

P I M C O

Your Global Investment Authority

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# PIMCO ADV Part 2A Brochure



March 28, 2013

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Form ADV Part 2A Brochure  
March 28, 2013

This brochure provides information about the qualifications and business practices of PIMCO.

If you have any questions about the contents of this Brochure, please contact us at (949) 720-6000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about PIMCO is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration does not imply a certain level of skill or training.

## **Item 2. SUMMARY OF MATERIAL CHANGES**

This Brochure dated March 28, 2013 serves as the annual update to the Brochure dated September 25, 2012. While there have been no material changes to the Brochure, we have made certain routine updates.

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## ITEM 4. Advisory Business

### Our Firm

Pacific Investment Management Company LLC ("PIMCO") is a leading global investment management firm founded in Newport Beach, California in 1971, with more than 2,400 employees in offices in Newport Beach, New York, Amsterdam, Singapore, Tokyo, London, Sydney, Munich, Zurich, Toronto, Milan, Rio de Janeiro, and Hong Kong. We are an indirect subsidiary of Allianz SE ("Allianz"), a global financial services company based in Germany, although our operations are separate from and autonomous of Allianz. Please see Appendix A for a list of PIMCO's principal owners.

**PIMCO's Global Offices.** As a global investment manager PIMCO may call on the resources of our offices around the world to provide portfolio management, research and trading services for client accounts (each, a "Client"). The PIMCO office with which clients have contracted supervises any services provided by one or more of our global offices.

**Our People.** PIMCO was founded on the philosophy that hard work, high standards of excellence and the desire to be the best are critical to our success. Many of the professionals who have been instrumental in PIMCO's growth are still active in the firm's management. Biographical information relating to certain key investment management personnel is contained in the supplement to this brochure.

### Assets Under Management

As of December 31, 2012, we managed \$2,026,952,348,592 on a discretionary basis and \$8,044,155,731 on a non-discretionary basis. For

purposes of calculating our AUM, we included the assets of clients contracted with the Non-U.S. Advisers (defined below) in addition to assets we manage on behalf of Allianz-affiliated companies.

### Our Services

**Our Organization.** Since 1971 we have provided discretionary investment management services to clients throughout the world. PIMCO began as a manager of fixed income portfolios and has evolved to include active management of equities, mutual funds, exchange traded funds ("ETFs"), closed-end funds, collective investment trusts ("CITs"), private investment vehicles and structured products, as well as a provider of consulting services, offering a menu of sophisticated strategies, analysis and advice for clients in all types of market conditions. While these services have greatly evolved over time, one thing that has not changed is our mission to provide the highest quality investment management services.

As a leading provider of discretionary investment management services, PIMCO employs a broad range of portfolio management tools in seeking to control risk, hedge exposures and seek returns consistent with Client guidelines. We offer considerable expertise in an array of global investment strategies, which include both fixed income and equity strategies. As markets warrant we will seek to employ new strategies and products. Additional information regarding our strategies, methods of analysis, and the material risks associated with our significant strategies is included under Item 8, "Methods of Analysis, Investment Strategies and Risk of Loss."

**Portfolio Management.** The portfolio management team is devoted primarily

to the management of Client accounts. This team includes portfolio managers, research analysts and others who assist in the development of investment ideas, implementation of portfolio strategies and risk analysis.

**Account Management.** The account management team, which acts as the bridge between separate account clients (each, a "Separate Account") and their PIMCO portfolio managers, is devoted to client service. One of the advantages of this approach is that it permits our portfolio managers to devote the vast majority of their time to investment activities. Account managers work closely with the portfolio management team to make sure each Separate Account's investment guidelines are implemented. Account managers also play an integral role in helping to develop investment ideas and strategies in conjunction with the portfolio management team.

**Business Management.** Our business management team provides the infrastructure for the operation of the firm and includes the Legal and Compliance Department as well as the Operations and Technology Departments. One key function of the business management team is to manage back-office operations. We have outsourced back-office operations to State Street Investment Manager Solutions West and its affiliates (together, "SSIMS"), a firm specializing in back-office trade processing, settlement and accounting operations. This enables us to focus the majority of our people and resources on what we do best: managing investments and servicing clients. SSIMS administers the following functions, among others, on our behalf: (i) coordinating asset transitions, (ii) maintaining and updating our security master database, (iii) processing trades, (iv)

communicating trade and settlement directives to the relevant accounts' custodian banks and (v) facilitating failed trade and overdraft compensation claims. While SSIMS provides our back-office services, we actively supervise all work performed on behalf of our Clients in connection with these services.

**Non-Discretionary and Consulting Services.** In addition to our discretionary investment management services, we also provide non-discretionary investment management services to certain Clients and non-discretionary advisory services to private and public institutions throughout the world through PIMCO's Advisory business. PIMCO's Advisory business is dedicated to making the financial, investment and market expertise of PIMCO available to clients outside of a traditional investment management relationship. PIMCO's Advisory services include asset valuation and pricing, portfolio monitoring, risk migration and liquidation, as well as other customized client-driven services.

**Other Services.** We may from time to time engage in related business activities, including licensing of intellectual property.

**Securities Lending.** While PIMCO offers a number of investment management services, we generally do not enter into securities lending arrangements for our Clients. Under typical securities lending arrangements, a manager loans a security held in a client's portfolio to a broker-dealer in exchange for collateral. The client may earn potentially enhanced returns from these arrangements by collecting finance charges on the loan or by investing the collateral. Such returns are generally shared between the client and the securities lending agent, and

the risk associated with the investment of collateral is generally borne by the client. On occasion, if instructed by a Client, we may enter into securities lending transactions although PIMCO does not manage the investment of collateral in connection with such arrangements. In these instances, we will have entered into a Master Securities Loan Agreement with a counterparty and the transaction must meet all the requirements under the agreement.

Some Clients have established separate securities lending arrangements with their custodian. If a Client has entered into these arrangements, the Client and its custodian are responsible for adhering to the requirements of such arrangements, including ensuring that the securities or other assets in the Client's account are available for any securities lending transactions. For accounts that we actively manage, we execute transactions based on a number of factors, including market conditions and best execution, and generally do not consider factors relating to a Client's securities lending arrangements, such as whether the Client's custodian may need to recall securities on loan to settle the sales transactions. We have established policies and procedures in the event there is a loss or overdraft in connection with a transaction. Please refer to Item 12 for a description of these policies, which would include any loss relating to PIMCO's sale of a security that is not available in a Client's account due to such Client's securities lending activities.

To the extent any pooled investment vehicles that we manage or sponsor ("PIMCO Funds" or "Funds") engage in securities lending, such arrangement is described in their respective offering documents.

**Litigation, Class Actions and Bankruptcies.** As an investment manager, we may be asked to decide whether to participate in litigation, including by filing claims in class actions, or bankruptcy proceedings for assets held in a Client's account. It is the Client's responsibility to monitor and analyze its portfolio and consult with its own advisers about whether it may have claims that it should consider pursuing. As a general matter, PIMCO cannot, without Client written authorization, exercise any rights a Client may have in participating in, commencing or defending suits or legal proceedings such as class actions for assets held or previously held in a Client's account, although we may do so for the PIMCO Funds. In the case of Separate Accounts, upon mutual agreement of PIMCO and the Client and receipt of a Power of Attorney, we will assist Clients or their custodian in assembling transaction information to file a litigation claim (such as a class action or bankruptcy claim). Generally, a Separate Account's custodian should receive all documents for these matters and the Separate Account Client should direct its custodian as to the manner in which such matters should be handled.

### **Tailoring Services to Client Needs**

Upon selecting a strategy, Clients typically provide PIMCO with specific investment parameters in the form of investment guidelines. The guidelines may include, for example, restrictions on investing in certain securities, such as security types, issuers or securities with certain credit ratings. The investment guidelines form a part of our management agreement with a Client and we manage the Client's account within these confines. Clients should be aware, however, that certain restrictions can limit our

ability to act and as a result, the account's performance may differ from and may be less successful than that of other accounts that have not limited our discretion.

### **Important Information About Procedures For Establishing a New Customer Relationship**

To help the government fight the funding of terrorism and money laundering activities, federal law requires certain financial institutions to obtain, verify, and record information that identifies each Client who opens an account or establishes a relationship. When we establish a Separate Account relationship with a Client, we may ask for the Client's firm name, address, and other information or documentation (e.g., a formation document) that will allow us to identify and verify the Client.

### **Wrap Program Services**

PIMCO also offers investment management services through wrap fee programs ("Wrap Programs") that are sponsored by banks, broker-dealers or other investment advisers (each a "Sponsor"). Sponsors may or may not be affiliated with PIMCO. In a typical Wrap Program, each Wrap Program Client enters into an agreement with a Sponsor, who provides or arranges for the provision of an array of services, including some or all of the following: assistance with establishing client goals and objectives, asset allocation analysis, security selection and other portfolio management services, selection of investment advisers, sub-advisers, custodians and/or broker-dealers, trade execution and providing ongoing monitoring, reporting and client support, covered by a single "wrap" fee. Clients may access certain Wrap Programs through an intermediary such as a bank, broker-dealer or other investment

adviser rather than the Sponsor and the intermediary may provide some or all of the functions generally provided by a Sponsor. The services to be performed by the Sponsor, PIMCO or others in these Wrap Programs, and related fees, are generally detailed in the relevant agreements between or among the Client, the Sponsor, PIMCO and any other parties. With respect to a Sponsor that is a registered investment adviser, the services provided and other terms, conditions and information related to the Wrap Program are also described in the Sponsor's Form ADV, Part 2A, Appendix 1 (or comparable Wrap Program disclosure document). Advisers that are not registered investment advisers may, but are not required to, provide a similar Wrap Program disclosure document (each Wrap Program disclosure document, whether for registered or unregistered investment advisers, a "Wrap Program Brochure"). All Wrap Program Clients and prospective Wrap Program Clients should carefully review the terms of the relevant Wrap Program Brochure to understand the terms, services, minimum account size and any additional fees or expenses that may be associated with a Wrap Program account.

PIMCO may make available through Wrap Programs the same or similar strategies that are available to institutional clients or through Funds; however not all of PIMCO's strategies are available through Wrap Programs, not every PIMCO strategy that is available through a particular Wrap Program will be available through other Wrap Programs and the manner in which PIMCO executes a strategy through Wrap Programs may differ from how that same or a similar strategy is executed through another Wrap Program or for a Fund or institutional Client. For instance, the

execution of a particular strategy in a Wrap Program may differ from the execution of the same or a similar strategy for a Fund or institutional Client due to the need to adhere to "reasonable restrictions" imposed by the Client or by the use of affiliated no-fee registered investment companies or other affiliated commingled vehicles rather than individual securities. Accordingly, the performance of a strategy available through a Wrap Program may differ from the performance of the same or a similar strategy that is executed through another Wrap Program or for a Fund or institutional Client.

As a provider of investment advice under a Wrap Program, PIMCO is generally not responsible for determining whether a particular Wrap Program, PIMCO's investment style or a specific PIMCO strategy is suitable or advisable for any particular Client. Rather, such determinations are generally the responsibility of the Sponsor and the Client (or the Client's financial advisor and the Client) and PIMCO is responsible only for managing the account in accordance with the selected investment strategy and any "reasonable restrictions" imposed by the Client, as discussed below. For its services, PIMCO typically receives a portion of the wrap fee. For a further discussion of the nature of Wrap Program arrangements, including the fees charged by the Sponsor and paid to PIMCO, see Item 5, Fees and Compensation, Wrap Programs.

Typically, the investment management services we provide in connection with these Wrap Programs are discretionary ("Discretionary Wrap Programs"). In Discretionary Wrap Programs, PIMCO is generally responsible for causing each Discretionary Wrap Program Client's account to engage in transactions that are appropriate for the selected strategy.



Wrap Program accounts within a particular strategy are generally managed similarly, subject to a client's ability to impose reasonable restrictions (such as a prohibition on holding the securities of a particular issuer within the Wrap Program Client's account). Because PIMCO's advisory services to these accounts are strategy-dependent, PIMCO will not accept a restriction that PIMCO believes would be inconsistent with the investment strategy.

"Reasonable restrictions" imposed by a Client serve to limit PIMCO's freedom of action with respect to an account and, as a result, the performance of accounts for which investment restrictions are imposed may differ from, and may be worse than, the performance of accounts within the same strategy that lack such restrictions.

PIMCO may participate in Wrap Programs sponsored by unaffiliated, third-party Sponsors as well as Wrap Programs sponsored by an affiliate of PIMCO. PIMCO does not compensate Sponsors for PIMCO's inclusion in a Wrap Program or for introductions of Clients through a Wrap Program. However, the portion of the total wrap fee paid to PIMCO may include breakpoints reducing the effective fee rate payable to PIMCO and thus increasing the amount retained by the Sponsor at higher asset levels. These fees may be negotiable, with the relationship size being a factor in negotiation. For certain Wrap Programs, PIMCO may provide or compensate a Sponsor for marketing support or other services provided. Additionally, affiliated Sponsors may have an incentive to recommend PIMCO's services over the services of unaffiliated managers. Sponsors may apply different methods of analysis, use different types of information or apply different thresholds in determining whether to recommend an affiliated manager than

are applied when recommending an unaffiliated manager.

Depending upon the particular Wrap Program, accounts may be funded with cash and/or securities. Restrictions as to funding securities in-kind are described in the relevant Wrap Program brochure and may include certain securities or types of securities that will be liquidated by PIMCO or the Sponsor. It may take up to 30 days after an account is opened with the Sponsor for the account to be fully invested in accordance with the relevant investment strategy. To the extent that an account is funded with portfolio securities rather than solely cash, implementation may be further delayed because any in-kind contributions that are not consistent with the intended holdings for the account will be liquidated at the Client's risk and expense and without taking into account any adverse tax consequences to the Client.

While the Sponsor is responsible for most aspects of the relationship with a Wrap Program Client, our personnel who are knowledgeable about the Wrap Program account and its management will be reasonably available to Clients for consultation (either individually or in conjunction with Sponsor personnel), upon a Client's request, as required by applicable law or as agreed between PIMCO and the Sponsor. Because the Sponsor is generally responsible for reports to Wrap Program Clients, typically we will supply the Sponsor with information necessary for the Sponsor to provide such reports directly to Wrap Program Clients. Upon request or as agreed with a Sponsor, we may provide investment holdings, transactions, and performance reports directly to Discretionary Wrap Program Clients on a periodic basis. Moreover, with respect to each Discretionary

Wrap Program Client, PIMCO reviews each managed portfolio periodically to ensure it is managed in accordance with the applicable investment objectives, guidelines and restrictions.

In addition, with respect to Discretionary Wrap Programs, PIMCO has entered into an arrangement with SEI Investment Manager Services, Inc. ("SEI") under which SEI performs certain administrative and operational functions, such as accounting, reconciliation, trade settlement, recordkeeping, billing and reporting. Typically these services are paid for by PIMCO, not the Discretionary Wrap Program Clients.

In addition to the advisory services we provide in the Discretionary Wrap Programs, we may provide non-discretionary investment management services to a Sponsor who exercises investment discretion ("Non-Discretionary Wrap Programs"). In Non-Discretionary Wrap Programs, we typically provide a model portfolio to be analyzed and implemented by the Sponsor or another manager. Further, in Non-Discretionary Wrap Programs, the Sponsor or other manager is typically responsible for applying any client-imposed restrictions to the model portfolio.

## **Stable Value Management Services**

PIMCO offers a wide variety of stable value investment services, including 1) full-service stable value management, in which PIMCO handles all aspects of the stable value investment strategy, 2) an investment-only fixed income manager hired directly by plan sponsors for their stable value portfolio or 3) a fixed income sub-adviser hired by other stable value managers and insurance companies. PIMCO manages separate account portfolios for large institutional defined contribution plans



as well as a stable value commingled vehicle for the small- and mid-sized defined contribution marketplace.

## ITEM 5. Fees And Compensation

Generally, PIMCO's fees for providing discretionary investment management services are based upon a percentage of the market value of assets under management. Accounts are generally subject to a minimum account size, as noted in Appendix B. PIMCO also provides customized products and services, including non-discretionary investment management services, upon request, and fees for such products and services are separately negotiated. As described below, PIMCO may also charge performance-based fees. Our fees are generally billed quarterly in arrears; however, some Clients may pay fees in advance at their own discretion. If a Client opts to pay its management fees in advance and the applicable agreement is ultimately terminated prior to the end of the billing period, the management fees will be pro-rated for the portion of the billing period in which the agreement was in effect and PIMCO will issue the Client a refund for any excess fees.

**Separate Accounts.** For discretionary investment management services to Separate Accounts, we generally charge a fee that is based on a percentage of the Separate Account's assets. Customized fee arrangements, such as for Clients with performance-based fees, may be available. Fees are individually negotiated in such cases or in the case of larger accounts, accounts whose service needs deviate markedly from the types of service typically required by Separate Accounts, and accounts that may involve other special circumstances or restrictions. Our fees may take into account, among other

things, a Separate Account's investment strategy, the level of account discretion given to PIMCO, the extent of the Separate Account's servicing requirements, the assets under management aggregated across the Client's relationship with PIMCO and the nature of the Separate Account.

With respect to Separate Accounts over which we have investment discretion, if we decide to use Client assets on which we charge an asset-based management fee to purchase interests in our Funds, we will generally rebate a portion of the Separate Account fees back to the Client in an amount equal to the advisory fee of the Fund in which the Client invested, unless otherwise agreed or disclosed to the Client. In some circumstances, no such rebate is provided, such as in cases where the Separate Account's assets are invested in a Fund that does not charge an advisory fee (and the only advisory fees charged to the Client are charged at the Separate Account level). If a Separate Account's investment guidelines permit investments in our Funds, we will provide the Client with a list of the Funds in which the Client's account may be invested, together with a schedule showing the applicable fee rates. If we purchase interests in funds, such as ETFs or other funds, that we do not manage, the Separate Account will pay the fees and expenses of these funds in addition to the Separate Account fees.

**PIMCO Registered Funds.** We provide discretionary investment management services to registered U.S. and non-U.S. funds (each, a "Registered Fund"). Each Registered Fund's offering documents will include information about the fees and expenses paid by the Registered Fund. Portfolio management fees and any additional compensation paid to

PIMCO may be waived by PIMCO in its sole discretion, both voluntarily and on a negotiated basis with a Registered Fund's Board or similar body, or a Registered Fund's sponsor (though generally not with investors in a U.S. Registered Fund). We may receive additional compensation for any administrative or other services provided to these Registered Funds as described in the respective Registered Fund's offering documentation.

**PIMCO Unregistered Funds.** For discretionary investment management services to U.S. and non-U.S. private funds that are not registered (each, a "Private Fund"), we generally are paid portfolio management fees ranging from 0.00% to 2.00%, which are typically based on invested and reinvested capital or net asset value, as applicable. We may be paid administration fees ranging from 0.00% to 0.25%, which are typically based on invested and reinvested capital or net asset value. The portfolio management and administration fees for certain Private Funds may be based on notional value, which are described in the respective offering document for such fund. In addition, we may receive performance-based fees or investment profit allocations (e.g., "carried interest") with respect to these Private Funds, as further discussed in Item 6. Each Private Fund also ordinarily bears additional fees and expenses (including organizational and operational fees and expenses), which are described in the Private Fund's offering document. Certain Private Funds may invest in other PIMCO Funds. Depending on the terms of the investing Private Fund, we may or may not rebate a portion of any fees paid by the underlying Fund to the investing Private Fund.

PIMCO also serves as an investment manager to CITs. For discretionary investment management services to

these funds, we are generally paid portfolio management fees ranging from 0.35% to 0.87%.

#### ***PIMCO's Advisory and Other Business Initiatives.***

Fees for these services are individually negotiated and depend on the type and complexity of the services requested. Clients should contact their PIMCO account representative for additional information.

***Additional Costs.*** With respect to investment management services, a Client may also incur brokerage commissions, mark-ups or mark-downs and other transaction costs associated with transactions that are executed in the Client's account. Please see Item 12, "Brokerage Practices," for a discussion of our brokerage practices.

***Wrap Programs.*** As discussed above, Wrap Program Clients typically pay a fee, based on assets managed through the Wrap Program to the Sponsor. This fee generally covers most or all of the services provided through the Wrap Program, including PIMCO's advisory services. Each Sponsor pays to PIMCO a negotiated fee, generally based on Wrap Program assets managed by PIMCO. Thus, in effect, PIMCO receives a portion of the wrap fee paid by each Wrap Program Client to the Sponsor. Because, among other things, the scope of services provided by PIMCO through a Wrap Program is narrower than PIMCO might provide to a Client that receives PIMCO's services directly, the effective fee rates charged by PIMCO to Sponsors are typically less than what would be applicable to accounts managed directly.

In some Wrap Programs, PIMCO's advisory fees are not included within the wrap fee. Instead, PIMCO contracts directly with the Wrap Program Client for such advisory services.

Although the Wrap Program fee generally covers the Wrap Program services, Wrap Program Clients may be subject to additional fees and expenses such as: (i) commissions and other expenses on trades executed away from the Sponsor or the Sponsor's designated broker-dealer(s); (ii) mark-ups and mark-downs on fixed income transactions; (iii) expenses related to cash sweep services or vehicles; and (iv) taxes and charges such as exchange fees and transfer taxes.

Clients should carefully review the Wrap Program Brochure prior to participating in any Wrap Program and, in particular, consider the services that are covered by the wrap fee as they relate to the management styles and trading methods being employed by portfolio managers within the Wrap Program. Depending upon the wrap fee charged, the amount and type of account activity (for example, whether transactions must frequently be executed away from the Sponsor or the Sponsor's designated broker-dealer at an increased charge), the value of custodial and other services provided and other factors, the wrap fee may exceed the aggregate fees that the Client might pay other parties for these services, if they were obtained separately. In this respect, Clients should be aware that certain PIMCO strategies (e.g., municipal bond and other fixed income strategies) may require frequent trading away from the Sponsor or the Sponsor's designated broker-dealer as Sponsors may not be willing to execute fixed income transactions on a principal basis. Also, some Sponsors may not include commissions, commission equivalents (such as mark-ups or mark-downs) or other transaction related expenses with respect to fixed income transactions within the wrap fee or may have

limited capability to execute such transactions. As noted above, the wrap fee generally covers only certain transactions executed through the Sponsor or the designated broker-dealer, so Wrap Program clients may not get the full benefit of the wrap fee to the extent that trades are executed away from the Sponsor or the Sponsor's designated broker-dealer. However, as noted in Item 7, PIMCO typically requires non-Wrap Program accounts managed by it directly to meet minimum account sizes that are typically significantly higher than the minimum account size required by a Wrap Program.

Basic fee schedules for PIMCO's investment management services are outlined in Appendix B. Such fee schedules are subject to change and may be negotiable.

## **ITEM 6. Performance-Based Fees And Side-By-Side Management**

As discussed above, certain Funds and other accounts may pay us or our affiliates performance-based fees or investment profit allocations in the form of carried interest. Such performance-based fees and investment profit allocations may create potential conflicts of interest because we manage accounts with such fee arrangements side-by-side with accounts that we charge a standard fee based on assets under management. Please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" for a discussion of how PIMCO addresses these matters.

## ITEM 7. Types Of Clients

**Our Clients.** Our global client base includes corporate pension plans, foundations, endowments, public retirement plans, corporate treasury assets, governments, insurance companies, high net-worth investors, multi-employer retirement plans, financial institutions, intermediaries, retail investors and pooled investment vehicles, including both affiliated and unaffiliated U.S. and non-U.S. registered and unregistered funds, among others. PIMCO also acts as an investment adviser to a number of unregistered structured product vehicles including but not limited to Collateralized Debt Obligations (“CDOs”), Collateralized Loan Obligations (“CLOs”) and similar structured finance products. We have minimum account size requirements for Separate Accounts. As noted in Item 4, Clients may access our investment management services directly or they may be serviced through Wrap Programs. Certain Wrap Programs also impose overall Wrap Program minimums and/or minimums required to maintain an investment option. Please see our basic fee schedules outlined in Appendix B for more information regarding Separate Account minimums, which may be waived at our discretion.

**Privacy Policy.** We are strongly committed to protecting the privacy of Client information and will not disclose Client personal information except as otherwise permitted under applicable law. In the ordinary course of our business, we need to obtain non-public personal information from Clients so that we may provide customized products and services. We will not sell Client information to anyone; however, in certain instances, we may share Client information with affiliated and unaffiliated third parties. For example, we will provide Client information to SSIMS so that SSIMS may provide services to a Client’s account. We may

also provide Client information to a third party where Clients have given us consent to do so, at the request of a regulator or where we are required to disclose the information by law or regulation. We have adopted privacy policies and procedures that are designed to prevent the unauthorized disclosure and use of Client non-public personal information. Please see Appendix E for PIMCO’s Privacy Policy.

## ITEM 8. Methods Of Analysis, Investment Strategies And Risk Of Loss

### Methods of Analysis and Investment Strategies

PIMCO’s macroeconomic forecasting, comprehensive sector and security analysis and rigorous risk management address the challenges of a rapidly changing world. In evaluating securities we take into account a number of factors, including the fundamental, technical and cyclical characteristics of each security, for example, PIMCO’s analysis of mortgage-backed securities includes analysis of security structures and mortgage prepayment rates using in-house and third party analytic tools and databases. Our analysis of investments in public and private foreign issuers, particularly in emerging market countries, may include country risk analysis, consideration of global trading relationships such as free trade agreements, visits with company management and meetings with official creditors, government officers, business leaders, academics and politicians. PIMCO’s analysis of senior loans and bank loans include direct contact with the agent bank, issuer and/or borrower. Like our fixed income strategies, our analysis of equities also involves various sources and types of research and includes visits with company management, and seeks to

identify securities that are undervalued by the market in comparison to our own determination of the company’s value, taking into account criteria such as assets, book value, cash flow and earnings estimates.

As part of our analysis, PIMCO conducts its own research on issuers and assigns internally-generated credit ratings (“Internal Ratings”), which may differ from ratings provided by credit rating agencies (“Agency Ratings”). Internal Ratings reflect PIMCO’s view of an issuer’s creditworthiness and PIMCO utilizes a process that differs from the process used by credit rating agencies. Internal Ratings are designed to reflect current economic and market conditions applicable to each asset, and take into account a range of factors, including the nature of the asset, the operational history of the issuer, the issuer’s cash position, leverage and cash flow, the issuer’s position in the industry, the structure of the issuer’s debt obligations and political dynamics. Unlike Agency Ratings, PIMCO’s Credit Research Group (“Credit Team”) develops Internal Ratings to assess not only probabilities of default, but also expected loss upon default. The Credit Team regularly monitors the factors influencing the rating and periodically re-evaluates its ratings to determine whether changes are necessary. Because Internal Ratings may emphasize certain factors or apply different methodologies than Agency Ratings, there may be occasions when an Internal Rating is higher or lower than a corresponding Agency Rating for the same issue or issuer.

Please see Appendix D for a description of PIMCO’s methods of analysis and investment strategies. Certain PIMCO funds or investment products use a combination of strategies or strategies not described in Appendix D.

## Material Risks of Significant Strategies and Significant Methods of Analysis

Below is a summary of the material risks associated with the significant strategies and significant methods of analysis used by PIMCO. Investing in securities involves risk of loss that Clients should be prepared to bear; however, Clients should be aware that not all of the risks listed below will pertain to every Account as certain risks may only apply to certain strategies.

**Arbitrage Risk.** An Account that invests in securities purchased pursuant to an arbitrage strategy in order to take advantage of a perceived relationship between the values of two securities presents certain risks. Securities purchased or sold short pursuant to an arbitrage strategy may not perform as intended, which may result in a loss to the Account. Additionally, issuers of a security purchased using an arbitrage strategy are often engaged in significant corporate events, such as restructurings, acquisitions, mergers, takeovers, tender offers or exchanges, or liquidations that may not be completed as initially planned or may fail.

**Commodity Risk.** An Account's investments in physical commodity-linked derivative instruments may be subject to greater volatility than investments in traditional securities. The value of physical commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Because an Account may concentrate assets in a particular sector of the commodities market (such as oil, metal or agricultural products), it may be

more susceptible to risks associated with those sectors.

**Credit Risk.** An Account could lose money if the issuer or guarantor of a security (including a security purchased with securities lending collateral), or the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to honor its obligations. The downgrade of the credit of a security or of the issuer of security held by the Account may decrease its value. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

**Currency Risk.** If an Account invests directly in non-U.S. currencies or in securities that trade in, and receive revenues in, non-U.S. currencies, or in derivatives that provide exposure to non-U.S. currencies, it will be subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, an Account's investments in non-U.S. currency-denominated securities may reduce the returns of the Account.

**Derivatives Risk.** Derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference

rate or index. A variety of derivatives may be available to an Account, depending on the specific type of Account and the applicable offering documents and/or investment guidelines. In implementing certain of its significant investment strategies, PIMCO typically uses derivatives as a substitute for taking a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks. PIMCO may also use derivatives for leverage, in which case their use would involve leveraging risk. An Account's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks described elsewhere in this section, such as liquidity risk, market risk, credit risk and management risk, as well as the risks associated with the underlying asset, reference rate or index. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. An Account investing in a derivative instrument could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that PIMCO will engage in these transactions to reduce exposure to other risks or otherwise when doing so would be beneficial for a particular Account. Due to continuing regulatory initiatives both in the United States and abroad, derivatives are also subject to enhanced government and regulatory risk. Please see "Government and Regulatory Risk" below.

**Distressed Company Risk.** An Account that invests in securities of distressed companies may be subject



to greater levels of credit, issuer and liquidity risk than a portfolio that does not invest in such securities. Securities of distressed companies include both debt and equity securities. Debt securities of distressed companies are considered predominantly speculative with respect to the issuers' continuing ability to make principal and interest payments. These issuers may also be involved in restructurings or bankruptcy proceedings that may not be successful. An economic downturn or period of rising interest rates could adversely affect the market for these securities and reduce the Account's ability to sell these securities (liquidity risk). If the issuer of a debt security is in default with respect to interest or principal payments, the Account may lose its entire investment.

**Emerging Markets Risk.** Foreign investment risk may be particularly high to the extent that an Account invests in securities and other investments that are economically tied to countries with developing economies (often referred to as emerging market securities). These securities may present market, credit, currency, liquidity, legal, political and other risks different from, or greater than, the risks of investing in developed foreign countries.

**Equity Securities Risk.** Equity securities represent an ownership interest, or the right to acquire an ownership interest, in an issuer. Equity securities also include, among other things, common stocks, preferred stocks, convertible stocks and warrants. The values of equity securities, such as common stocks and preferred stocks, may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate

earnings, changes in interest or currency rates or adverse investor sentiment generally. Equity securities generally have greater price volatility than most fixed income securities. Additionally, issuers that have paid regular dividends may decrease or eliminate dividend payments in the future, which may result in a decrease in the value of the security and/or an investor receiving less income.

**Foreign Investment Risk.** An Account that invests in non-U.S. securities may experience more rapid and extreme changes in value than an Account that invests exclusively in securities of U.S. companies. The securities markets of many foreign countries are relatively small, with a limited number of companies representing a small number of industries. Additionally, issuers of foreign securities are usually not subject to the same degree of regulation as U.S. issuers. Reporting, accounting and auditing standards of foreign countries differ, in some cases significantly, from U.S. standards. Also, nationalization, expropriation or confiscatory taxation, currency blockage, political changes or diplomatic developments could adversely affect an Account's investments in a foreign country. In the event of nationalization, expropriation or other confiscation, an Account could lose its entire investment in foreign securities. Adverse conditions in a certain region can adversely affect securities of other countries whose economies appear to be unrelated.

**High Yield Risk.** Accounts that invest in high yield securities and unrated securities of similar credit quality (commonly known as "junk bonds") may be subject to greater levels of credit and liquidity risk than Accounts that do not invest in such securities. These securities are considered

predominately speculative with respect to the issuer's continuing ability to make principal and interest payments. An economic downturn or period of rising interest rates could adversely affect the market for these securities and lead to liquidity risk. If the issuer of a security is in default with respect to interest or principal payments, an Account may lose its entire investment.

***Inflation-Indexed Security Risk.***

Inflation-indexed debt securities are subject to the effects of changes in market interest rates caused by factors other than inflation (real interest rates). In general, the value of an inflation-indexed security, including Treasury inflation-protected securities, tends to decrease when real interest rates increase and can increase when real interest rates decrease. Thus generally, during periods of rising inflation, the value of inflation-indexed securities will tend to increase and during periods of deflation, their value will tend to decrease. Interest payments on inflation-indexed securities are unpredictable and will fluctuate as the principal and interest are adjusted for inflation. There can be no assurance that the inflation index used (i.e., the Consumer Price Index ("CPI")) will accurately measure the real rate of inflation in the prices of goods and services. Because municipal inflation-indexed securities are a small component of the municipal bond market, they may be subject to liquidity risk.

**Interest Rate Risk.** Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by an Account is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer

durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. The values of equity and other non-fixed income securities may also decline due to fluctuations in interest rates.

**Issuer Risk.** The value of a security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services, as well as the historical and prospective earnings of the issuer and the value of its assets.

**Leveraging Risk.** Accounts may generate investment leverage by borrowing money. In addition, certain investment transactions may give rise to a form of leverage including, but not limited to, reverse repurchase agreements, loans of portfolio securities, and the use of when-issued, delayed delivery or forward commitment transactions. The use of derivatives may also create leveraging risk. Forward-settling transactions typically do not require any capital commitment when the position is initiated and may be deemed as borrowing from the broker to take a position in the market. As a result, leveraging may cause an Account to set aside or liquidate portfolio assets to satisfy its obligations. Leveraging, including borrowing, may cause an Account to be more volatile than if the Account had not been leveraged. This is because leveraging tends to exaggerate the effect of any increase or decrease in the value of an Account's portfolio securities and may lead to a loss in the Account in excess of the capital commitment.

**Liquidity Risk.** Liquidity risk exists when particular investments are difficult to purchase or sell. An Account's investments in illiquid securities may reduce the returns of

the Account because it may be unable to sell the illiquid securities at an advantageous time or price. Additionally, the market for certain investments may become illiquid under adverse market or economic conditions independent of any specific adverse changes in the conditions of a particular issuer. In such cases, an Account, due to potential limitations on investments in illiquid securities and the difficulty in purchasing and selling such securities or instruments, may be unable to achieve its desired level of exposure to a certain sector.

**Management Risk.** Each actively managed Account is subject to management risk. PIMCO and each individual portfolio manager will apply investment techniques and risk analyses in making investment decisions for actively managed Accounts, but there can be no guarantee that these decisions will produce the desired results.

**Market Risk.** The market price of securities owned by an Account may go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets. The value of a security may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. The value of a security may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

### ***Mortgage-Related and Other Asset-Backed Securities Risk.***

Mortgage-related and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, if an Account holds mortgage-related securities, it may exhibit additional volatility. This is known as extension risk. In addition, adjustable and fixed rate mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns of an Account because the Account may have to reinvest that money at the lower prevailing interest rates. In addition, the creditworthiness, servicing practices, and financial viability of the servicers of the underlying mortgage pools present significant risks. For instance, a servicer may be required to make advances in respect of delinquent loans underlying the mortgage-related securities; however, servicers experiencing financial difficulties may not be able to perform these obligations. Additionally, both mortgage-related securities and asset-backed securities are subject to risks associated with fraud or negligence by, or defalcation of, their servicers. These securities are also subject to the risks of the underlying loans. In addition, the underlying loans may have been extended pursuant to inappropriate underwriting guidelines, to no underwriting guidelines at all, or to fraudulent origination practices. The owner of a mortgage-backed security's ability to recover against the sponsor, servicer or originator is uncertain and is often limited.



An Account's investments in other asset-backed securities are subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the assets and the servicing of those assets.

**Real Estate Risk.** An Account that invests in real estate, real estate related securities or real estate-linked derivative instruments is subject to risks directly or indirectly associated with ownership of real estate generally. The real estate industry is extensively regulated and subject to frequent regulatory change. In addition, real estate investments are subject to a variety of inherent risks that may have an adverse impact on the values of, and returns (if any) from, such investments, including risks related to: changes in local, national and international economic conditions; supply and demand; interest rate fluctuations; zoning laws; regulatory overlays; environmental liabilities; energy prices; title risks; the ongoing need for capital improvements; patent or latent defect in improvements; the ongoing need for capital improvements; availability of financing; bankruptcy and other credit risks of tenants, operating partners or other relevant parties; natural catastrophes, war, terrorism, and vandalism; risk of uninsurable losses; breach of contract relating to real estate; and the quality and strategy of third party operators, managers or controlling parties. An investment in a security or derivative instrument that is linked to the value of a real estate investment trust ("REIT") is subject to additional risks, such as poor performance by the manager of the REIT, adverse changes to the tax laws or failure by the REIT to qualify for tax-free pass-through of income under the Internal Revenue Code of 1986, as amended. In addition, some REITs have limited

diversification because they invest in a limited number of properties, a narrow geographic area, or a single type of property. Also, the organizational documents of a REIT may contain provisions that make changes in control of the REIT difficult and time-consuming. Please see also "Mortgage-Related and Other Asset-Backed Securities Risk."

**Redenomination Risk.** Continuing uncertainty as to the status of the euro and the European Monetary Union (the "EMU") has created significant volatility in currency and financial markets generally. Any partial or complete dissolution of the EMU could have significant adverse effects on currency and financial markets and on the values of an Account's portfolio investments. If one or more EMU countries were to stop using the euro as its primary currency, an Account's investments in such countries may be redenominated into a different or newly adopted currency. As a result, the value of those investments could decline significantly and unpredictably. In addition, securities or other investments that are redenominated may be subject to currency risk, liquidity risk and risk of improper valuation to a greater extent than similar investments currently denominated in euros. To the extent a currency used for redenomination purposes is not specified in respect of certain EMU-related investments, or should the euro cease to be used entirely, the currency in which such investments are denominated may be unclear, making such investments particularly difficult to value or dispose of. An Account may incur additional expenses to the extent it is required to seek judicial or other clarification of the denomination or value of such securities.

**Government and Regulatory Risk.** Recent instability in the financial

markets has led the U.S. Government to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Most significantly, the U.S. Government has enacted a broad-reaching new regulatory framework over the financial services industry and consumer credit markets, the potential impact of which on the value of securities held by an Account is unknown. Federal, state, and other governments, their regulatory agencies, or self-regulatory organizations may take actions that affect the regulation of the instruments in which an Account invests, or the issuers of such instruments, in ways that are unforeseeable. Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear, and such a program may have positive or negative effects on the liquidity, valuation and performance of an Account's holdings. Furthermore, volatile financial markets can expose Accounts to greater market and liquidity risk and potential difficulty in valuing portfolio instruments held by Accounts. The value of an Account's holdings is also generally subject to the risk of future local, national, or global economic disturbances based on unknown weaknesses in the markets in which an Account invests. In the event of such a disturbance, issuers of securities held by a Fund may experience significant declines in the value of their assets and even cease operations, or may receive government assistance accompanied by increased restrictions on their business operations or other government intervention. In addition, it is not certain that the U.S.

Government will intervene in response to a future market disturbance and the effect of any such future intervention cannot be predicted. It is difficult for issuers to prepare for the impact of future financial downturns, although companies can seek to identify and manage future uncertainties through risk management programs.

**Short Sale Risk.** Short sales are subject to special risks. A short sale involves the sale by an Account of a security that it does not own with the hope of purchasing the same security at a later date at a lower price. An Account may also enter into a short position, for example, through a forward commitment or a short derivative position through a futures contract or swap agreement. If the price of the security or derivative has increased during this time, then the Account will incur a loss corresponding to the increase in price from the time that the short sale was entered into plus any premiums and interest paid to the third party. Therefore, short sales involve the risk that losses may be exaggerated, potentially losing more money than the actual cost of the investment, especially in the case of leveraged short positions. Also, there is the risk that the third party to the short sale may fail to honor its contract terms, causing a loss to the Account.

**Stable Value Risk.** Although stable value investments seek to reduce the risk of principal loss, investing in such an option involves risk, including loss of principal. These risks could result in a decline of a Client's portfolio value or cause a withdrawal or transfer from the portfolio to occur at less than a participant's invested value. An investment in a stable value portfolio may be worth more or less than the original cost when redeemed. Diversification does not ensure against loss.

Stable value investment contracts involve several unique risks, which include but are not limited to: a stable value investment contract issuer could default, become insolvent, file for bankruptcy protection, or otherwise be deemed by the plan's auditor to no longer be financially responsible; an event or condition outside the normal operation of the plan may occur (including but not limited to plan changes, employer bankruptcy, significant layoffs, plant closings, corporate spin-offs, divestitures, or restructurings); some portfolio securities could become impaired or default; or certain communications from the plan or the plan's agents may cause an investment contract to not pay benefits at contract value; or there could be a change in tax law or accounting rules. Any of these risks, if realized, may cause a write-down in the value of the Portfolio and a risk of loss of all or a part of a participant's invested value in a Client's portfolio. Stable value pooled funds have similar risks and, additionally, the risk that the pooled fund may fail to make a timely payment to the Portfolio or may pay less than the Portfolio's invested value in the pooled fund.

#### **Small-Cap and Mid-Cap**

**Company Risk.** Investments in equity securities of small-capitalization and mid-capitalization companies involve greater risk than investments in large-capitalization companies. PIMCO considers a small-cap company to be a company with a market capitalization of up to \$1.5 billion and a mid-cap company to be a company with a market capitalization of between \$1.5 billion and \$10 billion. The value of securities issued by small- and mid-cap companies may go up or down, sometimes rapidly and unpredictably, due to narrower markets and more limited managerial and financial resources than large-cap companies and therefore may increase the volatility of the Account's portfolio.

**State-Specific Risk.** An Account that concentrates its investments in a particular state's municipal bonds may be affected significantly by economic, regulatory or political developments affecting the ability of the state's issuers to pay interest or repay principal. Any provisions of the state's constitution and statutes which limit the taxing and spending authority of the state governmental entities may impair the ability of the state's issuers to pay principal and/or interest on their obligations. Each state's economy may be sensitive to economic problems affecting particular industries. Future state political and economic developments, constitutional amendments, legislative measures, executive orders, administrative regulations, litigation and voter initiatives could have an adverse effect on the debt obligations of the state's issuers.

**Tax Risk.** Tax laws and regulations applicable to an Account are subject to change, and unanticipated tax liabilities could be incurred by investors as a result of such changes. Investors should consult their own tax advisors to determine the potential tax-related consequences of investing in a Separate Account, Registered Fund, CIT or Private Fund.

**Turnover/Frequent Trading Risk.** A change in the securities held by an Account is known as "portfolio turnover." Higher portfolio turnover is a result of frequent trading and involves correspondingly greater expenses to an Account, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also represent tax risk. The trading costs and tax risk associated with portfolio turnover may adversely affect an Account's performance. The use of futures or other forward settling

derivatives may result in the appearance of higher portfolio turnover as positions are “rolled forward” in order to maintain a specific exposure. Accordingly, portfolio turnover rates may vary based on how such rates are calculated.

**Value Investing Risk.** Value investing attempts to identify companies that a portfolio manager believes to be undervalued. Value stocks typically have prices that are low relative to factors such as the company’s earnings, cash flow or dividends. A value stock may decrease in price or may not increase in price as anticipated by PIMCO if it continues to be undervalued by the market or the factors that the portfolio manager believes will cause the stock price to increase do not occur. A value investing style may perform better or worse than equity portfolios that focus on growth stocks or that have a broader investment style.

## ITEM 9. Disciplinary Information

PIMCO and its management persons have no reportable disciplinary history.

## ITEM 10. Other Financial Industry Activities And Affiliations

### Registration of Management Persons as Registered Representatives of a Broker-Dealer

Certain of PIMCO’s management persons are registered, or have an application pending to register, as registered representatives of a broker-dealer.

### Registration as Commodity Pool Operator and Commodity Trading Advisor

PIMCO is registered as a commodity

pool operator and commodity trading advisor, and in certain circumstances qualifies as an exempt commodity pool operator. Certain of PIMCO’s management persons are registered as associated persons of PIMCO.

### Affiliations and Conflicts of Interest

We are committed to providing Clients with service of the highest quality and we are guided by the principle that we act in the best interests of our Clients. Nevertheless, there are circumstances where Client interests conflict with PIMCO’s interests, the interests of our affiliates or the interests of other Clients. Some of these conflicts of interest are inherent to our business and are encountered by other large financial services firms that offer similar services. We have policies and procedures that are designed to ensure that we act in the best interests of our Clients.

Because we are majority owned by Allianz, a global financial services company, we are affiliated with various U.S. and non-U.S. investment advisers, broker-dealers and pooled investment vehicles, among other financial entities. For additional information regarding our affiliates, please refer to Appendix C. From time to time PIMCO may engage in business activities with some or all of these companies, subject to our policies and procedures governing how we handle conflicts of interest. We may use our affiliates to provide other services to our Clients in accordance with applicable law.

PIMCO provides advice for a number of Clients, including PIMCO affiliates. PIMCO may advise some Clients or take actions for them that differ from recommendations or actions taken for other Clients. PIMCO is not obligated to recommend to any or all Clients any investments that it may recommend to, or purchase or sell for, certain other clients. PIMCO’s employees regularly

share information, perceptions, advice and recommendations about market trends, the valuations of individual securities, and investment strategies, except where prohibited by ethical walls established by PIMCO or by applicable law or regulation. Persons associated with PIMCO may themselves have investments in securities that are recommended to Clients or held in Client accounts, subject to compliance with our policies regarding personal securities trading. Additional information regarding potential conflicts of interest arising from our relationships and activities with our affiliates is provided under Item 11, “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.”

**Broker-Dealers.** Although we generally do not use affiliated broker-dealers to execute transactions for our Clients, we may, on occasion, execute agency trades with affiliated broker-dealers. Any such trades are executed in compliance with applicable laws, regulations and PIMCO policies. In addition, certain PIMCO products may be distributed by PIMCO Investments LLC (“PI”) which is a registered broker-dealer with whom we are affiliated. PI currently serves as the distributor and principal underwriter of the PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO Equity Series, PIMCO Equity Series VIT, and PIMCO ETF Trust. PI also performs marketing and shareholder services with respect to certain offshore funds (such as PIMCO Funds: Global Investor Series plc), acts as placement agent for private funds, provides marketing and shareholder services with respect to the CITs, acts as sub-distributor of the Fixed Income SHares portfolios (“FISH Portfolios”) of the Allianz Global Investors Managed Accounts Trust and provides services such as investor relations and marketing support for certain PIMCO

sub-advised closed-end funds. PIMCO employees who are involved in marketing these products are also licensed, registered representatives of PI. These employees, in appropriate circumstances and consistent with Clients' objectives, may recommend to investment management Clients or prospective clients the purchase of shares in funds or other investment companies or pooled investment vehicles that PI distributes or underwrites. These investment companies or pooled investment vehicles may pay investment management and administrative fees to PIMCO, and may pay distribution and/or service fees to PI, including 12b-1 fees, sales loads, and/or contingent deferred sales charges. PI employees are supervised persons of PIMCO. PI may act as solicitor for certain Client Accounts (including the Wrap Programs) and PI employees may also receive commissions or other compensation based on these solicitation activities.

**Other Investment Advisers or Financial Planners.** PIMCO acts as a subadviser for certain closed-end registered investment companies sponsored by Allianz affiliates. In addition, PIMCO and/or certain of the investment adviser affiliates listed in Appendix C (the "Investment Adviser Affiliates") may act as subadviser to accounts advised by the non-U.S. investment advisers affiliated with PIMCO listed in Appendix C (the "Non-U.S. Advisers"). Certain of the Non-U.S. Advisers may also provide administrative services in relation to accounts advised by PIMCO and/or the Investment Adviser Affiliates. Furthermore, in rendering investment management services to its Clients, PIMCO may use the resources of the Investment Adviser Affiliates to provide certain services, including but not

limited to portfolio management, research and trading services. Clients' fees are allocated between PIMCO and/or the Investment Adviser Affiliate and the Non-U.S. Adviser, generally based on relevant U.S. and foreign tax laws and the types of services provided in the relevant jurisdiction.

In rendering investment management services to Clients, including U.S. registered investment companies, PIMCO may use the resources of the Non-U.S. Advisers to provide portfolio management, research and trading services to PIMCO clients. Under Memoranda of Understanding ("MOUs") between PIMCO and the Non-U.S. Advisers, each of the Non-U.S. Advisers are Participating Affiliates of PIMCO as that term is used in relief granted by the staff of the U.S. Securities and Exchange Commission (the "SEC") allowing U.S. registered advisers to use investment management and trading resources of unregistered advisory affiliates subject to the regulatory supervision of the registered adviser. Each Participating Affiliate and any of their respective employees who provide services to clients of PIMCO are considered under the MOUs to be "associated persons" of PIMCO as that term is defined in the Advisers Act for purposes of PIMCO's required supervision. The Participating Affiliates have agreed to submit to the jurisdiction of the SEC and to the jurisdiction of the U.S. courts for actions arising under the U.S. securities laws in connection with the investment management services they provide for any PIMCO clients. To the extent an associated person of a Participating Affiliate has discretionary authority over the assets of a Client contracted with PIMCO, the Client will receive a brochure supplement for such associated person. The names and biographical information for other

employees of the Participating Affiliates who provide services to Clients under an MOU is available upon request.

**Sponsor or Syndicator of Limited Partnerships.** PIMCO may from time to time manage assets for Allianz and other direct and indirect equity holders in Allianz Asset Management of America L.P. The amounts of such assets managed by PIMCO may from time to time be material to PIMCO's investment management business, and may present potential conflicts of interest relating to PIMCO's activities involving its affiliates, the allocation of PIMCO's personnel or other resources among Clients, trade allocations and other matters. Please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," for additional information.

**Other Activities and Relationships.**

The employees of PIMCO and its affiliates may serve on the boards of directors of portfolio companies of investment management Clients. Serving in such capacity may give rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director may conflict with the interests of an investment management Client. Any such conflicts will be handled on a case-by-case basis.

## ITEM 11. Code Of Ethics, Participation Or Interest In Client Transactions and Personal Trading

### Code of Ethics

We have implemented policies and procedures relating to, among other things, portfolio management and trading practices, personal investment transactions and insider trading that



are designed to prevent conflicts of interest. Our policies and procedures, including the PIMCO Code of Ethics (the “Code”), are intended to help appropriately mitigate conflicts of interest with respect to Clients if they occur. The Code is available to any Client or prospective client upon request.

Our employees are required to follow the Code, which sets out standards of conduct and helps us detect and prevent potential conflicts of interest. The Code covers personal investment transactions of all employees and their immediate family members, which includes most persons sharing the same household as the employee. Although the Code permits employees to trade in securities for their own accounts, employees are required to follow the Code, which contains preclearance procedures, reporting requirements and other provisions that restrict trading by employees. Employees are required to disclose their personal brokerage accounts upon hire and submit duplicate broker account statements and confirmations. We also conduct an active monitoring program of personal trading. Employees must agree to use a broker-dealer that has been approved by our Compliance Department and must grant our Compliance Department access to all personal brokerage account information.

**Blackout Periods.** Certain employees who are involved in researching or recommending securities are subject to more restrictive trading prohibitions when such employee or the firm is also trading in the security for Clients.

#### **Violations of the Code of Ethics.**

Any employee who violates the Code may be subject to remedial actions including, but not limited to, profit disgorgement, fines, censure, demotion, suspension or dismissal. Employees are also required to

promptly report any violation of the Code of which they become aware. Employees are required to annually certify compliance with the Code.

### **Gifts and Entertainment**

Our policy on Hosting Entertainment, Giving Gifts and Other Anti-Bribery Measures and our Policy Regarding the Receipt of Gifts and Entertainment limit the giving and receiving of certain gifts and entertainment by our employees. Our personnel occasionally may participate in or provide entertainment for legitimate business purposes, subject to applicable law and limitations set forth in our policies.

### **Political Contributions**

PIMCO’s policies prohibit PIMCO and its employees from making any political or charitable contributions for the purpose of obtaining or retaining potential or existing public clients or their personnel. Employees are permitted to make personal political or charitable contributions in accordance with applicable law and PIMCO’s policies. Employees are required to obtain pre-approval before they (or their spouse or their dependent children) make any contributions to a political candidate, government official, political party or political action committee.

### **Potential Conflicts Relating to Advisory Activities**

The results of our investment activities for a Client may differ significantly from the results achieved by us for other current or future Clients. We will manage the assets of a Client in accordance with the investment mandate selected by such Client. However, we may give advice, and take action, with respect to a Client that may compete or conflict with the advice we may give to, or an investment action we may take on behalf of, other Clients. In particular, we may buy or sell positions

for one Client while we are undertaking for another Client the same or a differing, including potentially opposite, strategy. Similarly, our management of Clients may benefit us or our affiliates. For example, and as discussed further below, Clients may, to the extent permitted by applicable law, invest directly or indirectly in the securities of companies in which PIMCO or an affiliate, for itself or its clients, has an equity, debt, or other interest. In addition, to the extent permitted by applicable law, Clients may engage in investment transactions which may result in other Clients being relieved of obligations, or which may cause other Clients to divest certain investments. The purchase, holding, and sale of investments by Clients may enhance or reduce the profitability or increase or decrease the value of other Clients’ investments. In addition, because certain of our Clients are affiliates, we may have incentives to resolve conflicts of interest in favor of certain Clients over others. This gives rise to certain potential conflicts of interest, as discussed in more detail below. We have established a conflicts of interest policy, among other policies, and related procedures that seek to identify, manage and/or mitigate such potential conflicts of interest.

### **Overview of Trade Aggregation and Allocation Process.**

The overriding objective of our trade allocation policy is to achieve fair and equitable treatment of client accounts over time. We have adopted procedures that are designed to ensure that trade allocations are timely, that no set of trade allocations is accomplished to unfairly advantage one client over another and that over time our Clients are treated equitably, subject to any contractual or other considerations as may be applicable in the particular circumstance.

**Fixed Income.** Pursuant to these policies and procedures, we may, in appropriate circumstances, aggregate fixed income trades for a Client with trades in the same security for other Clients. We determine whether aggregation of such transactions is appropriate and allocate the securities among participating accounts with the general purpose of maintaining consistent concentrations across similar accounts in order to achieve, as nearly as possible, portfolio characteristic parity among such accounts. Accounts furthest from achieving a portfolio characteristic parity typically receive priority in allocations.

**Equity.** Pursuant to our policies and procedures, we may also, in appropriate circumstances, aggregate equity trades for a Client with trades in the same security for other Clients. If there are multiple orders in the same security placed at or around the same time and on the same terms (e.g., market order), the orders will be aggregated if it is determined that aggregation is consistent with our duty of best execution. With respect to orders for the same equity investment opportunity of limited availability, we allocate that equity investment opportunity based on the number of orders by each participating portfolio manager for his or her participating accounts. Allocations are then generally made on a pro rata basis by reference to the portion of the aggregate assets of the participating accounts. When transactions are aggregated and it is not possible, due to prevailing trading activity or otherwise, to receive the same price or execution on the entire volume of securities purchased or sold, the participating accounts will receive weighted average execution price and shall bear commissions, fees and charges pro rata.

**Trade Allocation.** Each portfolio manager allocates trades among his or her eligible accounts. In allocating trades, portfolio managers allocate orders across accounts with similar investment guidelines and investment styles fairly and equitably, taking into consideration relevant factors, including without limitation: applicable account investment restrictions and guidelines; regulatory restrictions; account-specific investment restrictions and other Client instructions; risk tolerances; amounts of available cash; the need to rebalance a Client's portfolio (e.g., due to investor contributions and redemptions); whether the allocation would result in an account receiving an amount lower than the typical transaction size or an "odd lot"; and other account-specific factors. On a regular basis, portfolio managers review all Client accounts to identify those whose current risk exposures and/or portfolio characteristics differ significantly from targets.

Some Private Funds or other Clients may be limited or restricted in their ability to participate in certain initial public offerings ("IPOs") pursuant to certain restrictions, such as IPO allocation rules issued by the Financial Industry Regulatory Authority, Inc. ("FINRA"). This may result in some Clients not being able to fully participate, or to participate at all, in such opportunities. The offering documents for relevant Private Funds contain more information about how investment opportunities may be allocated.

**Trade Aggregation and Allocation Potential Conflict of Interest.**

Although allocating orders among Clients may create potential conflicts of interest because we may receive greater fees or compensation from some Clients than other Clients, or because we may be affiliated or have other relationships with certain Clients,

we will not make allocation decisions based on greater fees or compensation. Notwithstanding the foregoing, and considering our policy to treat all Clients fairly and equitably over time, any particular allocation decision among accounts may be more or less advantageous to any one Client or group of Clients and certain allocations may, to the extent consistent with our fiduciary obligations, deviate from a pro rata basis among Clients in order to address, for example, differences in legal, tax, regulatory, risk management, concentration, exposure and/or mandate considerations for the relevant Clients. We may determine that an investment opportunity or particular purchases or sales are appropriate for one or more Clients, but not for other Clients, or are appropriate for, or available to, Clients but in different sizes, terms, or timing than is appropriate for other Clients. We also may determine not to allocate to or purchase or sell for certain Clients all investment transactions for which all Clients may be eligible. Given all of the foregoing factors, the amount, timing, structuring, or terms of an investment by a Client may differ from, and performance may be lower than, investments and performance of other Clients, including those which may provide greater fees or other compensation (including performance-based fees or allocations) to PIMCO.

From time to time, aggregation may not be possible because a security is thinly traded or otherwise not able to be aggregated and allocated among all accounts seeking the investment opportunity or a Client may be limited in, or precluded from, participating in an aggregated trade as a result of that Client's specific brokerage arrangements or other factors. Also, an issuer in which Clients wish to invest may have threshold limitations on aggregate ownership interests arising from legal



or regulatory requirements or company ownership restrictions (e.g., poison pills or other restrictions in organizational documents), which may have the effect of limiting the potential size of the investment opportunity and thus the ability of the applicable Clients to participate in the opportunity.

#### ***Wrap Program Allocations.***

Generally, a Wrap Program's fee arrangements include structural features, such as "all inclusive" fee arrangements that effectively discount commissions to zero on trades executed with the Sponsor or the Sponsor's designated broker-dealers in consideration of the Wrap Program fee paid. These arrangements cause transactions executed away from the Sponsor or the Sponsor's designated broker-dealer to be more costly to a Wrap Program Client from a commission viewpoint than the same order would be if not executed away. As a result, Wrap Program Clients may receive less favorable net prices or poorer executions than might be the case if PIMCO had full discretion to select broker-dealers to execute these transactions. This is generally not the case with regard to transactions in fixed income securities, as dealer spreads on such transactions are generally not included in Wrap Program fee arrangements. In such cases, PIMCO may aggregate fixed-income securities orders among the Wrap Programs of different Sponsors and then execute such orders according to its generally applicable trade allocation policy. Please see Item 12, "Brokerage Practices."

#### ***Potential Conflicts Relating to Non-Discretionary Advisory Services.***

We may provide non-discretionary investment management services, pursuant to which we may advise a Client with respect to purchasing, selling, holding, valuing, or

exercising rights associated with particular investments, but we will not execute purchases or sales on behalf of the Client. Discretionary and non-discretionary Clients may hold the same or similar securities. There may be timing differences related to the provision of advice to a non-discretionary Client for consideration and that Client's determination of whether or not to act on the advice. As a result, trades may be executed for discretionary Clients in advance of executions for non-discretionary Clients, potentially disadvantaging the non-discretionary Clients. This may also occur with respect to trades executed for Non-Discretionary Wrap Programs where PIMCO provides a model portfolio to be analyzed and implemented by the Sponsor or another manager.

#### ***Inconsistent Investment Positions, Timing of Competing Transactions and Other Conflicts.***

From time to time, we may take an investment position or action for one or more Clients that may be different from, or inconsistent with, an action or position taken for one or more other Clients having similar or differing investment objectives. These positions and actions may adversely impact, or in some instances may benefit, one or more affected Clients, including Clients that are our affiliates or in which we have an interest. For example, a Client may buy a security and another Client may establish a short position in that same security. The subsequent short sale may result in a decrease in the price of the security that the first Client holds. Similarly, transactions in investments by one or more Clients may have the effect of diluting or otherwise disadvantaging the values, prices or investment strategies of another Client.

When we implement for one Client a portfolio decision or strategy ahead of,

or contemporaneously with, similar portfolio decisions or strategies of another Client, market impact, liquidity constraints or other factors could result in one or more Clients receiving less favorable trading results, the costs of implementing such portfolio decisions or strategies could be increased or such Clients could otherwise be disadvantaged. On the other hand, potential conflicts may also arise because portfolio decisions regarding a Client may benefit other Clients. For example, the sale of a long position or establishment of a short position for a Client may decrease the price of the same security sold short by (and therefore benefit) other Clients, and the purchase of a security or covering of a short position in a security for a Client may increase the price of the same security held by (and therefore benefit) other Clients.

Under certain circumstances, a Client may invest in a transaction in which one or more other Clients are expected to participate, or already have made or will seek to make, an investment. Such Clients (or groups of Clients) may have conflicting interests and objectives in connection with such investments, including with respect to views on the operations or activities of the issuer involved, the targeted returns from the investment and the timeframe for, and method of, exiting the investment. Further, potential conflicts may be inherent in our use of multiple strategies. For example, conflicts will arise in cases where Clients with different strategies invest in different parts of an issuer's capital structure, including circumstances in which one or more Clients may own private securities or obligations of an issuer and other Clients may own public securities of the same issuer. For example, a Client may acquire a loan, loan participation or a loan assignment of a particular borrower in which one

or more other Clients have an equity investment, or may invest in senior debt obligations of an issuer for one Client and junior debt obligations of the same issuer for another Client.

We may also, for example, direct a Client to invest in a tranche of a structured finance vehicle, such as a collateralized loan or debt obligation, where we are also, at the same or different time, directing another Client to make investments in a different tranche of the same vehicle, which tranche's interests may be adverse to other tranches. We may also cause a Client to purchase from, or sell assets to, an entity, such as a structured finance vehicle, in which other Clients may have an interest, potentially in a manner that will have an adverse effect on the other Clients. There may also be conflicts where, for example, a Client holds certain loans of an issuer, and that same issuer has issued other loans or instruments that are owned by other Clients or by an entity, such as a structured finance vehicle, in which other Clients have an interest: in this situation, we may take actions with respect to the assets held by one Client that are adverse to the other Clients, for example, by foreclosing on loans or by putting an issuer into default. In negotiating the terms and conditions of any such investments, or any subsequent amendments or waivers, we may find that the interests of a Client and the interests of one or more other Clients could conflict. In these situations, decisions over items such as whether to make the investment, proxy voting, corporate reorganization, how to exit an investment, or bankruptcy matters (including, for example, whether to trigger an event of default or the terms of any workout) may result in conflicts of interest. Similarly, if an issuer in which a Client and one or more other Clients directly or indirectly hold different classes of securities (or

other assets, instruments or obligations issued by such issuer or underlying investments of such issuer) encounters financial problems, decisions over the terms of any workout will raise conflicts of interests (including, for example, conflicts over proposed waivers and amendments to debt covenants). For example, a debt holder may be better served by a liquidation of the issuer in which it may be paid in full, whereas an equity or junior bond holder might prefer a reorganization that holds the potential to create value for the equity holders. Although in some cases PIMCO may refrain from taking certain actions or making investments on behalf of Clients because of conflicts (potentially disadvantaging the Clients on whose behalf the actions are not taken or investments not made), in other cases PIMCO will not refrain from taking actions or making investments on behalf of some Clients that have the potential to disadvantage other Clients.

Any of the foregoing conflicts of interest will be reviewed on a case-by-case basis. Any review will take into consideration the interests of the relevant Clients, the circumstances giving rise to the conflict and applicable laws. Clients (and investors in Funds) should be aware that conflicts will not necessarily be resolved in favor of their interests, and PIMCO will attempt to resolve such matters fairly, but even fair resolution may be resolved in favor of other Clients, including Funds, which pay PIMCO higher fees or performance fees or in which PIMCO or its affiliates have a significant proprietary interest. There can be no assurance that any actual or potential conflicts of interest will not result in a particular Client or group of Clients receiving less favorable investment terms or returns from certain investments than if such conflicts of interest did not exist.

***Performance-Based Fees and Side-By-Side Management.*** As discussed under Item 6, "Performance-Based Fees and Side-by-Side Management," we may manage different types of accounts having different fee arrangements. Side-by-side management of different types of accounts may raise potential conflicts of interest. Registered Funds, for example, generally pay management fees based on a fixed percentage of assets under management, while Separate Accounts and Private Funds may have more varied fee structures, including a combination of asset- and performance-based compensation (for example, carried interest) or wrap fees. Where (i) the actions taken on behalf of one account may affect other similar or different accounts (e.g., because such accounts have the same or similar investment styles or otherwise compete for investment opportunities, have potentially conflicting investments or investment styles, or have differing ability to engage in short sales and economically similar transactions) and (ii) PIMCO and its personnel have different interests in such accounts (e.g., PIMCO or its related persons are exposed to differing potential for gain or loss through different compensation structures – including circumstances where some accounts pay only asset-based fees while others are subject to performance-based or incentive fees or allocations), PIMCO may have an incentive to favor certain accounts over others that may be less lucrative, or to favor accounts in which it or its affiliates have a significant proprietary interest. Similarly, when PIMCO receives performance-based fees or allocations, or PIMCO personnel have a financial incentive to achieve gains in excess of the disincentive to suffer losses, PIMCO and/or such personnel may have an incentive to choose investments that are riskier or more speculative than

might otherwise be chosen. To mitigate these conflicts, PIMCO's policies and procedures seek to provide that investment decisions are made based on the best interests of Clients and without consideration of PIMCO's (or such personnel's) pecuniary, investment or other financial interests.

***Certain Principal Transactions in Connection with the Organization of a Private Fund.*** On occasion and subject to applicable law and a Private Fund's governing documents, PIMCO or a related person (including its affiliates, officers, directors or employees) may purchase limited partnership interests or other investments on behalf of and in anticipation of opening a Private Fund for investment. Such investments may be transferred to the Private Fund. Generally, to the extent permitted by law, the Private Fund would pay a market rate of interest and purchase the investment at cost. More information on these arrangements can be found in the offering documents of the particular Private Fund.

## **Potential Restrictions and Conflicts Relating to Information Possessed or Provided By PIMCO**

***Availability of Proprietary Information.*** In connection with its activities, certain persons within PIMCO may receive information regarding proposed investment activities for PIMCO and Clients that is not generally available to the public. There will be no obligation on the part of PIMCO to make available for use by a Client, or to effect transactions on behalf of a Client on the basis of, any such information. In many cases, such persons will be prohibited from disclosing or using such information for their own benefit or for the benefit of any other person, including Clients. Similarly, one or more Clients may

have, as a result of receiving client reports or otherwise, access to information regarding PIMCO's transactions or views that are not available to other Clients, and may act on such information through accounts managed by persons other than PIMCO. Such transactions may negatively impact Clients through market movements or by decreasing the pool of available securities or liquidity. Clients may also be adversely affected by cash flows and market movements arising from purchase and sale transactions, as well as increases of capital in, and withdrawals of capital from, accounts of other Clients. These effects can be more pronounced in thinly traded securities and less liquid markets.

***Material Non-Public Information/ Insider Trading.*** From time to time, PIMCO personnel may come into possession of material, non-public information ("MNPI") which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, PIMCO personnel may be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, regardless of whether that person is a Client. Accordingly, should a PIMCO employee come into possession of MNPI with respect to an issuer, it may be prohibited from communicating such information to, or using such information for the benefit of, Clients, which could limit the ability of Clients to buy, sell or hold certain investments. PIMCO shall have no obligation or responsibility to disclose such information to, or use such information for the benefit of, any person (including Clients). We have implemented procedures, including those described below relating to information barriers, that prohibit the

misuse of such information (e.g., illegal securities trading based on the information) by PIMCO, our employees and on behalf of our Clients. Similarly, no employee who is aware of MNPI which relates to any other company or entity in circumstances in which such person is deemed to be an insider or is otherwise subject to restrictions under federal securities laws may buy or sell securities of that company or otherwise take advantage of, or pass on to others, such MNPI.

***Information Barriers.*** To control the flow of MNPI within the firm and to prevent its misuse, PIMCO has established policies and procedures that are designed to control receipt of MNPI and, where appropriate, erect information barriers. These information barriers may include, as dictated by the applicable facts and circumstances, the physical, technological and operational separation ("walling off") of certain of PIMCO's business units, or portions thereof, as well as other policies and procedures designed to prevent the unauthorized access to, or dissemination of, MNPI.

***Other Trading Restrictions.*** In addition, PIMCO maintains one or more restricted lists of companies whose securities are subject to certain trading prohibitions due to PIMCO's business activities. We may restrict trading in an issuer's securities if the issuer is on a restricted list or if we otherwise have MNPI about that issuer. A Client's account may be unable to buy or sell certain securities until the restriction is lifted, which could disadvantage the Client's account. In some cases we may not initiate or recommend certain types of transactions, or may otherwise restrict or limit our advice relating to certain securities if a security is restricted due to MNPI or if we are seeking to limit receipt of MNPI.

## Other Potential Conflicts

### ***Clients, Service Providers, and Vendors that Issue Securities.***

PIMCO and its affiliates provide a variety of services for, and render advice to, various Clients, including issuers of securities that PIMCO or its affiliates may recommend for purchase or sale to Clients. We may from time to time recommend to or purchase or sell on behalf of Clients, securities or other investment products in which PIMCO, its affiliates, or other related persons have a financial interest as the investment manager, broker-dealer, general partner, or trustee, or as a co-investor in such investment products. For instance, PIMCO may from time to time trade in investments issued by our Clients, or in investments issued by clients of PIMCO affiliates. A potential conflict may arise in such circumstances because PIMCO may be incentivized to favor its Clients that issue securities, or such clients of its affiliates, over the Client on whose behalf PIMCO is making the investment. Similarly, some of our service providers, certain distributors of our Registered Funds, and/or vendors are issuers of securities that PIMCO may trade in from time to time. We may determine that it is in the best interests of our Clients to purchase securities issued by one of these entities. It is PIMCO's general policy not to take into account the fact that an issuer is our Client, service provider, distributor, or vendor when making investment decisions.

PIMCO believes that the nature and range of clients to whom PIMCO's affiliates render investment banking and other services, as well as the nature and range of PIMCO's own Clients, is such that it generally would be inadvisable to exclude such Clients that are also issuers from a Client's portfolio. Accordingly, unless a Client instructs PIMCO or its

affiliates to the contrary, it is likely that the Client holdings will include the securities of issuers for whom PIMCO or its affiliates perform investment management and other services. Moreover, Client portfolios may include the securities of companies in which PIMCO's affiliates make a market or in which PIMCO or its affiliates, its officers and employees and its affiliates' other related persons and their officers or employees have positions.

***Investments in Affiliated Funds.*** As noted above, if permitted by the relevant investment guidelines and applicable law, we may purchase for Client accounts (including Wrap Program accounts) interests in mutual or other registered and unregistered funds or vehicles that are offered by PIMCO or its affiliates for short-term investment purposes (i.e., a cash management vehicle), as part of the account's investment strategy, or when we otherwise believe it is in the relevant Client's best interest to do so. The details of any fee offsets, rebates or other reduction arrangements in connection with such investments are provided in the documentation relating to the relevant Client account and/or underlying fund or vehicle. Wrap Program Clients should be aware that fee offsets may not always be offered where the Sponsor, or another manager within the Wrap Program, elects to invest in certain affiliated funds.

In choosing between funds and managers affiliated with PIMCO and those not affiliated with PIMCO, we may have a financial incentive to choose PIMCO-affiliated funds and managers over third parties by reason of the additional investment management, advisory and other fees or compensation we or our affiliates may earn. Under certain conditions, we may offset, rebate or otherwise reduce our fees or other compensation with

respect to investments in PIMCO-affiliated funds and managers; however, this reduction or rebate, if available, will not necessarily eliminate the conflict, and PIMCO may nevertheless have a financial incentive to favor investments in PIMCO-affiliated funds and managers. Furthermore, although we may be permitted to invest in PIMCO-affiliated funds, Clients should not expect us to have better information with respect to such PIMCO-affiliated funds than other investors have. Even if we have such information we may not be permitted to act upon it in a way that disadvantages the other investors in such funds.

***Managing Proprietary Capital.*** We generally do not actively trade or manage assets on our own behalf. We may, however, manage assets for our affiliates, including, as noted above in Item 10, insurance and other assets of our indirect parent company, Allianz and other Allianz affiliates. In addition, our affiliates may trade or manage assets on their own behalf. PIMCO employees are generally permitted to invest in funds and portfolios managed by us and/or our affiliates. From time to time, we may buy or sell the same securities and products for affiliated accounts that we also buy or sell for our Clients, or we may pursue investment strategies for our affiliated accounts that are the same as those of our Clients. We may serve as investment adviser to certain Funds where PIMCO, our employees, or an affiliate provided the initial investment, or seed capital. We may also from time to time recommend to or purchase or sell on behalf of Clients, certain Private Funds in which PIMCO, our affiliates or other related persons serve as the general partner, managing member, or trustee to the fund. If our affiliates invest in PIMCO Private Funds, we may maintain or hedge such exposure, to the extent



we manage such affiliates' assets, by trading in another of our Private Funds or affiliated accounts or through other methods. The foregoing activities may give rise to a potential conflict of interest in the allocation of investment opportunities (such as limited offerings) as between our affiliates' accounts and our Clients' accounts. As previously described, we have adopted trade allocation policies and procedures that seek to ensure fair and equitable access to investment opportunities for all accounts. Additionally, in connection with our employee benefits plans, certain PIMCO employees, or employees of our affiliates, may hold interests in funds that we may recommend to or purchase or sell on behalf of Clients.

**Related Persons.** PIMCO is a related person of Allianz, our indirect parent, and as such, under certain circumstances may be restricted from entering into agency and other transactions with affiliates of Allianz. PIMCO has undertaken certain procedures to identify broker-dealers affiliated with Allianz and certain affiliates of Allianz. PIMCO has also adopted a policy to generally prevent the purchase of securities for certain of our Clients that have been issued by Allianz, its insurance company subsidiaries, or any control affiliate. PIMCO may also be subject to additional restrictions based upon the particular characteristics of the account. In addition, these affiliates may take actions, on their own behalf or on behalf of their clients or other related persons, that are adverse to our Clients (including many of the actions discussed above). PIMCO will typically not have any advance knowledge of these actions and, even if it does, will typically not have any ability to influence its affiliates' actions.

**Cross Trades.** In an effort to reduce transaction costs, increase execution

efficiency, and capitalize on timing opportunities, we may execute cross trades, or sell a security for one of our Clients to another Client, without the inter-positioning of a broker-dealer.

We will only perform a cross trade when it complies with our cross trade policy and procedures, when it is not prohibited under the applicable Client's investment restrictions or applicable law, and when we believe it is in the best interests of both the selling and the buying Client. However, cross trades present an inherent conflict of interest because we represent the interests of both the selling account and the buying account in the same transaction. As a result, Clients for whom we execute cross trades bear the risk that one counterparty to the cross trade may be treated more favorably by us than the other party, particularly in cases where the first party pays us a higher management or performance-based fee or allocation. Additionally, there is a risk that the price of a security bought or sold through a cross trade may not be as favorable as it might have been had the trade had been executed in the open market.

To address these and other concerns associated with cross trades, our policy requires that cross trades must be effected at the independent "current market price" of the security, as determined by reference to independent third party sources, and that we will execute cross trades only in the best interests of the buying account and the selling account. Under our policy, cross trades are currently not permitted in accounts that are subject to ERISA. We may not engage in cross trades for accounts in which we act as principal in the transaction.

For Regulatory or other reasons we may choose not to execute cross trades for one or more Clients, which could

disadvantage those Clients as compared to Clients for whom we perform cross trades.

**Allocation of PIMCO Resources.** In order for us to adhere to applicable fiduciary obligations to our Clients as well as to address and/or mitigate conflicts of interest, it may not be possible or appropriate to make available all of our resources that might be relevant to particular investment decisions by the investment professionals responsible for a particular portfolio or investment program. Such restrictions could result in such investment professionals making investment or other decisions for a particular portfolio or investment program that are different from the decisions they would make if there were no such limits or restrictions. Although our personnel will devote as much time to each portfolio and investment program as we deem appropriate, they may have conflicts in allocating their time and services among each portfolio and investment program and the other accounts now or in the future advised by us and/or our affiliates.

PI registered representatives may receive differing levels of compensation from the sale of various products (including Wrap Programs), which may create conflicts of interest. Under policies applicable to all registered representatives of PI, no registered representative is permitted to recommend one Fund or Wrap Program over another solely because the recommended Fund or Wrap Program will provide higher revenue or compensation to PIMCO, PI, or to the registered representative.

**Investments By Our Employees and Affiliates.** Certain of our qualified employees and affiliates may invest in vehicles managed by us (or our affiliates) either through general

partners entities or as limited partners, shareholders or otherwise. These vehicles may in their discretion reduce all or a portion of the management fee, performance allocation, or other costs and expenses related to the investments held by such persons.

## ITEM 12. Brokerage Practices

We have policies and procedures to help ensure that our trading practices are conducted in our Clients' best interests.

### PIMCO's Broker-Dealer Selection Process

An important aspect of our discretionary investment management services includes the selection of broker-dealers. When we select broker-dealers and determine the reasonableness of their compensation, we consider the price of the security, any mark-up or mark-down on the security, and/or any commission paid to the broker-dealer (including, as relevant to a particular Wrap Program, the extent to which the Wrap Program fee includes commissions or commission equivalents when executed through the Sponsor or a designated broker-dealer while transactions executed away from the Sponsor or the Sponsor's designated broker-dealer may incur these and other expenses), as well as the broker-dealer's ability to provide favorable execution services for the transaction under the circumstances. Complicated high volume transactions in securities and derivatives require a broker-dealer with a higher level of competence and infrastructure to help ensure Client transactions are executed without error, delay or needless expense. As a result, in selecting broker-dealers, we may take into account many factors, including but not limited to the following: the likelihood of execution within a desired time frame, market conditions, the

ability and willingness of a broker-dealer to execute in desired volumes, responsiveness, the ability of a broker-dealer to act on a confidential basis, the ability of a broker-dealer to act with minimal market effect, the creditworthiness of a broker-dealer in relation to risk created by the transaction, the level and experience of operational coordination between the broker-dealer and PIMCO, the willingness and ability to make a market in particular securities, reputation for ethical and trustworthy behavior, infrastructure, the willingness of a broker-dealer to commit capital to a particular transaction, the market knowledge of the broker-dealer, the ability of a broker-dealer to execute difficult transactions in unique and/or complex securities, the adequacy and reliability of recordkeeping, whether the broker-dealer treats PIMCO fairly in resolving disputes, whether the broker-dealer can provide access to underwritten offerings and secondary markets, and under appropriate circumstances, or the availability of research and brokerage services provided by the broker-dealer. In addition, we periodically and systematically review the execution performance of the broker-dealers we use to execute Client trades.

**Soft Dollars.** It is our policy to seek to obtain the best price and execution on all Client transactions. Under Section 28(e) (the "safe harbor") of the Securities Exchange Act of 1934, as amended (the "1934 Act"), investment managers are permitted to cause a Client to pay a higher commission than another broker-dealer might have charged for research and/or brokerage services provided by the broker-dealer that provide lawful and appropriate assistance to the investment manager in the investment decision-making or trade execution processes. In such

circumstances, the investment manager may be deemed to be paying for such research or brokerage services with "soft" or commission dollars ("soft dollars"). PIMCO does not have any soft dollar arrangements with broker-dealers and PIMCO does not direct Client transactions to particular broker-dealers in return for soft dollars.

Nevertheless, there may be circumstances where PIMCO may determine that it is appropriate to use a broker-dealer that has provided research on a topic of interest or other products or services and to pay commissions higher than those charged by other broker-dealers in return for such benefits, subject to best execution. We may receive, among other things, research reports, economic and market data and credit analyses and analyst earnings estimates, which may be created or developed by the broker-dealer or a third party. To the extent that soft dollars or the equivalent are earned with respect to a transaction made on behalf of a Client, such research or other products or services received may not always be used by or for the benefit of the Client that pays the brokerage commissions used to obtain the research, products or services.

In selecting broker-dealers that provide research or other products or services that are paid for with soft dollars, potential conflicts of interest may arise between PIMCO and its Clients because PIMCO does not produce or pay for these research reports, products or services, but rather uses brokerage commissions generated by Client transactions to pay for them.

### Brokerage for Client Referrals.

PIMCO does not consider, in selecting or recommending broker-dealers, whether it or a PIMCO affiliate receives client referrals from a broker-dealer or



third party. However, PIMCO may execute transactions through Wrap Program Sponsors or other broker-dealers that also bring clients to PIMCO. Additionally, as noted below, a Client may direct PIMCO to use the services of a particular broker-dealer in executing transactions for that Client's account. In some cases, the directed broker may have recommended PIMCO as a manager for that account.

**Directed Brokerage.** Some Clients may seek to direct us to use specific broker-dealers. If a Client directs us to use a specific broker-dealer, it may lose any discounts that we may negotiate on aggregated transactions, it may pay higher transaction costs or brokerage commissions, and we may be unable to achieve the most favorable execution. We typically can get better prices or terms with broker-dealers when we include a Client's trade as part of a larger block of Clients trading the same security. A Client might also miss investment opportunities because its broker-dealer may not have access to certain securities, such as new issues or limited inventory bonds. For many securities, it is often to a Client's advantage to transact with the broker-dealer who is a known market maker in the security. Directing us to use a particular broker-dealer might also affect the timing of a Client's transaction. There may be times when we may not trade with a Client's directed broker-dealer until all non-directed brokerage orders are completed. In addition, not all broker-dealers have the systems or expertise to effectively process transactions that may be beneficial for a Client's account. A Client's account also may achieve lower returns compared to accounts of Clients that do not ask us to use a specific broker-dealer.

PIMCO's discretion to select broker-dealers is often limited for Wrap

Program Clients by contract; however, because PIMCO typically trades only fixed income securities (or mutual fund shares) for Wrap Program Clients, PIMCO will often find it necessary to exercise greater discretion than an equity portfolio manager in the same Wrap Program would have. As discussed above, the Wrap Program fee typically includes transaction-specific commissions on agency trades executed by the Sponsor or the broker-dealer designated under the Wrap Program (i.e., trades executed through the Sponsor or designated broker-dealer are effectively at a zero commission rate). However, a Discretionary Wrap Program Client generally will pay transaction-specific commissions, commission equivalents or spreads on fixed income trades and trades PIMCO directs to a broker-dealer other than the Sponsor or a designated broker-dealer associated with the Sponsor. These fees or charges may be separately charged to the Client's account or reflected in the security net price paid or received. Due to the separate fees or charges that may be incurred when PIMCO effects trades for a Discretionary Wrap Program Client on fixed income securities or with broker-dealers other than the Sponsor or designated broker-dealer, to the extent PIMCO invests in securities other than fixed income or mutual funds for a Discretionary Wrap Program Client it is expected that PIMCO will effect a large percentage of those transactions for a Discretionary Wrap Program Client's account with the Sponsor or designated broker-dealer, which may negatively impact returns. This is generally not the case with regard to transactions in fixed income securities, as dealer spreads on such transactions are generally not included in Wrap Program fee arrangements. As a result, for fixed income securities orders, PIMCO

generally expects to execute such orders away from the Sponsor or Sponsor's designated broker-dealer. In other Wrap Programs, PIMCO may be prohibited from effecting transactions away from the Sponsor or the designated broker-dealer or a Wrap Program Client may direct that the Sponsor or the designated broker-dealer be used. Transactions in mutual fund shares will be submitted directly to the transfer agent or distributor of the mutual fund.

**Counterparty Review Process.** Our Counterparty Risk Committee evaluates the creditworthiness of our counterparties on an ongoing basis. In addition to information provided by credit agencies, our team of experienced credit analysts evaluates each approved counterparty using various methods of analysis, including company visits, earnings updates, the broker-dealer's reputation, our past experience with the broker-dealer, market levels for the counterparty's debt and equity, the counterparty's liquidity and its share of market participation.

**Claims Policy.** From time to time custodians or broker counterparties may make a claim or claim payment in connection with PIMCO's active management of a Client's account. Claim payments are typically transaction expenses assessed by custodian banks as overdraft charges or broker counterparties for compensation related to the counterparty's use of funds. PIMCO maintains policies and procedures addressing such claims. Generally, unless PIMCO is responsible for the fail or claim, we will not reimburse a Client's account and will treat the fail or claim as an unrecoverable cost of doing business if it is less than \$500.

**Foreign Currency Transactions.** In managing an account PIMCO may engage in foreign currency transactions.

Where available, we believe it is in a Client's best interests to deal directly with a broker-dealer; however, third party transactions may not be available for certain emerging market or restricted foreign currencies. In these instances, we may trade foreign currency through a Client's custodian via fax and/or standing instructions.

### **Aggregation of Orders**

Please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," for a discussion of our trade aggregation policies.

## **ITEM 13. Review Of Accounts**

PIMCO strives to ensure compliance with a Client's investment guidelines consistent with its fiduciary responsibility to manage the account in the best interest of the Client. Accordingly, PIMCO maintains a proprietary compliance system that captures the investment parameters from each Client's guidelines and facilitates automated pre- and post-trade testing for compliance with those parameters. PIMCO's account managers also work closely with the portfolio management team to make sure each Client's guidelines are implemented where applicable. As part of the review process, account managers review key risk characteristics (e.g., portfolio duration) across all of their portfolios for consistency as compared with firm-wide targets for each of our investment strategies and discuss any potential issues with the relevant portfolio managers.

Reviews of accounts also occur when investment strategies and objectives are changed by the investment management Client or PIMCO and when significant events occur that are

expected to affect the value of the accounts. PIMCO furnishes to Separate Account Clients written quarterly reports concerning their accounts. Separate Account reports may include a detailed inventory of all holdings, a performance summary, a written review of past and present strategy together with a current economic forecast and statistical portfolio analyses. Monthly accounting reports are also provided upon request by Separate Account Clients.

For Wrap Program Clients, account reviews and reports may differ and are discussed in Item 4.

## **ITEM 14. Client Referrals And Other Compensation**

### **Compensation from Non-Clients**

From time to time, PIMCO or its affiliates may pay investment consultants or such consultants' affiliates for certain services, including compliance technology, operations, tax, or audit consulting services, and may pay such firms for permitting PIMCO to attend investment forums and conferences sponsored by such consultants, or for access to studies, surveys, or databases prepared and/or maintained by such consultants. In addition, we may engage consultants for investment-related consulting services, including in connection with the identification, analysis and execution of investment opportunities or to provide overall strategic guidance for certain Clients. These consulting firms may include our Clients or their affiliates. We may execute brokerage transactions for our Clients with such investment consultants or their affiliates. These consultants or their affiliates may, in the ordinary course of their business, recommend that their clients ("Consultant Clients") hire us or invest in products that we, or one of

our affiliates, sponsor. In some circumstances, a Consultant Client might not compensate PIMCO directly. Rather, PIMCO may be compensated by the Consultant Client's investment consultant or its affiliates out of fees paid by the Consultant Client to the consultant or its affiliates.

### **Referral and Other Compensation Arrangements**

Although not a general practice, PIMCO may, from time to time, pay compensation for client referrals. To the extent required by law, we require that the person referring a client to us (the "Referral Agent") enter into a written agreement with us. Under this written agreement, the Referral Agent would be obligated to provide the prospective client with a separate disclosure document before a PIMCO account is opened for such prospective client. This separate disclosure document provides the prospective client with information regarding the nature of our relationship with the Referral Agent and any referral fees we pay to such Referral Agent. Referral fees are paid by PIMCO and not by our clients.

PIMCO employees and employees of affiliates of PIMCO, as well as persons unaffiliated with PIMCO, may serve as Referral Agents and may be compensated by us or our affiliates for referral activities. However, when our employees or affiliates serve as Referral Agents, we will not necessarily provide the separate disclosure document mentioned above. PIMCO, the Registered Funds that are registered under the Investment Company Act of 1940 (the "1940 Act") and/or PI may also pay various fees to broker-dealers and other financial intermediaries that provide distribution and other services related to such funds, including but not limited to distribution and servicing fees payable in connection with plans

adopted pursuant to Rule 12b-1 under the 1940 Act, administrative, recordkeeping, sub-accounting and/or networking fees, marketing support payments and payments in support of training and educational seminars sponsored by such financial intermediaries. In addition, a Private Fund may contract with one or more broker-dealers or placement agents to assist in the placement of interests in such Private Fund. Information about any such engagement, including the compensation payable by PIMCO and/or the Private Fund to the broker-dealer or placement agent, is disclosed in the Private Fund's offering documents. Similarly, with respect to investment consultants we may engage from time to time, as described above, if any referral arrangements existed between PIMCO and such consultants, we would require the consultant to disclose to clients any compensation they receive for their referrals. Currently, no such arrangements are in place between PIMCO and any investment consultants or their affiliates.

## ITEM 15. Custody

We do not act as a custodian for Client assets. However, under Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), PIMCO may be deemed to have custody of Client assets.

In the case of Registered Funds and Private Funds advised by PIMCO, such Funds have made arrangements with qualified custodians as disclosed in the relevant offering and other Fund documents.

In the case of Separate Accounts, appointment of a custodian is a prerequisite to PIMCO's management of Client assets. Clients must select and appoint their own custodian, whose services and fees will be separate from our fees. Clients are responsible for independently arranging for all custodial

services, including negotiating custody agreements and fees and opening custodial accounts. We have a process to confirm that custodians selected by Separate Accounts satisfy the requirements applicable to qualified custodians. We confirm on an annual basis that each Separate Account's custodian sends required periodic account statements. If a Separate Account Client does not receive its custodian statements, the Client should contact its PIMCO account representative and we will work with the Client and the Client's custodian to ensure that the Client receives this information. Clients should carefully review their custodian statements to ensure they reflect appropriate activity in their Account. Separate Accounts may also receive statements from PIMCO. Clients should compare the account statements that they receive from their qualified custodian with those that they receive from PIMCO. If there are discrepancies between a Client's custodian statement and PIMCO account statement, Clients should contact their custodian or PIMCO account representative for more information.

In the case of Wrap Programs where PIMCO contracts directly with the Wrap Program Client for services, PIMCO generally will not be deemed to have custody of such Wrap Program Client's assets. The Sponsor or a qualified custodian will send required periodic account statements to Wrap Program Clients in such Wrap Programs. The Wrap Program Client should carefully review the custodian statements to ensure they reflect appropriate activity in the Wrap Program account. Such Wrap Program Clients may also receive statements from PIMCO, and they should compare the account statements received from the qualified custodian with those received from PIMCO.

## ITEM 16. Investment Discretion

PIMCO provides discretionary investment management services to a Client only if the Client and PIMCO have signed a written investment management agreement or other document showing the Client's grant of discretion or other authority for its account. PIMCO generally receives discretionary authority from Clients (or a Client's agent, such as the Sponsor in the context of Discretionary Wrap Programs) to select, and to determine the quantity of, securities or financial instruments to be bought or sold for the Client account. In exercising its discretionary authority to make investment decisions for a Client account, PIMCO adheres to the investment policies, limitations and restrictions of the account. For Wrap Program Accounts, PIMCO's discretionary authority is limited by the selected mandate investment strategy and may be further limited by reasonable, client-imposed restrictions, as described in Item 4. With respect to certain accounts, such as Registered Funds, PIMCO's authority to trade securities may also be limited by certain securities, tax, and other laws that may, for example, require diversification of investments and impose other limitations.

Unless otherwise instructed by a client, PIMCO typically utilizes Agency Ratings for purposes of credit quality limitations or, in the absence of such ratings, Internal Ratings. A client may authorize PIMCO to utilize Internal Ratings as a primary credit quality source. In such instances, a client may be permitted to invest in securities or financial instruments that have Agency Ratings that are lower than the client's guidelines (if the Internal Rating is higher than the Agency Rating).

As discussed in Item 4, "Non-Discretionary and Consulting Services," PIMCO also furnishes investment

management services to some Clients on a non-discretionary basis, which may include, without limitation, evaluation and risk assessment of Client portfolios.

## ITEM 17. Voting Client Securities

### PIMCO's Proxy Voting Policies and Procedures

PIMCO has adopted written proxy voting policies and procedures (the "Proxy Policy") as required by Rule 206(4)-6 under the Advisers Act. In addition to the voting of equity securities, the Proxy Policy also applies generally to voting and/or consent rights of PIMCO, on behalf of Clients, including Funds, with respect to debt securities, including but not limited to, plans of reorganization, and waivers and consents under applicable indentures. The Proxy Policy does not apply, however, to consent rights or corporate actions that PIMCO believes primarily entail decisions relating to the purchase or sale of investments, such as tender or exchange offers, conversions, put options, redemption and Dutch auctions. PIMCO seeks to vote or elect on such consents or corporate actions in the best interests of Clients. The Proxy Policy is designed and implemented in a manner reasonably expected to ensure that voting and consent rights are exercised in the best interests of Clients, including Funds and their shareholders.

With respect to the voting of proxies relating to equity securities, PIMCO has selected an unaffiliated third-party proxy research and voting service ("Proxy Voting Service"), to assist us in researching and voting proxies. With respect to each proxy received, the Proxy Voting Service researches the financial implications of the proposals

and provides a recommendation to PIMCO as to how to vote on each proposal based on the Proxy Voting Service's research of the individual facts and circumstances and the Proxy Voting Service's application of its research findings to a set of guidelines that have been approved by PIMCO. Upon the recommendation of the applicable account's portfolio manager(s), PIMCO may determine to override any recommendation made by the Proxy Voting Service. In the event that the Proxy Voting Service does not provide a recommendation with respect to a proposal, PIMCO may determine to vote on the proposals directly.

PIMCO's Credit Research Group is directly responsible for issuing recommendations on voting and consent rights with respect to debt securities held by an account. Each member of the Credit Research Group assigned to issue a voting recommendation has a duty to disclose any potential, actual or apparent material conflict of interest known to such person relating to that voting recommendation. PIMCO considers each proposal regarding a debt security on a case-by-case basis taking into consideration any relevant contractual obligations as well as other relevant facts and circumstances at the time of the vote. In general, PIMCO reviews and considers corporate governance issues related to proxy matters and generally supports proposals that PIMCO believes foster good corporate governance practices. PIMCO may vote proxies as recommended by management on routine matters related to the operation of the issuer and on matters not expected to have a significant economic impact on the issuer and/or its shareholders.

PIMCO may determine not to vote a proxy for a debt or equity security if: (1)

the effect on the applicable account's economic interests or the value of the portfolio holding is insignificant in relation to the account's portfolio; (2) the cost of voting the proxy outweighs the possible benefit to the applicable account, including, without limitation, situations where a jurisdiction imposes share blocking restrictions which may affect the ability of the portfolio managers to effect trades in the related security; or (3) PIMCO otherwise has determined that it is consistent with its fiduciary obligations not to vote the proxy. In addition, voting proxies of issuers in non-U.S. markets may give rise to a number of administrative issues that may prevent PIMCO from voting proxies within these jurisdictions. For example, PIMCO may receive meeting notices without enough time to fully consider the proxy or after the cut-off date for voting. Other markets may require PIMCO to provide local agents with power of attorney prior to implementing PIMCO's voting instructions. Although it is PIMCO's policy to vote all proxies for securities held in client accounts for which PIMCO has voting authority, in the case of non-U.S. issuers, PIMCO votes proxies on a best efforts basis.

In the event that the Proxy Voting Service does not provide a recommendation or the portfolio manager(s) of an account proposes to override a recommendation by the Proxy Voting Service, or credit analyst as applicable, PIMCO will review the proxy to determine whether there is a material conflict between PIMCO and the applicable account or between the account and another account advised by PIMCO. If no material conflict exists, the proxy will be voted according to the portfolio manager's recommendation. If a material conflict does exist, PIMCO will seek to resolve the conflict in good faith and in the

best interests of the applicable account, as provided by the Proxy Policy. The Proxy Policy permits PIMCO to seek to resolve material conflicts of interest by pursuing any one of several courses of action. With respect to material conflicts of interest between PIMCO and an account, the Proxy Policy permits PIMCO to either: (i) convene a committee to assess and resolve the conflict (the "Proxy Conflicts Committee"); or (ii) vote in accordance with protocols previously established by the Proxy Conflicts Committee with respect to specific types of conflicts. With respect to material conflicts of interest between an account and one or more other PIMCO-advised accounts, the Proxy Policy permits PIMCO to: (i) designate a PIMCO portfolio manager who is not subject to the conflict to determine how to vote the proxy if the conflict exists between two accounts with at least one portfolio manager in common; or (ii) permit the respective portfolio managers to vote the proxies in accordance with each account's best interests if the conflict exists between accounts managed by different portfolio managers. These conflicts can favor one Client over another, or favor PIMCO over a Client. For additional information regarding such potential conflicts, please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading." PIMCO will supervise and periodically review its voting and consent activities and the implementation of the Proxy Policy.

Except as required by law, PIMCO will not disclose to third parties how it voted on behalf of a Client. However, upon request from an appropriately authorized individual, PIMCO will disclose to its Clients how PIMCO voted such Client's proxy. In addition, a Client may obtain copies of PIMCO's

Proxy Policy and information as to how its proxies have been voted by contacting PIMCO.

### **Alternative Proxy Voting Arrangements**

With respect to those Client accounts for which PIMCO is not authorized to vote proxies or to give consents in connection with corporate actions, such Clients should arrange to receive proxy solicitation materials directly from their custodian. If Clients have questions with respect to a particular proxy solicitation, please contact your PIMCO account representative. In certain Wrap Programs, PIMCO may not be delegated the responsibility to vote proxies held by the Wrap Program accounts and, instead, the Sponsor or another service provider will generally vote such proxies. Clients in such Wrap Programs should contact the Sponsor for a copy of the Sponsor's proxy voting policies.

## **ITEM 18. Financial Information**

Because PIMCO does not require or solicit prepayment of more than \$1,200 in fees per Client six months or more in advance, this item is inapplicable to us.



# Appendix A Principal Owners

The following affiliated entities own 25% or more of PIMCO indirectly.

Principal Owner of PIMCO	Entity in Which Interest is Owned
Allianz SE	Allianz Europe B.V.
Allianz Europe B.V.	Allianz of America Inc.
Allianz of America Inc.	Allianz Asset Management of America LLC
Allianz Asset Management of America LLC	Allianz Asset Management of America L.P.
Allianz Asset Management of America L.P.	Pacific Investment Management Company LLC



## Appendix B Fee Schedules

Our basic Separate Account fee schedules are listed below and are based on a percentage of an account's assets. The fee schedules, which are subject to change, may be negotiated under certain circumstances. When determining fee rates, we will take into account, among other things, a Client's composite, strategy, account discretion, servicing levels and contracting counterparties. Fee rates are listed on a per annum basis. Clients may pay higher or lower fees than outlined below. The fee schedules for Wrap Programs where we contract directly with a Wrap Program Client for advisory services (as opposed to a Wrap Program where our advisory fee is included within the Wrap Program fee) can be found after the Separate Account fee schedules as follows.

### FIXED-INCOME

#### Convertible Bonds

On All Assets	0.500%
Minimum Account Size:	\$75 million

#### Commodities

##### Fixed Fee:

First \$50 million	0.490%
Next \$100 million	0.450%
Thereafter	0.400%
Minimum Account Size:	\$75 million

##### Performance Fee:

Base Fee of 0.150% plus 22.5% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size:	\$100 million
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##### Commodity Short:

On All Assets	0.490%
Minimum Account Size:	\$75 million

#### Credit

##### Bank Loans:

On All Assets	0.500%
Minimum Account Size:	\$100 million

##### Credit Absolute Return

On All Assets	0.600%
Minimum Account Size:	\$75 million

##### U.S. Investment Grade:

First \$100 million	0.300%
Next \$100 million	0.275%
Thereafter	0.250%
Minimum Account Size:	\$100 million

##### Global Investment Grade:

First \$100 million	0.350%
Next \$100 million	0.300%
Thereafter	0.250%
Minimum Account Size:	\$100 million

##### High Yield:

First \$100 million	0.500%
Thereafter	0.300%
Minimum Account Size:	\$75 million

##### Long Credit:

First \$100 million	0.300%
Next \$100 million	0.275%
Thereafter	0.250%
Minimum Account Size:	\$75 million

##### Diversified Income:

First \$100 million	0.500%
Next \$100 million	0.450%
Thereafter	0.400%
Minimum Account Size:	\$75 million

#### Developing Local Markets

On All Assets	0.450%
Minimum Account Size:	\$100 million

#### Emerging Local Bonds

First \$100 million	0.500%
Thereafter	0.450%
Minimum Account Size:	\$100 million

#### Emerging Market Bonds

##### Fixed Fee:

First \$100 million	0.450%
Thereafter	0.350%
Minimum Account Size:	\$100 million

##### Performance Fee:

Base Fee of 0.200% plus 20.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size:	\$100 million
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#### Emerging Market Corporate Bonds

First \$100 million	0.850%
Thereafter	0.750%
Minimum Account Size:	\$100 million

#### Floating Income

First \$100 million	0.450%
Thereafter	0.400%
Minimum Account Size:	\$75 million

#### Global Government (Global Aggregate)

##### Fixed:

First \$100 million	0.350%
Next \$100 million	0.300%
Thereafter	0.250%
Minimum Account Size:	\$75 million

##### Performance Fee:

Base Fee of 0.150% plus 15.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size:	\$100 million
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#### Global Advantage

First \$100 million	0.550%
Next \$100 million	0.450%
Thereafter	0.400%
Minimum Account Size:	\$100 million

#### Global Advantage Real Return

(Full Discretion)

On All Assets	0.425%
Minimum Account Size:	\$100 million

#### Long Duration

##### Fixed Fee:

First \$100 million	0.300%
Next \$100 million	0.275%
Thereafter	0.250%
Minimum Account Size:	\$75 million

##### Performance Fee:

Base Fee of 0.150% plus 15.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size:	\$100 million
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#### Low/Moderate Duration

##### Fixed Fee:

First \$50 million	0.375%
Thereafter	0.250%
Minimum Account Size:	\$75 million

##### Performance Fee:

Base Fee of 0.150% plus 15.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size:	\$100 million
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#### Low Duration Restricted

##### Fixed Fee:

First \$100 million	0.200%
Next \$300 million	0.150%
Next \$300 million	0.125%
Thereafter	0.100%
Minimum Account Size:	\$75 million

##### Performance Fee:

Base Fee of 0.125% plus 15.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size:	\$100 million
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## Money Market

On All Assets	0.1125%
Minimum Account Size:	\$150 million

### Money Market Plus

First \$200 million	0.125%
Thereafter	0.100%
Minimum Account Size:	\$150 million

## Mortgage

### Mortgage:

On All Assets	0.250%
Minimum Account Size:	\$75 million

### Mortgage LIBORPlus:

First \$200 million	0.270%
Thereafter	0.250%
Minimum Account Size:	\$75 million

### Mortgage BOLI:

First \$600 million	0.200%
Next \$700 million	0.175%
Thereafter	0.150%
Minimum Account Size:	\$75 million

### Mortgage LIBOR Plus BOLI:

First \$600 million	0.230%
Next \$700 million	0.205%
Thereafter	0.180%
Minimum Account Size:	\$75 million

## Municipal Bonds

### Assets \$25 million and above:

On All Assets	0.250%
Minimum Account Size:	\$25 million

### Assets \$10-\$25 million:

On All Assets	0.290%
Minimum Account Size:	\$10 million

### Municipal Cash/Short Term

First \$100 million	0.150%
Next \$100 million	0.140%
Thereafter	0.130%
Minimum Account Size:	\$25 million

## Municipal Focus

First \$100 million	0.390%
Thereafter	0.350%
Minimum Account Size:	\$50 million

## Municipal Inflation Protection

On All Assets	0.300%
Minimum Account Size:	\$25 million

## Real Return

### U.S.:

On All Assets	0.250%
Minimum Account Size:	\$75 million

### Global:

On All Assets	0.290%
Minimum Account Size:	\$75 million

### Region/Single Currency:

On All Assets	0.250%
Minimum Account Size:	\$75 million

## Short Term

First \$200 million	0.200%
Next \$200 million	0.150%
Thereafter	0.125%
Minimum Account Size:	\$100 million

## Short Term Full Authority

### Performance Fee:

Base Fee of 0.150% plus 15.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size: \$100 million

## Short Term Restricted

### Fixed Fee:

First \$200 million	0.150%
Next \$300 million	0.125%
Thereafter	0.100%
Minimum Account Size:	\$100 million

### Performance Fee:

Base Fee of 0.125% plus 12.5% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size: \$100 million

## Stable Value

### Standard:

First \$50 million	0.375%
Next \$550 million	0.250%
Thereafter	0.200%
Minimum Account Size:	\$75 million

In addition to asset management fees, stable value portfolios may incur fees or other charges associated with stable value investment contracts issued by insurance companies, banks, and other financial institutions,

### Fixed Maturity/Restricted:

On All Assets	0.200%
Minimum Account Size:	\$75 million

## Total Return

### Fixed Fee:

First \$25 million	0.500%
Next \$25 million	0.375%
Thereafter	0.250%
Minimum Account Size:	\$75 million

### Performance Fee:

Base Fee of 0.150% plus 15.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size: \$100 million

## Unconstrained Bond

First \$200 million	0.600%
Thereafter	0.550%
Minimum Account Size:	\$75 million

## Equities

## Emerging Market Equity

### Standard:

First \$75 million	1.000%
Next \$75 million	0.900%
Thereafter	0.850%
Minimum Account Size:	\$75 million

### Below Minimum:

First \$25 million	1.100%
Next \$25 million	1.050%
Next \$25 million	0.900%
Next \$75 million	0.875%
Thereafter	0.850%

## Pathfinder

First \$50 million	0.800%
Next \$50 million	0.650%
Next \$100 million	0.600%
Thereafter	0.550%
Minimum Account Size:	\$25 million

## Dividend

First \$50 million	0.800%
Next \$50 million	0.650%
Next \$100 million	0.600%
Thereafter	0.550%
Minimum Account Size:	\$25 million

## StocksPLUS

Base Fee of 0.100% plus 20.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size:	\$100 million
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## StocksPLUS TR

Base Fee of 0.150% plus 15.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size:	\$150 million
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## StocksPLUS Long Duration

First \$300 million	0.375%
Thereafter	0.350%
Minimum Account Size:	\$75 million

## StocksPLUS PARS III

On All Assets	1.480%
Minimum Account Size:	\$300 million

### **High Tracking Error/Levered Alpha**

Core Products with Alpha Target  
>150 bps gross (two options available):

Base Fee of 0.200% plus 15.0% of outperformance over the applicable index ONLY; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.  
Minimum Account Size: \$100 million; or

Base Fee of 0.200% plus 20.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size: \$100 million

Emerging Markets with Alpha Target  
>150 bps gross:

Base Fee of 0.250% plus 20.0% of outperformance over the applicable index ONLY; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period. Minimum

Account Size: \$100 million; or

Base Fee of 0.250% plus 25.0% of outperformance over the applicable index plus the Base Fee; subject to quarterly draw on the Base Fee; no cap; rolling 12-month measurement period.

Minimum Account Size: \$100 million

For Non-Core products with Alpha Target  
> 150 bps gross:

A 0.05% premium will be added to the base fee and if performance over Index + Base – a 5% premium will be added to the participation rate.

### **Wrap Program Fee Schedule**

For Wrap Programs where we contract directly with a Wrap Program Client for advisory services (as opposed to a Wrap Program where our advisory fee is included within the Wrap Program fee), a Wrap Program Client may pay us between 0.15% and 0.40% of the assets in the Wrap Program account.

## Appendix C Information Regarding PIMCO Affiliates

PIMCO, a Delaware limited liability company, is a majority owned subsidiary of Allianz Asset Management of America L.P., a Delaware limited partnership, with minority interests held by Allianz Asset Management of America LLC, a Delaware limited liability company (“AAM LLC”) and PIMCO Partners, LLC, a California limited liability company. PIMCO Partners, LLC is owned by current and former officers of PIMCO. AAM LLC is the sole general partner of Allianz Asset Management of America L.P. Allianz of America, Inc., a Delaware corporation, has a non-managing interest in AAM LLC. Allianz Europe B.V. wholly-owns Allianz of America, Inc. Allianz SE wholly-owns Allianz Europe B.V. and is the indirect 100% owner of the sole managing member of AAM LLC.

### Broker-Dealer Affiliates

PIMCO Investments LLC

Allianz Global Investors Distributors LLC

### Investment Adviser Affiliates

Allianz Global Investors Fund Management LLC

Allianz Global Investors U.S. LLC

PIMCO Asia Pte Ltd.

PIMCO Australia Pty Ltd.

PIMCO Europe Ltd.

PIMCO Japan Ltd.

PIMCO Global Advisors (Ireland) Limited

PIMCO Luxembourg IV S.A.

PIMCO Canada Corp.

PIMCO Asia Limited

PIMCO Deutschland GmbH

PIMCO Latin America Administradora de Carteiras Ltda.

### Non-U.S. Advisers

PIMCO Asia Limited, a Hong Kong-based investment adviser regulated by the Hong Kong Securities and Futures Commission

PIMCO Europe Ltd., a London-based investment adviser regulated by the Financial Services Authority

PIMCO Global Advisors (Ireland) Limited, a Dublin-based investment adviser regulated by the Irish Financial Services Regulatory Authority

PIMCO Luxembourg IV S.A., a Luxembourg-based investment adviser regulated by the Commission de Surveillance du Secteur Financier

PIMCO Deutschland GmbH, a German-based dual registered investment adviser and broker-dealer regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

PIMCO Japan Ltd., a Tokyo-based investment adviser regulated by the Japanese Financial Services Authority

PIMCO Australia Pty Ltd., a Sydney-based investment adviser regulated by the Australian Securities and Investments Commission

PIMCO Asia Pte Ltd., a Singapore-based investment adviser regulated by the Monetary Authority of Singapore

PIMCO Latin America Administradora de Carteiras Ltda., a Brazil-based investment adviser regulated by the Securities and Exchange Commission of Brazil

PIMCO Canada Corp., a Toronto, Canada based investment adviser regulated by the Ontario Securities Commission

## Appendix D Methods of Analysis and Investment Strategies

### Introduction

PIMCO combines top-down macroeconomic forecasting with rigorous bottom-up credit analysis in its investment process. PIMCO's cyclical and secular economic forums drive the top-down element of the firm's investment process which begins with an annual secular forum in which investment professionals from all our offices convene. Industry experts give presentations on various global economic and financial topics, followed by discussions among PIMCO's investment professionals regarding the outlook for the global economy and interest rates over the next three to five years. At the completion of the discussions, the investment professionals collectively determine a bullish, neutral or bearish outlook. In addition to the secular three to five year horizon, PIMCO's investment professionals hold quarterly economic forums to discuss near term trends and to establish a cyclical outlook. The portfolio management group considers these outlooks in a separate quarterly meeting to translate global economic themes and specific views on market conditions and relative value into interest rate, sector, quality, and volatility strategies. PIMCO's bottom-up research on individual securities considers such factors as finances, credit quality, call risks and structures. Additionally, PIMCO is a signatory to the United Nations-backed Principles for Responsible Investment ("UNPRI"). The UNPRI recognize that environmental, social and corporate governance ("ESG") issues can affect the performance of investment portfolios, and must be given appropriate consideration by investors. Accordingly, PIMCO has formally incorporated ESG factors into our investment process when evaluating the long-term sustainability of a company. Individual PIMCO strategies are discussed below.

### I. Traditional Fixed Income Strategies

**Convertible Bond Strategy** portfolios seek to add value through in-depth fundamental credit research and analytical modeling of equity options and warrants, within the context of our macro-economic forecasting process. We seek to maintain a balanced risk/reward profile; emphasize modest participation with rising equity prices while shielding against significant declines; emphasize issues with capital appreciation potential and good credit fundamentals; diversify risk across multiple industries and sectors; and use an option-adjusted duration, which will typically not exceed three years. The portfolio's weighted average delta (a measure of the portfolio's sensitivity to changing equity values) will generally not exceed 70%.

We assess the value of convertible bonds by considering trends in demographics, political factors, and structural changes in the global economy refined by quarterly cyclical economic forecasts. We seek to

identify companies with stable or improving credit fundamentals and prospects for improving equity prices by evaluating the strength and predictability of each company's cash flow, the quality of assets, the strength of the management team, the company's competitive stance and financial flexibility, and the covenants of the convertible security. Finally, we analyze the convertible's attached equity option or warrant using financial models. We limit investment in any given issuer to under 5% and in a single industry to under 15%.

**Investment-Grade Credit Strategy** portfolios invest primarily in creditworthy corporate issuers having a debt rating of BBB- or greater by at least one of the nationally recognized credit rating agencies. In addition to corporate bonds, the strategy may invest in investment-grade sovereign bonds, as well as supranational issuers. Our philosophy for investing in global corporate and sovereign credit markets embodies four key principles:

- Evaluate relative value across the fixed income market and credit spectrum.
- Maximize return while preserving capital by focusing on credits demonstrating solid or improving fundamentals with the potential for capital appreciation through improvements in credit quality.
- Retain a claim on improving global economic and credit conditions while guarding against credit events through long-term assessment of underlying economic and financial fundamentals with an emphasis on avoiding credit "black holes."
- Diversify broadly across regions, industries and issuers.

The strategy is managed with a view to the global economy and markets, but investment decisions and value-added opportunities come primarily from traditional bottom-up credit analysis.

**Credit Absolute Return Strategy** uses a global approach to credit selection with a focus on generating attractive absolute returns without the constraint of a



benchmark. In an effort to achieve this goal, the strategy's portfolio is constructed from PIMCO's best bottom-up corporate credit ideas across investment grade, high yield, bank loans and other corporate securities.

While the strategy is designed to adhere to PIMCO's investment philosophy and risk management process, it will have significant flexibility to increase and reduce its sensitivity to credit markets in an effort to achieve its absolute return objective in various market environments.

In periods when credit offers attractive relative value, for example, the strategy will likely have a greater exposure to the credit markets. In periods where credit spreads are likely to widen, the strategy would likely significantly reduce its sensitivity to credit markets through various hedging strategies and focus more on relative value between sectors in an effort to achieve its absolute return objective.

**Total Return Strategy** portfolios use a core bond strategy that seeks to maximize price appreciation and current income with index-like volatility. We use all major sectors of the bond market to implement a diversified set of strategies including sector rotation, yield curve positioning, and duration management. Duration is managed within a moderate range (between three and six years) around the broadest bond market indices. Our investment process uses both "top-down" strategies focused on duration, yield curve positioning, volatility, and sector rotation, and "bottom-up" strategies driving security selection process and facilitating the identification and analysis of undervalued securities.

**The Unconstrained Bond Strategy** is an absolute return-oriented, investment grade quality fixed income strategy that is not tied to a benchmark nor has significant sector/instrument limitations. The strategy is designed to offer the traditional benefits of a core bond approach – capital preservation, liquidity and diversification – but with higher alpha potential and the opportunity to mitigate downside risk to a greater degree than what is reasonably possible from traditional active fixed income management approaches. The strategy focuses on long-term economic, social and political trends that may have lasting impacts on investment returns. Over shorter cyclical time frames, the unconstrained nature of the strategy allows us to take on more risk when we identify tactical opportunities, and it allows for reduction and diversification of risk when the outlook may be more challenging for traditional fixed income benchmarks.

The Unconstrained Bond Strategy also is offered as a Tax-Managed strategy. It may invest in a broad range of fixed income instruments, which may include up to 40% of its assets in high yield bonds, up to 50% of its assets in non-U.S. dollar denominated securities and may have a duration as short as negative three years or as long as ten years. The strategy will invest at least 50% of its assets in municipal bonds, and employs tax management techniques that attempt to minimize the capital gain realization rate of each portfolio and the level of taxable current income. PIMCO employs a diversified mix of strategies when building tax-efficient total return portfolios; all major sectors of the municipal bond market are utilized in addition to sector

rotation, yield curve positioning, and duration management, and each trade is carefully analyzed for its overall tax-efficiency at both the security and portfolio level. Additionally, short versus long-term capital gain/loss utilization rates and levels of tax-exempt versus taxable income are also factored into portfolio management decisions.

## II. Asset-Backed Strategies ABS/CMBS Strategies

The Asset-Backed Securities ("ABS") and Commercial Mortgage-Backed Securities ("CMBS") strategies have a high-quality focus and a preference for liquidity premium over credit premium. PIMCO's approach to ABS is to generate yield by identifying credit risks within ABS securities. Given the decreased volatility in CMBS, PIMCO aims to target relative value opportunities through structural and tactical market mispricings. We use a comprehensive approach to ABS and CMBS that combines top-down macroeconomic forecasting with rigorous bottom-up credit analysis. PIMCO also looks at traditional relationships between the performance of commercial real estate vs. other sectors including investment grade corporate bonds, high yield bonds and leveraged loans, among others.

**ABS Strategies** actively trade in student loans, auto, credit card, equipment and other more esoteric asset-backed securities. Analysis of the ABS securities is multi-faceted and is largely sector-specific. We conduct independent, rigorous bottom-up analysis of every ABS security we consider for our portfolios, regardless of credit ratings.

**CMBS Strategies** use a loan-level underwriting and loss estimation model that can be applied to both CMBS bonds and many commercial real estate collateralized debt obligation structures. PIMCO analyzes the cash flow generated by the underlying property (e.g., an office building or shopping center) and applies forecasts by property type and markets. These forecasts are coupled with capitalization rate forecasts based on current and historical capitalization rate trends as well as those implied by other relevant markets, including REIT equities. The resulting value forecast is applied across the pool of assets and used to forecast loan defaults and ultimate recoveries.

### Mortgage LIBOR Plus Strategy

The Mortgage LIBOR Plus strategy aims to generate consistent excess returns over a LIBOR benchmark with limited volatility through active cash management and relative value strategies in mortgages, governments and derivative instruments. The strategy seeks to capture relative value through long/short strategies by opportunistically extracting value from structural and tactical market mispricings. While we emphasize agency pass-throughs, our mortgage investment process still looks to all segments of the vast MBS market to add value.

### Mortgage-Backed Securities Strategy

This strategy emphasizes actively managed exposure to agency pass-throughs while also looking for attractive risk-adjusted return opportunities in all segments of the larger MBS market. PIMCO's dedicated mortgage portfolios will be primarily concentrated in Agency MBS holdings. We seek securities that offer the highest total return potential for the lowest

amount of risk. We take a multi-faceted approach to MBS valuation, with three major components:

- **Option-Adjusted Spread ("OAS"):** We use OAS modeling as a relative valuation tool when comparing securities, together with supplemental analysis.
- **Empirical Modeling:** Empirical modeling serves as a tool designed to systematically exploit market opportunities. Market prices can reflect prepayment information, and the extent of prepayment information embedded in market prices combined with the liquidity of MBS make empirical analysis a useful tool.
- **Technical Analysis:** The major MBS investors, such as banks, mortgage servicers and insurance companies, are often driven by accounting motives rather than value. As a total return value investor PIMCO seeks to profit from this type of trading.

### III. Duration Strategies

Our duration philosophy is founded on the principle of diversification and we seek to maximize total return, consistent with the preservation of capital. PIMCO focuses on credit analysis by performing country, industry, company and issue analysis to determine which credits to add to the clients' portfolios. We limit risk taking by focusing on managing excess return versus tracking error, seeking to minimize the volatility of portfolios' excess returns in relation to their benchmarks.

**Long Duration Strategy** portfolios are core fixed income portfolios with durations longer than six years. We utilize all major sectors of the bond market within the scope of the client's guidelines. The PIMCO long duration philosophy is guided by three major principles: First, we pursue a combination of a secular macroeconomic

focus and changing cyclical market trends. Second, we diversify risk while maintaining a high average credit quality. Third we enhance asset-liability matching through advanced proprietary modeling.

The Long Duration portfolio construction process is focused on duration, yield curve positioning and sector allocation with a particular focus on spread product. PIMCO's long duration credit portfolios are primarily composed of long-term investment grade credit fixed income securities, but also may invest in long-term investment grade sovereign bonds, as well as supranational issuers. The strategy focuses on credit demonstrating solid or improving fundamentals.

### Moderate Duration Strategy

portfolios are intermediate core portfolios that seek maximum total return through both current income and price appreciation, consistent with the preservation of capital and prudent risk taking. We utilize all major sectors of the bond market while managing an average portfolio duration ranging between two and five years. This strategy seeks to consistently add value, while maintaining an overall risk level similar to the Barclays Capital Intermediate Government/Credit Index.

**Low Duration Strategy** portfolios seek low volatility of returns and minimal credit risk without sacrificing liquidity. Low duration strategies invest within a diversified range of fixed income securities while maintaining average portfolio duration of one to three years under most market conditions. The strategy extends duration beyond traditional money market and short-term vehicles to develop a greater opportunity set from which to invest. The Low Duration strategy focuses on the higher yielding sectors while attempting to maximize expected total return.

The Low Duration Strategy embodies three key principles. First, major shifts in portfolio strategy should be driven by longer-term views, not by short-term aberrations in interest rates. Second, consistent investment performance may be achieved by avoiding extreme swings in the duration of the portfolio. Third, value may be added through futures and options, as well as through adjustments to traditional variables such as sector, coupon, and quality.

#### IV. Equity-Focused Strategies

PIMCO's StocksPLUS strategies are "enhanced index" strategy, and are designed to outperform a given benchmark equity index and, at the same time, provide a very similar risk level to that of the benchmark. However, unlike passive index strategies, StocksPLUS endeavors to provide investors with excess returns.

The strategies combine fixed-income management with equity exposure via derivatives (typically equity index futures and swaps) that are collateralized by a fixed income portfolio. Because equity index ownership using futures and swaps typically only requires a very modest initial cash outlay, PIMCO typically invests the remaining cash in an actively managed bond portfolio that references a bond index. The fixed income portfolio tends to have both a low correlation to equities and a focus on capital preservation, and the combination gives StocksPLUS the potential to mitigate the volatility of the equity exposure. Equity exposure is managed to minimize the cost associated with equity index futures and swap ownership, typically a money market-based cost. Because equity index futures contracts are priced such that a combination of futures and money market investments should

produce a return equal to that of the equity index, our objective is to manage the fixed income assets to outperform money market rates, and thereby generate an incremental return over the index. Unlike active or enhanced index strategies that seek to generate excess returns by altering the stock holdings and/or weights relative to the index, StocksPLUS seeks to achieve its excess return without incurring any non-benchmark equity market risk.

***The StocksPLUS Long Duration Strategy*** invests most of its cash in an actively managed bond portfolio which references the Barclays Capital Long-Term Government/Credit Bond Index.

***The StocksPLUS PARS Strategy*** seeks to deliver attractive excess returns relative to a given equity index over three- to five-year periods. In this strategy, PIMCO invests the majority of the client's retained cash investment in one of the PIMCO Absolute Return Strategies. PIMCO Absolute Return Strategies are fixed-income based investment approaches designed to provide excess returns over LIBOR with no material expected correlation with the bond market.

***In the StocksPLUS Total Return Strategy***, PIMCO invests most of the client's cash in an actively managed low- to intermediate- duration total return style core bond portfolio.

#### V. Active Equity Strategies

PIMCO offers a number of actively managed equity strategies that seek to capture attractive risk adjusted returns using a rigorous investment process and comprehensive industry, company and security analysis to select stocks with the potential to outperform the broader market.

***Pathfinder Strategy*** utilizes a deep value equity investing approach. This approach seeks attractive risk-adjusted returns by investing in stocks trading at significant discounts to their intrinsic value. Deep value investing utilizes fundamental bottom-up security analysis to identify businesses available at steeply discounted prices with a margin of safety built into the price of the stock. This disciplined investment approach seeks to deliver attractive long-term returns with relatively low volatility.

Deep value offers long-term equity investors the potential for attractive returns even in periods of slow growth and may therefore be especially attractive in the current environment. Over the next three to five years, PIMCO expects subdued growth in the developed markets, higher growth in emerging economies, and increasing regulation and government intervention – an economic environment we call the New Normal. These shifting growth dynamics are expected to create notable gaps between short-term trends and longer-term structural realities, which, in turn, may obscure the underlying value of many securities.

Deep value investing has the potential to discover these mispriced securities and seeks to outperform the broad global equity markets while exhibiting lower volatility over a full market cycle. It aims to provide consistent added value across market cycles with meaningful downside risk mitigation.

***Emerging Markets Equity Strategy*** Emerging nations increasingly drive global economic growth, and the PIMCO Emerging Markets Equity Strategy combines the firm's emerging markets (EM) expertise with the stock-picking prowess of a team of experienced emerging market equity investors to deliver a compelling opportunity for investors to capture attractive risk-adjusted returns.

Because so many linked variables – including country, currency, industry and stock-specific risk factors – affect market performance, a holistic investment process that links bottom-up equity selection with top-down macroeconomic analysis is the best way to capture the opportunities available in emerging market equities. The strategy's goal is to outperform the MSCI Emerging Markets Index over a full market cycle by utilizing a comprehensive and risk-managed framework.

**Dividend Strategy** is intended for investors seeking current income, growth of income, and potential for capital appreciation. The PIMCO Dividend and Income Builder Strategy is a global, integrated strategy aimed at delivering an attractive yield today, the potential for a growing income stream over time, while also seeking long-term capital appreciation by investing in dividend-paying equities and select fixed income securities. And for investors specifically interested in equity income solutions, the PIMCO Dividend Strategy invests almost exclusively in dividend-paying equities in an effort to generate attractive dividend income today and long-term capital appreciation.

## VII. Global Bond Strategies

PIMCO offers a number of developing markets, emerging markets, and global strategies. PIMCO's approach to global bond investing has three key principles:

- **Multiple Strategies.** We employ multiple concurrent strategies and take only moderate risk in each, thereby seeking to reduce risk of poor performance arising from any single source. Strategies utilized include duration management, yield curve or maturity structuring, sector rotation and all bottom-up techniques using our in-house credit and quantitative research.

- **Long-Term Orientation.** We maintain a disciplined focus on our secular views to better identify long-term value and prevent our trading decisions from being overly influenced by emotion and short-term market sentiment.
- **Broad Universe.** We select from a broad universe that includes all conventional fixed income sectors as well as newer, less traditional sectors,

PIMCO considers a developing market to be any non-U.S. country, excluding those countries that have been classified by the World Bank as high-income Organisation for Economic Cooperation and Development ("OECD") economies. PIMCO may consider additional countries as developing market countries, based on a broader assessment on their development stage. PIMCO has broad discretion to identify countries that it considers to qualify as emerging markets. In exercising such discretion, we identify countries as emerging markets consistent with the strategic objective of a particular strategy. We may consider a country to be an emerging market country based on a number of factors including, but not limited to, if the country is classified as an emerging or developing economy by any supranational organization such as the World Bank or the United Nations, or related entities. Our emerging markets and developing markets strategies emphasize high quality countries that offer the most attractive risk-adjusted-return opportunities over a market cycle. We seek to avoid countries with a high risk of default or credit deterioration. The following key principles guide our disciplined investment process:

- **Favor countries with strong or improving underlying fundamentals, attractive valuations, and potential return catalysts.**

- **Synthesize PIMCO's top-down macroeconomic forecasts with individual country assessments to gauge risks from the external environment and global economy.**
- **Avoid countries that lack an economic and policy framework supportive of their fundamentals as well as those that are susceptible to a de facto deterioration in credit quality or financial contagion due to imbalanced market technicals.**
- **Complement fundamental analysis with a rigorous security selection process to both ensure consistency between views and portfolio positioning and take advantage of relative value opportunities across and within markets.**

### **The Emerging Local Bond Strategy**

invests primarily in fixed income instruments denominated in the currencies of the emerging markets.

### **The Emerging Markets Bond Strategy**

uses a multi-step process to guide our emerging markets investment decisions. This process provides the basis for our country weighting, duration, curve, currency and instrument selection decisions, as well as relative value assessments.

Our approach to sovereign analysis guides both strategic and tactical decisions and is based on the following:

- **Strong underlying credit fundamentals;**
- **Limited risk from the external environment and global economy; and**
- **Absence of susceptibility to a de facto deterioration of credit quality or financial contagion due to imbalanced market technicals.**



**Emerging Markets Corporate Bond Strategy** is designed for investors seeking to capitalize on the secular factors which favor a strategic allocation to emerging markets more generally: their rising contribution to global economic activity and a trend improvement in creditworthiness. Continued growth—a high priority—will require investment, particularly in infrastructure. In addition, as emerging country governments seek to utilize the fiscal credibility they have built over the past decade to preserve growth amidst a global recession, their fiscal stimulus measures have been largely directed at infrastructure. This suggests that the strategy may benefit further from cyclical forces currently at work in emerging markets.

Emerging markets infrastructure bonds, used tactically, seek to increase performance within both core total return type bond portfolios and dedicated emerging markets accounts. Strategically, the characteristics of emerging markets infrastructure bonds complement traditional asset classes in terms of alpha generation, while providing the additional benefit of diversification.

**Non-U.S. Bond Strategies** are actively managed to maximize total return potential while minimizing any increase in risk relative to the market benchmark. We seek to outperform a broad fixed income benchmark on a consistent basis, while maintaining overall risk similar to the index.

**The Global Advantage Strategy** is designed to help fixed-income investors seize opportunities produced by dramatic secular shifts in the global economy. The strategy invests in fixed-income securities from both developed and developing markets, and is benchmarked to the proprietary PIMCO Global Advantage Bond Index (GLADI™), a GDP-weighted index intended to offer investors an improved fixed-income market “beta.”

**The Global Bond Strategy** is actively managed to maximize total return potential while minimizing any increase in risk relative to the market benchmark. Our approach seeks to outperform a broad fixed income benchmark on a consistent basis, while maintaining overall risk similar to the index.

**The Global Credit Opportunity Strategy (“GCOS”)** aims to provide investors with pure credit alpha across multiple credit markets by investing assets including U.S. corporate credit, European corporate debt, high yield bonds, emerging market debt and a broad range of asset-backed securities. The strategy focuses on relative value strategies and seeks to own highly diversified assets, and is expected to have very low correlation to traditional market betas.

**The Global Short Term Strategy** seeks a higher risk/return profile in order to improve on the returns provided by a typical money market vehicle. The strategy seeks to generate excess returns relative to its three-month USD LIBOR benchmark by investing in money market, short maturity and longer-maturity global fixed-income securities on a currency hedged basis, consistent with preservation of capital and a high level of liquidity. PIMCO uses all major sectors of the bond markets to implement a diversified set of strategies including country, currency and sector rotation, yield curve positioning and duration management.

## VII. High Yield Strategies

High Yield and High Yield Spectrum Strategies seek to lower portfolio volatility while enhancing returns by investing in below-investment grade fixed income securities. Our global fixed income philosophy embodies these key principles:

- Bottom-up credit research incorporating top-down economic framework.
- Total return approach, not just yield focused.
- Focus on credits with best risk/return profile.
- Seek to limit risk through issuer and industry diversification.

In addition, the High Yield Spectrum Strategy focuses on global credit opportunity set resulting from expertise in many regions and credit sectors. PIMCO’s credit analysts focus on: 1) business model 2) cash flow 3) balance sheet, and 4) security structure. The specific metrics and financial ratios will vary based on the industry and as a result the format of reporting the analysis will also vary. In addition, emphasis on the four factors listed above will also depend on the industry.

## VIII. Income Strategies

PIMCO’s income strategies focus on adding potential value through effective sector rotation and incorporates a disciplined approach to credit selection. Our philosophy for investing in global corporate and sovereign credit markets embodies four key principles:

- Evaluate relative value across the fixed income market and credit spectrum.
- Maximize return while preserving capital by focusing on credits demonstrating solid or improving fundamentals with the potential for capital appreciation through improvements in credit quality.
- Retain a claim on improving global economic and credit conditions while guarding against credit events through long-term assessment of underlying economic and financial fundamentals with an emphasis on avoiding credit “black holes.”



- Diversify broadly across regions, industries and issuers.

### ***The Diversified Income Strategy***

compares all of the available issues for a given issuer to select the security that offers the best value, focusing on the valuation of each issue relative to its specific features, such as currency of issue, call risk, seniority within the capital structure, and covenants.

***The Floating Income Strategy*** is a multi-sector strategy that invests across a broad spectrum of credit market sectors including global corporate credit (investment grade and high yield) and emerging market debt. It seeks to capitalize on attractive investment opportunities offered by these sectors while minimizing interest rate exposure. The strategy primarily invests in floating and variable rate securities, short duration securities, or combinations of fixed-rate bonds and derivative instruments that together create floating income exposure. The strategy focuses on securities whose income tends to rise when interest rates are rising, which helps mitigate interest rate risk.

***Senior Floating Rate Strategy*** offers actively managed exposure to floating rate loans, or bank loans, that provide a floating rate of income.

This strategy may provide investors with attractive risk-adjusted return potential, particularly during a rising rate environment.

## **IX. Money Market Strategies**

PIMCO's Money Market strategies are designed to maximize current income while preserving capital and providing daily liquidity. Our investment process utilizes both "top-down" and "bottom-up" strategies, as discussed above in the Introduction.

### ***The Government Money Market***

***Strategy*** traditionally invests in short-term, high-quality fixed income securities issued by the U.S. government or its agencies. These include Treasury notes and bills, agency debentures and discount notes, and repurchase agreements collateralized by these securities. Our government money market investment strategy combines a simple core investment philosophy, extensive research analytics, and a highly effective decision-making process. We have traditionally used internal modeling and our knowledge of broad market sectors, both domestic and non-U.S., to construct portfolios consistent with client return and volatility objectives. To contain relative performance volatility, we have attempted to manage portfolio return volatility to approximate that of an associated benchmark.

### ***The Prime Money Market Strategy***

seeks to consistently outperform both a passive and active benchmark without taking on excess risk. The passive benchmark is represented by the Citigroup 3 Month Treasury Bill Index and the active benchmark is represented by the Lipper Money Market Index of the 30 largest money market mutual funds. PIMCO attempts to manage portfolio return volatility to approximate that of an associated benchmark.

***The Short-Term Strategy*** is designed to improve on the return provided by a typical money market vehicle. The strategy invests in high quality money market and short maturity fixed income securities, and also may invest a very modest portion of the portfolio in global securities issued outside of the U.S. and can have non-U.S. dollar currency exposure. It differs from traditional money market strategies because it invests in longer maturities and a broader opportunity set of securities which may generate excess

relative returns with only a modest increase in risk compared to traditional money market instruments.

## **X. Municipal Bond Strategies**

We manage municipal bond portfolios with the same core investment process used for all of our strategies: maximize after-tax total returns; minimize tax liabilities; use a longer-term horizon for decision making; employ extensive risk analytics; and emphasize multiple value-added techniques.

We customize our analytics for municipal-specific factors, such as municipal yield volatility, call option costs, and tax exposures. We concentrate on relative value opportunities across global debt sectors, selecting the most fairly valued securities. We seek to hold well-structured municipal bonds, being compensated appropriately for risks relating to calls, credit quality, liquidity, tax liabilities, and market supply-demand conditions. We avoid undue reliance on a limited set of strategies, which could lead to greater return volatilities and large tracking errors relative to the stated benchmark.

PIMCO engages in issuer-specific credit analysis, both at purchase and on an ongoing basis. We actively manage portfolios not only to invest in certain strategically selected issuers and securities, but also to change the portfolio structure should credit conditions change. Further, active management allows for management of capital gains and losses, working to minimize the tax effect of gains, while harvesting losses when available.

We offer the following municipal bond strategies: California, High Yield, MuniGo, National, New York, Short Duration, and Tax-Managed Real Return. Below is additional information about some of these strategies:

**National Municipal Bond Strategy** portfolios seek to generate and retain a competitive after-tax rate of interest income. A secondary, and important, goal is to generate long-term capital appreciation, consistent with capital preservation.

**Short Duration Municipal Bond Strategy** portfolios are designed to be appropriate for investors seeking tax-exempt income. The strategy consists of a diversified portfolio of primarily short duration, high credit quality municipal bonds that carry interest income that is exempt from federal tax and in some cases state tax.

## **XI. Real Asset Strategies**

Real Return investments incorporate real assets that have a positive correlation to inflation. These assets diversify traditional stock and bond holdings, which historically have not performed well in higher inflationary environments. The key real assets we focus on are: Treasury Inflation-Protected Securities ("TIPS") and global inflation-linked securities; commodities, which historically have provided both diversification and inflation hedging; and real estate, with a focus on securitized real estate. All of PIMCO's real return products rely on our core competency in fixed income management, with the objective of maximizing real return while seeking preservation of the real capital of a portfolio.

**Commodities-Based Strategies** use indices that calculate the returns to a hypothetical portfolio that contain only long positions in commodity futures contracts, passively managed, on a fully collateralized basis. The index represents holding positions according to a set of rules that we passively administer. These rules typically require that commodities that are more

important in world trade are more important in the index. The index also assumes that positions are consistently rolled forward, so that the investor seeking index-like returns is always exposed to changes in the expected future prices of the actual commodities. Moreover, the index assumes unleveraged investment. Finally, a commodity index captures return from multiple sources, including the return on assets that collateralize the futures positions and the price risk assumed by long positions in commodity futures markets that commodity producers seek to avoid.

### **The Diversified Real Asset Strategy**

is seeks to gain strategic exposure to TIPS, commodities, and real estate. These asset classes individually and collectively achieve the goals of diversification and inflation-hedging. Diversified Real Asset provides actively managed, strategic exposure to these real return asset classes (Triple Real® approach) by tracking a benchmark that is composed of equal one-third weights of Barclays Capital U.S. TIPS Index, Dow Jones-UBS Commodity Index, and Dow Jones U.S. REIT Index.

### **Global Real Return Strategies**

include several types of inflation-adjusted products.

### **Inflation Linked Bond Strategies**

("ILBs"), which offer liquidity, low credit risk, and a direct link to inflation. In ILB management, our full authority approach incorporates an active management philosophy, using multiple strategies involving real return and conventional debt sectors in our efforts to add value above the benchmark. We also manage return volatility relative to a designated benchmark. Our limited authority approach seeks to add value above the benchmark returns but controls return volatility relative to the

benchmark more closely than that targeted under full authority assignments. We seek to maintain relatively high exposures (above 80%) to ILBs, a high average credit quality (AA or higher), and limited duration differentials between real return accounts and their benchmarks.

**All Asset Strategies**, which take advantage of PIMCO's bond management by investing in several different PIMCO products managed by our portfolio specialists. To add value through active allocation among those products, the strategy engages a sub-advisor with long and specific experience in asset class allocation, which are measured by two benchmarks. The primary is the Barclays Capital U.S. TIPS 1-10 Year Index (All Asset) or S&P 500 (All Asset All Authority) and the secondary, which is believed to more accurately reflect the Strategies' long-term investment approach, is CPI+5% (All Asset) or CPI+6.5% (All Asset All Authority).

**Real Estate Strategies** use derivatives linked to a real estate index to gain basic exposure to the asset class. This provides exposure to the investment returns of the REIT market, without investing directly in individual REIT securities. Investments in real estate-linked derivative instruments may subject the portfolio to greater volatility than investments in traditional securities. We attempt to enhance this approach by fully collateralizing those derivatives, and then managing the collateral in a way that seeks to outperform the financing rate built into the derivatives. We back our REIT swaps with TIPS, which should provide an effective inflation hedge. With a longer duration than money markets, TIPS also provide a closer match to the longer duration of liabilities of most investors.

***Inflation Response Multi-Asset Strategy*** is designed to provide a comprehensive portfolio solution for investors seeking diversified exposure to the broad opportunity set of inflation-related investments, including assets that respond to different types of inflation. These include Treasury Inflation-Protected Securities (TIPS), commodities, emerging market (EM) currencies, real estate investment trusts (REITs) and gold. The strategy may also tactically employ floating rate securities in the event of deflation or extreme market shock. PIMCO actively manages the overall asset allocation as well as the underlying exposures in an effort to enhance returns relative to a static, passive approach. PIMCO also seeks to enhance returns by incorporating tail risk hedging strategies, which are designed to limit the impact of periodic market stresses that may affect inflation-related assets. By combining these potential benefits, the strategy can serve as a compelling comprehensive investment for those seeking to not only hedge inflation, but also potentially benefit from inflation dynamics.

## **XII. Asset Allocation**

***Emerging Multi-Asset Strategy*** is designed to provide a comprehensive portfolio solution for investors seeking diversified exposure to the broad emerging markets opportunity set. This includes EM equities, local and external EM sovereign debt, EM corporate bonds and EM currencies. It can also include the tactical use of commodities to express targeted EM investment themes. PIMCO actively manages the overall asset allocation as well as the underlying exposures, in an effort to enhance returns relative to a static, passive approach. PIMCO also seeks to enhance returns by incorporating tail-risk hedging

strategies, which are designed to limit the impact of periodic market stresses that may affect emerging economies. By combining these potential benefits, Emerging Multi-Asset can serve as a compelling comprehensive investment for those seeking to participate in the upside potential of emerging markets while mitigating downside risk.

***The Global Multi-Asset Strategy*** invests in global equities, global bonds, diversified commodities and real estate. The strategy uses a differentiated “risk factor”-based approach to asset allocation and our strategic insight on the global macroeconomy to construct a portfolio that is highly diversified across asset classes and global risk factors. The strategy also uses “tail risk” hedging that seeks to protect the portfolio against sudden market shocks by purchasing inexpensive hedges across various liquid markets. The strategy features a qualitative, forward-looking asset allocation process.

***Real Retirement™ Target Date Strategy*** portfolios are client-tailored target date portfolios that dynamically manage various asset class exposures to help balance risk and return as the portfolios move toward investors’ expected retirement dates. RealRetirement Strategies are differentiated by target retirement dates (e.g. 2010, 2020, 2030, 2040, and 2050). The portfolios combine PIMCO’s risk management strategies across asset classes, our long-standing experience in inflation-hedging Real Return investments, and our approach of highly diversified long-term investing.

PIMCO’s RealRetirement Strategies are designed to maximize growth in the inflation-adjusted purchasing power of retirement savings and to minimize the chance that a retiree will face a bad outcome due to financial market volatility.

RealRetirement differs from many first generation target date portfolios primarily by adding broader asset diversification and reducing exposure to equities. Although equities can play an important role in generating attractive long-term returns, an overemphasis on equities has often left investors with highly concentrated risk, even as they approach their retirement date – the point at which they are least able to tolerate a market downturn. In contrast, RealRetirement diversifies across asset classes, incorporating real assets (inflation-linked bonds, real estate and commodities) in addition to equities and fixed income, to help provide a well-rounded asset allocation aimed at mitigating the effects of inflation and market volatility as individuals save toward their retirement.

***Tail Risk Strategy*** utilizes asymmetric hedge overlay portfolios that help clients mitigate downside risk. Hedge portfolios can be constructed for traditional and non-traditional portfolios and for portfolios that contain assets, liabilities or combinations of the two.

## **XIII. Other Strategies**

***Bank Loan Strategy*** portfolios invest primarily in the upper tiers of the U.S. bank loan market that are mainly secured by first-lien asset obligations, but also may invest in second-lien debt at much more modest levels, when valuations relative to associated risks merit investment. We take a moderate approach with respect to risk in our bank loan portfolios, emphasizing three key principles: (1) higher-quality focus; (2) diversification; and (3) focus on improving credits. The loan selection process finishes with thorough, traditional, fundamental credit research on companies within the industries we find attractive, which includes on-site visits.

**PIMCO Absolute Return Strategy (“PARS”)**

portfolios seeks to produce absolute returns while not tied to traditional investment benchmarks, allowing the strategy flexibility in identifying and implementing the most optimal investment strategies. The strategy sells short individual securities and uses leverage and derivatives. Portfolio Managers diversify investment portfolios across a broad array of risk factors and they employ a significant number of security-specific strategies. Because the strategy is not tied to a benchmark or other constraints, it is not subject to factor exposures that might underperform on an absolute basis and instead can take advantage of differences in regional economic cycles, growth trajectories, and relative valuations within sectors. PARS portfolios magnify the principal risk factor exposures of PIMCO Total Return and Global bond portfolios but without undesired benchmark risks. Broad benchmark risks include but are not limited to continuous long exposure to interest rates, credit, mortgages and other issues.

In addition to the strategies discussed above, PIMCO also may, at the client’s request, employ a Tail Risk Strategy by constructing asymmetric hedge overlay portfolios that help mitigate portfolio downside risk. Hedge portfolios can be constructed for traditional and non-traditional portfolios and for portfolios that contain assets, liabilities or combinations of the two.

**Stable Value** portfolios are actively managed, diversified strategies that primarily invest in investment grade fixed income securities and a variety of stable value investment contracts issued by insurance companies, banks and other financial institutions. Contracts, such as wrap contracts, are intended to help reduce principal volatility of, while providing steady

income from, associated fixed income investments. The average duration of a portfolio’s investments will vary over time, but will typically have an average duration of two to four years. The portfolio may also invest in cash or other liquid investments, such as a short-term investment-fund, to help meet portfolio liquidity needs.

## Appendix E PIMCO Privacy Policy

We consider customer privacy to be a fundamental aspect of our relationship with clients. We are committed to maintaining the confidentiality, integrity, and security of our current, prospective and former clients' personal information. We have developed policies designed to protect this confidentiality, while allowing client needs to be served.

In the course of providing you with products and services, we and certain of our service providers may obtain non-public personal information about you. This information may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from your transactions, from your brokerage or financial advisory firm, financial adviser or consultant, and/or from information captured on our Internet web sites.

As a matter of policy, we do not disclose any personal or account information provided by you or gathered by us to non-affiliated third parties, except as required or permitted by law or for our everyday business purposes, such as to process transactions or service your account. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on client satisfaction, and gathering shareholder proxies. We may also retain non-affiliated financial service providers, such as broker-dealers, to market our products, and we may enter in joint marketing agreements with them and other companies. These companies may have access to your personal and

account information, but are permitted to use the information solely to provide the specific service or as otherwise permitted by law. We may also provide your personal and account information to your brokerage or financial advisory firm and/or to your financial adviser or consultant.

We reserve the right to disclose or report personal information to non-affiliated third parties in limited circumstances where we believe in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect our rights or property, or upon reasonable request by any of our mutual funds in which you have invested. In addition, we may disclose information about you or your accounts to a non-affiliated third party at your request or if you consent in writing to the disclosure.

We may share client information with our affiliates in connection with servicing your account, and subject to applicable law may provide you with information about products and services that we or our affiliates believe may be of interest to you. The information that we may share may include, for example, information about our or our mutual funds' experiences and transactions with you, your participation in our mutual funds or other investment programs, your ownership of certain types of accounts (such as IRAs), information captured on our Internet websites, or other data about your accounts, subject to applicable law. Our affiliates, in turn, are not permitted to share your information with non-affiliated entities, except as required or permitted by law.

We take seriously the obligation to

safeguard your non-public personal information. In addition to this policy, we have implemented procedures that are designed to restrict access to your non-public personal information to our personnel who need to know that information to perform their jobs, such as servicing your account or notifying you of new products or services. Physical, electronic, and procedural safeguards are in place to guard your non-public personal information.