive | Eric Jacobson
04/18/2019

There have been performance hiccups here, including a few in early 2019 when bearish views on non-U.S. interest rates in a few developed markets, including a notably large short against Japanese debt, hurt returns in March. And while PIMCO's management team made hay on U.S. rates and corporates when higher-risk markets sold off in 2018's fourth quarter, betting against other developed rate markets offset that success.

The team has gotten a lot right overall, posting returns in the best half of unique offerings in the intermediate-term bond category in three of the four calendar years since Bill Gross left. Although their various global interest-rate strategies have had mixed success, sector plays, led by allocations to nonagency mortgage and other securitized assets, have otherwise kept the strategy in good stead versus both its category and the Aggregate Index over those years.

The strategy's struggles have lent some volatility to its trailing relative rankings since former skipper Gross' late-2014 departure, but they remained respectable at the end of March 2019; returns were just outside the best third of unique funds in the intermediate-bond category, albeit with modestly above-average volatility.

People Pillar + Positive | Eric Jacobson
04/18/2019

Bill Gross' September 2014 departure from PIMCO for Janus was momentous. However, he left behind an enormous staff of talented managers and analysts he had hired and trained over the years, and they have stepped up to take on important roles in his absence.

The three portfolio managers who replaced Gross all came to the job with impressive and complementary

resumes. Prior to taking over here, Scott Mather, who has final decision-making responsibility on the portfolio, had served in a number of roles across PIMCO, including a stint co-heading the firm's mortgage- and asset-backed securities group and, most recently, running its global portfolio management team. Mark Kiesel, Morningstar Fixed-Income Manager of 2012, heads up the firm's global credit effort. Mihir Worah rounds out the team and brings important perspective from his role heading the firm's real return and multi-asset portfolios. Although not a named portfolio manager here, group CIO Dan Ivascyn has an impressive record in his own right, which includes recognition as Morningstar Fixed-Income Manager of 2013. All four are permanent members of the firm's Investment Committee.

Overall, PIMCO's staff has tremendous depth, boasting world-class practitioners and intellects across the board, including several following Gross' departure, supporting the fund's Positive People rating.

Parent Pillar + Positive | Eric Jacobson
10/03/2018

PIMCO's investment culture has long been successful, if also rigorous, demanding, and intense.

Despite worries that the turmoil after Bill Gross' 2014 departure might lead others to follow, there has been notable stability among the firm's senior investors. Meanwhile, the firm is back to a faster pace of hiring following a rough patch of asset flight and has also been taking more proactive steps in succession planning, elevating the next generation of leaders in the investment ranks.

There are other evolutionary changes in progress. CIO Dan Ivascyn has facilitated efforts to inject more diverse views into the investment process, whether by rotating a wider range of investment staff through PIMCO's Investment Committee or by incorporating more quantitative research and risk insights into the workings of that body. CEO Manny Roman has also driven significant technology investments since he arrived in 2016, intent on ensuring that the investment team's analytical tools remain cutting edge.

We have taken the firm to task for failing to share economies of scale for pricing, and while its expense profile is reasonable in the United States, it is decidedly not so in Europe. We would also prefer to see the firm give more attention to questions around closing fast-growing funds. That said, nearly all of the major factors relating to the firm's Positive Parent rating have been improving.

Price Pillar ● Neutral | Eric Jacobson
04/18/2019

Despite massive outflows--the fund's assets peaked north of \$290 billion in April 2013 but had fallen to \$64 billion as of March 31, 2019--PIMCO Total Return is still among the largest offerings in the intermediate-bond category. It has no management-fee breakpoints, though, and even at its slimmed-down size, they could have a meaningful impact on investor outlays. The price tag on its institutional shares is average, as is that of its A shares, but its other classes' expense ratios are generally steep. At this stage the mix puts the fund's overall price profile into average territory and thus a Neutral Price Pillar rating.

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.

All data is as of 31 March 2019 unless noted otherwise.

Fund	1 Year	5 Year	10 Year	Since Inception
PIMCO Total Return Fund INST	3.83	2.85	4.84	7.11
Bloomberg Barclays U.S. Aggregate Index	4.48	2.74	3.77	6.20

Total Expense Ratio: 0.55%. The Net Expense Ratio excluding interest expense is 0.46%. Interest expense can result from portfolio investment transactions and is not paid to PIMCO. Performance is shown for the institutional share class, after fees.

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Morningstar Rating™ is for the Institutional share class only; other classes may have different performance characteristics. PIMCO Total Return Fund was rated against the following numbers of Intermediate Core Bond funds over the following time periods: 4 stars out of 901 funds overall; 4 stars out of 901 funds in the last three years, 4 stars out of 769 funds in the last five years, and 3 stars out of 564 funds in the last ten years. Past performance is no guarantee of future results.

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