

March 30, 2020

PIMCO

Pacific Investment  
Management Company LLC  
Form ADV  
Part 2A Brochure



Pacific Investment Management Company LLC  
650 Newport Center Drive  
Newport Beach, California 92660

<http://www.pimco.com/>

Form ADV Part 2A Brochure

March 30, 2020

This brochure provides information about the qualifications and business practices of Pacific Investment Management Company LLC ("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 30, 2020 serves as an annual update to the Brochure. In addition to certain routine updates made in connection with the annual update, we have made changes to the following sections since the last annual update filed March 29, 2019:

**ITEM 4: Advisory Business.** Updated to provide information regarding PIMCO Services LLC and risks related to Model Portfolios.

**ITEM 8: Material Risks of Significant Strategies and Significant Methods of Analysis.** Updated to provide additional information about risks associated with significant strategies implemented by PIMCO.

**ITEM 10: Other Financial Industry Activities and Affiliations.** Updated to provide information regarding PIMCO Services LLC and PIMCO's acquisition of Gurtin.

**ITEM 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading.** Updated to provide additional information relating to PIMCO's cross trade policies and procedures.

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## ITEM 4. Advisory Business

### Our Firm

Pacific Investment Management Company LLC ("PIMCO," "we," or "us") is a leading global investment management firm founded in Newport Beach, California in 1971, with more than 2,800 employees in offices in Newport Beach, Austin, Bermuda, Chicago, Hong Kong, London, Milan, Munich, New York, Sao Paulo, Singapore, Solana Beach, Sydney, Taipei, Tokyo, Toronto, and Zurich. 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 uses the resources of our offices around the world to provide portfolio management, research and trading services for client accounts (each, a "Client" or "Account"). The PIMCO entity with which a client has 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. Biographical information relating to certain key investment management personnel is contained in the supplement to this brochure.

### Assets Under Management

As of December 31, 2019, PIMCO managed approximately \$2,571,910,740,224 of regulatory assets under management and \$1,913,685,354,369 of net assets under management, respectively. For purposes of calculating our AUM, we included the assets of clients contracted with the non-U.S. investment advisers affiliated with PIMCO listed in Appendix C (the "Non-U.S. Advisers") in addition to assets we manage on behalf of Allianz-affiliated companies. We did not include the assets of clients contracted with Gurtin Fixed Income Management, LLC ("Gurtin"), which is an affiliate and wholly-owned subsidiary of PIMCO and an investment adviser registered with the SEC. PIMCO acquired Gurtin

on January 2, 2019. For more information on PIMCO's acquisition of Gurtin, please see "New Affiliations" in Item 10.

### 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, open-end funds, closed-end funds (exchange listed funds and interval funds), exchange traded funds ("ETFs"), collective investment trusts ("CITs"), private investment funds (such as private equity-style funds and hedge funds) and structured products. PIMCO is a provider of solutions 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 that seek to appropriately manage risk, hedge exposures, and seek returns consistent with Client guidelines. We have considerable experience in an array of global investment strategies, which include both fixed income and equity strategies. As markets evolve we will seek to employ new strategies and manage new 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.** PIMCO provides investment management services to Clients through a global team of investment professionals.

The investment professionals employed by PIMCO are devoted primarily to the management of Accounts. Client portfolio management teams include portfolio managers, risk managers, research analysts, economists, and others who assist in the development of investment ideas, implementation of portfolio strategies and risk analysis.

**Separate Account Management.** The client 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 concentrate the vast majority of their time to investment activities. Client management professionals work closely with the portfolio management team to implement each Separate Account's investment guidelines. Client management professionals 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, Talent Management, Operations, Finance, and Technology Departments. One key function of the business management team is to manage back-office operations. We have outsourced certain 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, including, but not limited to: (i) coordinating asset transitions; (ii) assisting with the maintenance and update of our security master database; (iii) processing trades; (iv) communicating trade and settlement directives to the relevant account's 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 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.

Some clients grant PIMCO limited discretion with respect to the assets in their Account ("Non-Discretionary Accounts"). For example, a Client may require that PIMCO seek the Client's approval prior to any buy or sell transactions in the Client's Account. In these instances our ability to transact on behalf of the Client will be limited. Therefore, a Non-Discretionary Account may not be able to obtain comparable 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 depending on the circumstances of the transaction and the limitations of the Account. Similarly, a Non-Discretionary Account may not be able to participate in certain investment opportunities. For these reasons, a Non-Discretionary Account may achieve lower returns compared to a comparable Account that grants PIMCO full discretion. For more information on non-discretionary Accounts, please see "Potential Conflicts Relating to Non-Discretionary Advisory Services" in Item 11.

**Other Services.** From time to time PIMCO engages in related business activities, including licensing of intellectual property with respect to, for example, the development of methodologies for compiling and calculating a benchmark index. We license or sell our intellectual property rights in such methodologies to third parties who use such methodologies to create and issue investment products that are based on such indices and/or correlated to the underlying components of such indices. We also license or sell our intellectual property rights in such methodologies to third parties who use such methodologies to develop a benchmark index or use such methodologies to calculate performance on a financial product. In certain cases, such third parties pay us a portion of the subscription or licensing fees they receive in connection with such indices. In connection with the licensing of our indices, we will in certain cases receive a fee for entering into certain hedging transactions on behalf of the licensee of the index (or another third party) or for permitting third parties to engage in such hedging transactions. Other examples of related business activities include, among other things,

entities owned by or otherwise affiliated with us or owned by certain Clients that we manage or sponsor, including Clients that are pooled investment vehicles ("PIMCO Funds" or "Funds"), providing loan servicing, consulting, legal, accounting, tax, due diligence, asset management or other services to certain Clients or portfolio companies or other investments directly or indirectly owned by such Clients. PIMCO has formed PIMCO Services LLC, a wholly-owned subsidiary of PIMCO (the "Services Company"), to serve as a service provider for certain Clients. For additional information relating to the Services Company please see "Payments Made to Service Providers and Other Third Parties" under Item 5.

**Securities Lending.** While PIMCO primarily offers investment management services, we generally do not enter into securities lending arrangements for our Clients (other than for the PIMCO Funds, as defined below). 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 will enter into securities lending transactions although PIMCO does not manage the investment of collateral in connection with such arrangements (other than securities lending arrangements for the PIMCO Funds). 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 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 "Claims Process" in Item 12, which would include any loss relating to PIMCO's sale of a security that is not available in an Account due to such Client's securities lending activities.

PIMCO Funds engage in securities lending, as described in their respective offering documents.

**Litigation, Class Actions and Bankruptcies.** As an investment manager, we are asked from time to time to decide whether to participate in litigation, including by filing proofs of claim in class actions, or bankruptcy proceedings for assets held in an Account. As a general matter, it is the Client's responsibility to monitor and analyze its portfolio and consult with its own advisers and custodian about whether it may have claims that it should consider pursuing. PIMCO cannot, without express 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 an Account, although we do undertake such activities for the PIMCO Funds. In the case of Separate Account Clients, upon mutual agreement of PIMCO and the Client and receipt of a letter of authorization and Power of Attorney, we will assist Clients or their custodian in assembling transaction information to file a proof of claim (such as a class action or bankruptcy claim) on behalf of their Account. Generally, a Separate Account's custodian should receive all documents for these matters because the securities are held in the Client's name at the custodian and the Separate Account Client should direct its custodian as to the manner in which such matters should be handled. In connection with bankruptcies, reorganizations or other transactions we will enter into releases of claims, provide indemnities, file lawsuits or otherwise participate in legal



actions, or take similar actions at our discretion, where permitted, on behalf of PIMCO Funds and Separate Accounts in order for those Funds and Clients to participate (or participate to the extent PIMCO believes desirable) in the bankruptcy, reorganization or other transaction, although we are under no obligation to do so. Any such action will bind the Client with respect to the securities or other investments with respect to which the action was taken. In addition, to the extent that a Client holds assets such as bankruptcy claims, we may, but will not be obligated to, take such actions as we believe desirable in order to realize the value of such asset.

Clients that are currently or were formerly investors in, or otherwise involved with, the investments that are the subject of a legal action may or may not (depending on the circumstances) be parties to the particular legal action, with the result that a Client may participate in an action in which not all Clients with similar investments may participate. In these instances, non-participating Clients may benefit from the results of such actions without bearing or otherwise being subject to the associated fees, costs, expenses and liabilities.

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

Upon selecting an investment strategy, Clients typically provide PIMCO with specific investment parameters in the form of investment guidelines. The investment guidelines may include, for example, restrictions on investing in certain securities, such as product types, issuers or securities with certain attributes. The investment guidelines form a part of our management agreement with a Client and we manage the 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 lower 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. Accordingly, when we establish a Separate Account relationship with a Client, we ask for the Client's name, address, and other information or documentation (e.g., a formation document or tax document) that will allow us to identify and verify the Client and the source of Client funds that are being invested.

### **Wrap and Similar 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"). Certain Sponsors are 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, which is generally covered by a single "wrap" fee. Clients 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/or 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 Wrap Program disclosure documents and the agreement between the Client and the Sponsor. Sponsors 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 a registered investment adviser or another Sponsor, a "Wrap Program Brochure"). All Wrap Program Clients and prospective



Wrap Program Clients should carefully review the terms of the agreement with the Sponsor and the relevant Wrap Program Brochure to understand the terms, services, minimum account size and any additional fees or expenses that are associated with a Wrap Program account.

PIMCO makes available through Wrap Programs certain of 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 and not every PIMCO strategy that is available through a particular Wrap Program will be available through other Wrap Programs. Further, 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 Wrap Program Client or due to 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, appropriate or advisable for any particular Wrap Program 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 Wrap Program Client, as discussed below. For its services, PIMCO typically receives a portion of the wrap or other fee paid to the Sponsor, or is paid a fee by the Wrap Program Client. 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 the portion of each Discretionary Wrap Program Client's Account that is managed by PIMCO 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 Wrap Program 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 Wrap Program Client serve to limit PIMCO's freedom of action with respect to an Account and, as a result, the performance of Accounts for which such investment restrictions are imposed will differ from, and may be worse than, the performance of Accounts within the same strategy that lack such restrictions.

PIMCO participates in Wrap Programs sponsored by unaffiliated, third-party Sponsors as well as Wrap Programs sponsored by an affiliate of PIMCO. PIMCO typically 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 by certain Sponsors includes 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 provides or compensates a Sponsor for marketing support or other services provided. Additionally, affiliated Sponsors will 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 with 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. Under normal circumstances, Accounts will generally be fully invested in accordance with the relevant investment strategy within 90 days of PIMCO managing the Account. 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 Wrap Program Client's risk and expense and without taking into account any adverse tax consequences to the Wrap Program 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 Wrap Program Clients for consultation (either individually or in conjunction with Sponsor personnel), upon a Wrap Program 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, PIMCO may be engaged as a sub-adviser by

other investment advisers to manage client accounts outside of a Discretionary Wrap Program.

In addition, with respect to Discretionary Wrap Programs, PIMCO has entered into an arrangement with SEI Global 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 and not the Discretionary Wrap Program Clients.

In addition to the advisory services we provide in the Discretionary Wrap Programs, we also 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 (which includes allocations to direct investments or to PIMCO Funds, or a combination thereof) 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. In certain Non-Discretionary Wrap Programs, the Sponsor who exercises investment discretion may direct PIMCO to place orders for the execution of purchase and sale transactions for Wrap Program Client portfolios. In such case, trades for the Wrap Program Client will typically occur after trades placed for non-wrap Accounts, potentially resulting in inferior execution. Similarly, for Non-Discretionary Wrap Program Clients, to the extent PIMCO does not have trading authority, it is likely that a Sponsor will execute trades after PIMCO has made similar trades for its non-wrap Clients and such execution may be impacted by PIMCO's execution.

### **Stable Value Investment Management Service**

PIMCO offers a wide variety of stable value services, including 1) full-service stable value management, in which PIMCO handles all aspects of the stable value investment strategy; 2) investment-only fixed income management where PIMCO is hired directly by plan sponsors to manage their stable value portfolio; or 3) fixed income sub-advisory services whereby PIMCO is

hired by other stable value managers and insurance companies to manage all or a portion of the assets of a fixed income portfolio. 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.

## Model Portfolios

PIMCO develops and maintains model portfolios ("Model Portfolios") that are typically comprised of PIMCO Funds but may be comprised of separately managed accounts managed by PIMCO or a third party or pooled investment vehicles managed by a third party (collectively, "underlying investments"). These Model Portfolios are licensed or otherwise made available to third party managers and intermediaries. Such firms may use Model Portfolios as investment strategies for managing their underlying clients' accounts. The Model Portfolios aim to provide exposure to investment strategies that collectively reflect PIMCO's investment outlook. Model Portfolio allocations are based on what PIMCO believes to be generally accepted investment theory. As further described below, a variety of factors influence the inclusion or exclusion of an underlying investment in a Model Portfolio. In adjusting Model Portfolios, PIMCO considers, among other things, the results of quantitative modeling. Such quantitative modeling is designed to optimize each Model Portfolio's allocation and align with the Model Portfolio's investment objective, and takes into account various factors or "inputs", determined by PIMCO, including third party data, to generate a suggested allocation for the Model Portfolios. PIMCO's investment team then reviews the quantitative output and adjusts the output to reflect variables, which may include, among other things, the anticipated trade size, target total expense ratio for the Model Portfolio, and qualitative investment insights. PIMCO Model allocations are ultimately subject to the discretion of PIMCO's investment team. Model Portfolio allocations are not based on any particularized investor's financial situation, or need, although, in some instances they may be designed or modified to meet certain

investment guideline parameters of third party platforms on which the Model Portfolio(s) may be made available and, unless specifically stated otherwise, are not intended to be, and should not be construed as, a forecast, research, investment advice or a recommendation for any specific PIMCO or other strategy, product or service.

The risks of a Model Portfolio allocation will be based on the risks of the underlying investments represented in the Model Portfolio allocation. The Model Portfolio allocation is subject to the risk that the selection of the underlying investments and the allocation and reallocation of the Model Portfolio allocation's assets among the various underlying investments may not produce the desired result. Model Portfolios may not fully reflect the impact that material economic and market factors might have had on PIMCO's decision making if PIMCO had actually managed a client portfolio with assets pursuant to the Model Portfolio since its inception. The allocations to underlying investments have changed over time and may change in the future. As described above, the selection and weighting process across underlying investments is partially informed based on return estimates driven by PIMCO's quantitative models and forecasts for key risk factor inputs and forward looking view and risk estimates driven by PIMCO's analytic infrastructure ("Systems"). These Systems rely heavily on the use of proprietary and nonproprietary data, software, hardware, and intellectual property, including data, software and hardware that may be licensed or otherwise obtained from third parties. The use of such Systems has inherent limitations and risks. Although PIMCO takes reasonable steps to develop and use Systems appropriately and effectively, there can be no assurance that PIMCO will successfully do so. Errors may occur in the design, writing, testing, monitoring, and/or implementation of Systems, including in the manner in which Systems function together. The effectiveness of Systems may diminish over time, including as a result of market changes and changes in the behavior of market participants. The quality of the resulting analysis, including the Model Portfolio allocations, depends on a number of factors including the accuracy and quality of data inputs into the Systems,

the mathematical and analytical assumptions and underpinnings of the Systems' coding, the accuracy in translating those assumptions into program code or interpreting the output of a System by another System in order to facilitate a change in market conditions, the successful integration of the various Systems into the portfolio selection and trading process and whether actual market events correspond to one or more assumptions underlying the Systems.

The Model Portfolios are subject to management risk, which is the risk that the investment techniques and risk analyses applied by PIMCO in assembling the Model Portfolios will not produce the desired results, and that certain policies or developments may affect the investment techniques available to PIMCO in connection with managing the strategy. Investment professionals responsible for implementing a Model Portfolio may or may not allocate to underlying investments consistent with the Model Portfolio, and actual allocations to underlying investments may vary. There are expenses associated with the underlying investments in addition to any fees charged by implementing investment professionals. Additionally, the implementing investment professional may include cash allocations, which are not reflected, or exclude or substitute certain underlying investments. Information about Model Portfolios is made available on certain financial intermediary and other platforms and is updated periodically in accordance with the Model Portfolio's defined production schedule. Any investment in an investment company will be subject to the terms and conditions of the investment company's prospectus and statement of additional information.

The Model Portfolios are expected to consist of 100% Funds or a very significant percentage of Funds, although in limited cases PIMCO may be engaged to create Model Portfolios that include other PIMCO-advised products or third party funds or investment products. A conflict of interest exists with respect to PIMCO selecting the Funds for the Model Portfolios, because PIMCO and its affiliates provide services and receive fees from the Funds, and therefore the Model Portfolios' investments in Funds will benefit PIMCO and its affiliates. The fees that PIMCO and

its affiliates receive from the Model Portfolios' investments in the PIMCO Funds are typically PIMCO's only compensation with respect to the Model Portfolios. This conflict of interest could result in Model Portfolios with lower performance or higher fees than they would have had if the Model Portfolios did not invest in PIMCO Funds.

The investment results achieved by a Model Portfolio at any given time may not be the same as the investment results achieved by other PIMCO Funds or Accounts for which PIMCO acts as investment adviser, including Funds or Accounts with names, investment objectives, benchmarks or policies similar to the Model Portfolio. There is no guarantee that the use of a Model Portfolio will result in effective investment outcomes. In addition, PIMCO cannot guarantee the availability for purchase of any Fund or investment product, as applicable, at any particular time or, to the extent a Model Portfolio includes an allocation to ETFs, that an active trading market for ETF shares will develop or be maintained or that their listing will continue or remain unchanged. Model Portfolios are developed in part on the basis of historical data regarding particular economic factors and securities prices that may be ineffective as a result of changes in the market and/or changes in the behavior of other market participants.

Model Portfolios are provided "as-is," and PIMCO makes no express or implied warranties of merchantability or fitness for a particular purpose or use. Although PIMCO takes reasonable steps to develop Model Portfolios, there can be no assurance that PIMCO will successfully do so. Errors may occur in the design, testing, monitoring, transmission or implementation of Model Portfolios. PIMCO generally does not classify errors and/or mistakes that it may make in connection with a Model Portfolio to be Trade Errors (as defined below) and PIMCO is not responsible for losses associated with errors and/or mistakes related to a Model Portfolio.

## **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 asset size, as noted in Appendix B however such minimums may be waived by PIMCO in its sole discretion. PIMCO also provides customized products and services, including non-discretionary investment management services, upon mutual agreement, and fees for such products and services are separately negotiated. Our fees are generally billed quarterly or monthly in arrears; however, some Clients opt to 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. In addition, as described herein, PIMCO also charges performance-based fees in certain circumstances.

**Separate Accounts.** For discretionary investment management services to Separate Accounts, we typically charge a fee that is based on a percentage of the Separate Account's assets under management. Customized fee arrangements may be available for Clients such as those with performance-based fees or for strategies for which fees are based on notional assets. 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 take into account, among other things, a Separate Account's investment strategy, the level of discretion given to PIMCO, the extent of the Separate Account's servicing requirements, the Client's total assets under management aggregated across the Client's relationship with PIMCO and certain of its affiliates, the source of the assets, relationship to PIMCO (i.e., whether the Client is an affiliate or employee) and the type and nature of the Separate Account. PIMCO is generally not obligated to provide notice to, or obtain the consent of, one Client when reducing, waiving, or modifying fees or other contractual terms with any other Client. Certain employees or former employees of PIMCO investing in a

Separate Account managed by PIMCO or its affiliates pay reduced management fees in connection with their investment. In addition, certain Separate Account Clients have negotiated and may from time to time seek to negotiate most favored nation ("MFN" and each, an "MFN Client") clauses in their investment management agreements with PIMCO. These provisions generally require PIMCO to notify the MFN Client if PIMCO has entered or subsequently enters into a more favorable fee arrangement with a similarly situated or comparable Client and offer the MFN Client the same fee arrangement. The applicability of these MFN provisions typically depends on the degree of similarity between Clients based on certain factors, including, but not limited to, the amount of assets under management, overall relationship size, fee structure, servicing level, source of assets, relationship to PIMCO (i.e., whether the Client is an affiliate or employee), investment strategy, guidelines, and reporting requirements. PIMCO does not agree to MFN provisions in all circumstances.

With respect to discretionary Separate Accounts, if a Client gives us discretion to use Client assets on which we charge an asset-based management fee to purchase interests in the Funds, we will generally rebate a portion of the Separate Account fees back to the Client in an amount that approximates 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). Depending on the Fund, we also rebate all or a portion of the Fund's supervisory and administrative fee. 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 Account is permitted to invest, together with a schedule showing the applicable fee rates and rebates, where applicable. If we purchase interests in unaffiliated funds, such as ETFs or other funds, that are not advised or sub-advised by PIMCO, 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 U.S. registered and non-U.S. registered 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 not with individual 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 documents.

**PIMCO Private Funds.** We provide discretionary investment management services to U.S. and non-U.S. domiciled private funds that are not registered under the Investment Company Act of 1940, as amended (the “1940 Act”), and whose interests are not registered under the Securities Act of 1933, as amended (the “Securities Act”) (each, a “Private Fund”). Certain Private Funds are managed on a standalone basis, while others are managed as part of a “master-feeder” structure wherein one or more feeder funds invest their assets in one or more master funds.

Each Private Fund’s offering documents include information about the fees and expenses paid by the Private Fund. For discretionary investment management services to Private Funds, we are paid from each Private Fund’s assets management fees generally ranging from 0.00% to 1.60%, which are typically based on invested and reinvested capital or net asset value. These management fees are negotiable, are paid in arrears, and may vary for different Private Fund investors, typically based on commitment size or subscription amount. The management fees and other fees and distributions paid by Private Funds described herein are generally subject to modification, waiver, rebate or reduction, or may be calculated differently with respect to any investor, by PIMCO in its sole discretion, both voluntarily and on a negotiated basis with selected investors via side letter

and other arrangements, which generally are not disclosed to other investors in a Private Fund. The fee structures described herein may be modified from time to time. Fees may differ among investors in the same Private Fund. We are also paid administration fees generally ranging from 0.00% to 0.40%, which are also typically based on invested and reinvested capital or net asset value, as applicable. In some cases, the management fees and administration fees described above are paid on a combined, or unified fee, basis and such fees for certain Private Funds may be based on notional value, as described in the offering documents for such Private Fund.

In addition, we or our affiliates receive performance-based fees or investment profit allocations (e.g., “carried interest”) with respect to certain of our Private Funds as further discussed in Item 6. Each Private Fund also ordinarily bears its own organizational expenses (in some cases subject to a cap) and certain operating expenses with feeder funds typically bearing a pro rata share of expenses associated with their respective master funds and certain expenses associated with their own specific operations. Further details of these expenses are described in the Private Fund’s offering documents. Certain Private Funds invest in other PIMCO Funds. Depending on the terms of the investing Private Fund, we may or may not rebate a portion of any additional fees paid by the investing Private Fund as a result of its investment in the underlying PIMCO Fund. In addition, in certain cases, we (or our affiliates) receive fees for providing services to Clients, Funds, or portfolio companies. These fees for services may be borne by a Private Fund subject to its governing documents and may not reduce or be offset against the other fees paid by the Private Fund to PIMCO.

Certain investors in a Private Fund that are employees, business associates and other “friends and family” of PIMCO, its affiliates or their personnel will not typically pay management fees or other incentive compensation in connection with their investment in a Private Fund or pay a reduced rate.

PIMCO also serves as an investment manager to CITs. We

are paid portfolio management fees for discretionary investment management services to these funds, and investments in certain of the CITs managed by PIMCO may be subject to additional fees on account of their underlying investments.

### ***PIMCO's Non-Discretionary and Other Business***

***Initiatives.*** Fees for these services are individually negotiated and depend on the type and complexity of the services requested. Clients and prospective 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 Account. Please see Item 12, "Brokerage Practices," for a discussion of our brokerage practices. In addition, Clients may also incur taxes as a result of transactions undertaken in their Account. Further, a Client may also be subject to payment of valued-added, withholding or other applicable taxes, which may be assessed, due or owed in connection with the payment of fees to PIMCO. Although we are under no obligation to do so, PIMCO will inform Clients on a reasonable efforts basis to the extent it is aware of any known tax withholdings.

### ***Payments Made to Service Providers and Other Third***

***Parties.*** PIMCO and its affiliates also engage or otherwise transact with one or more Service Providers (defined herein) in connection with its investment operations, including in respect of portfolio investments. "Service Providers" include, without limitation, consultants (including in connection with the acquisition, management, structuring and disposition of portfolio investments), advisors, transaction finders or sourcers, operating partners, loan and other servicers, loan and other originators, collateral managers, property and other asset managers, investment bankers, accountants, valuation agents, waterfall agents, calculation agents, paying agents, billing and collection agents, trustees, master servicers, software providers, auditors, tax preparers and consultants, pricing service providers,

analytic service providers, pricing/modeling service providers, insurance providers, appraisers, industry or sector experts, joint venture partners, real estate development partners, regulatory and compliance service providers, contract employees, internal and external legal counsel and/or temporary employees (as well as secondees of any of the foregoing), whether working onsite at PIMCO's offices or offsite, and other similar professionals who may be employees of a company owned by, or otherwise related to, a Client or a client of our affiliates ("Affiliate Client").

The amounts of such fees, costs, expenses, liabilities or other compensation received by, or incurred in connection with such Service Providers' services and paid to, such Service Providers may be retained by such Service Providers and such amounts, which may be substantial, will not be deemed paid to or received by PIMCO and its affiliates, and may be borne directly or indirectly by a Client. Compensation arrangements with such Service Providers may be structured in various ways, including project-based fees, time-based (e.g., hourly, weekly or monthly) fees, asset-based fees, management promote, incentive fees and/or profits or equity interest in a portfolio investment.

In addition, certain Service Providers, such as the Services Company, are owned by or otherwise related to, PIMCO, its affiliates, and/or their respective personnel ("Affiliated Service Providers"). In certain cases, personnel of Affiliated Service Providers will have attributes of our employees, including having dedicated offices at PIMCO, participating in general meetings and events for PIMCO personnel, working on PIMCO matters as their primary business activity, and/or being compensated on a bi-weekly or monthly basis by PIMCO rather than on a project basis or otherwise by such Affiliated Service Providers. In some cases, individual personnel of an Affiliated Service Provider (each such individual, a "Dual Employee" and collectively, "Dual Employees") will be a PIMCO employee with respect to certain activities, but will not be considered a PIMCO employee with respect to activities they perform on behalf of an Affiliated Service Provider. Currently, all personnel of the Services



Company are also employees of PIMCO and are Dual Employees, providing certain services on behalf of PIMCO and other services on behalf of the Services Company. It is expected that in the future some individuals will be employed exclusively by the Services Company while others will continue to be Dual Employees.

Dual Employees performing services on behalf of the Services Company and other Affiliated Service Providers will include individuals who have various titles and who perform a variety of different roles at PIMCO, including legal, tax, accounting, compliance and operational professionals and employees, among others. Certain portfolio managers, analysts and other investment professionals of PIMCO in the future may also serve as Dual Employees. The costs of services provided by the Services Company and other Affiliated Service Providers, including the costs associated with Dual Employees and other personnel, will be borne by a Client if permitted by that Client's governing documents, and in such cases will typically not offset or otherwise reduce other fees paid to PIMCO or its affiliates. The payment of compensation to Affiliated Service Providers, including the Services Company, will reduce the costs borne by, and therefore increase the profitability of, PIMCO and its affiliates. Therefore, PIMCO will have a conflict of interest when determining whether, and to what extent to use an Affiliated Service Provider. PIMCO has implemented policies and procedures to mitigate such conflicts.

**Wrap Programs.** As discussed above, Wrap Program Clients typically pay a fee to the Sponsor based on assets managed through the Wrap Program. This fee generally covers most or all of the services provided by PIMCO through the Wrap Program, including 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, the Wrap Program Client compensates PIMCO directly 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 or other investment vehicles, including ETFs; and (iv) taxes and charges such as exchange fees and transfer taxes. In addition, assets managed pursuant to certain Wrap Program strategies that have the ability to invest in a PIMCO ETF will bear the fees and expenses of such PIMCO ETF, which include fees that are paid to PIMCO for services it provides to the PIMCO ETF. Such fees may be in addition to the fees PIMCO receives for managing the Wrap Program.

Clients should carefully review the Sponsor's Wrap Program Brochure and the agreement between Client and Sponsor 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 for certain PIMCO strategies (e.g., municipal bond and other fixed income strategies), PIMCO will typically execute fixed income security transactions for Wrap Program Client Accounts according to PIMCO's trade allocation policy and procedures, which will in most cases result in such trades

being executed away from the Sponsor or the Sponsor's designated broker-dealer. Clients should also be aware that Sponsors typically do 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 typically covers only certain transactions, such as transactions in equity securities that are 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 such 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.

In the event PIMCO is engaged as a sub-adviser by third party investment advisers to manage client accounts outside of a Discretionary Wrap Program, PIMCO is typically paid a portion of that investment adviser's fee from the client, although under certain circumstances PIMCO may be compensated directly by the client.

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.

**Allocation of Expenses.** PIMCO manages multiple PIMCO Funds which have investment objectives that currently, and may in the future, overlap with those of one or more other PIMCO Funds. The appropriate allocation of expenses and fees for investments and investment opportunities between or among PIMCO Funds and its other accounts will be determined by PIMCO and its related persons, respectively, in their good faith discretion, consistent with PIMCO's expense allocation policies and procedures, which are designed to allocate expenses in a fair and reasonable manner among PIMCO Funds. In addition, fees and expenses, including fees and expenses of Service Providers, including the Services Company and other Affiliated Service Providers,

will be allocated in accordance with the Funds' offering or governing documents. To the extent not addressed therein, PIMCO, to the extent it has the authority to do so, will make any such allocation determination in a fair and reasonable manner using its good faith judgment, notwithstanding its interest (if any) in the allocation. As a result, in exercising discretion to allocate fees and expenses, PIMCO is faced with a variety of potential conflicts of interest, which are disclosed in the applicable offering or governing documents. For additional information regarding such potential conflicts, please see Item 11, "Potential Conflicts Relating to Advisory Activities: Potential Conflicts of Interest Stemming from Trade Aggregation and Allocation."

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

As discussed above, certain of our Clients and clients of our affiliates ("Affiliate Clients") will pay us or our affiliates performance-based fees or investment profit allocations in the form of a performance allocation or carried interest. Such performance-based fees and investment profit allocations may create potential conflicts of interest because PIMCO and its affiliates manage Clients and Affiliate Clients with such fee arrangements side-by-side with Clients and Affiliate Clients that we charge a fixed fee based on assets under management. Please see Item 10, "Other Financial Industry Activities and Affiliations" and Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" for a discussion of the conflicts and risks associated with side-by-side management and 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 and sovereign wealth funds, insurance companies, high net-worth individuals, 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, or has acted, as an investment adviser or collateral manager to a number of unregistered structured products including but not limited to Collateralized Debt Obligations ("CDOs"), Collateralized Loan Obligations ("CLOs") and similar structured finance products. We may also sponsor or advise real estate investment trusts (REITs) and business development companies. We have minimum account size requirements for Separate Accounts. Please see our standard fee schedules outlined in Appendix B for more information regarding Separate Account minimums, which may be waived at PIMCO's discretion. As noted in Item 4, Clients may access our investment management services directly, through pooled investment vehicles, or they can be obtained through Wrap Programs. Certain Wrap Programs also impose overall Wrap Program minimums and/or minimums required to maintain an investment option. Wrap Program minimums are determined by the Wrap Program Sponsor. You should consult the Wrap Program Sponsor's Form ADV for more information.

**Privacy Policy.** We are strongly committed to protecting the privacy of our Client's non-public personal information and will not as a matter of policy disclose such information except as required or permitted by law or for our everyday business purposes, such as to process transactions or to service an Account. In the ordinary course of our business, we and certain of our Service Providers need to obtain non-public personal information from Clients. In certain instances, we will share such Client information with affiliated and unaffiliated third parties subject to applicable laws and regulations. For example, we will provide Client information to SSIMS so that SSIMS may provide services to an Account. We will also provide such Client information to a third party where a Client has given us consent to do so (such as to the Client's Custodian), 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 also refer to Appendix E for PIMCO's Client Privacy Policy.

**Use of Information.** Any information provided by PIMCO to a specific Client is intended to be used solely by the recipient in considering the products or services described therein and may not be used for any other reason, whether personal or otherwise.

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

### **Methods of Analysis and Investment Strategies**

PIMCO's macroeconomic forecasting, comprehensive sector and asset analysis and rigorous risk management processes address the challenges of a rapidly changing world. In evaluating securities and other instruments and assets we generally take into account a number of factors, including the fundamental, technical and cyclical characteristics of an asset. For example, PIMCO's analysis of mortgage-backed securities includes analysis of security structures and mortgage prepayment rates using proprietary and third-party analytic tools and databases. Our analysis of investments in public and private foreign issuers and assets, particularly in emerging market countries, includes any of the following: 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, economists, and politicians. PIMCO's analysis of senior loans and bank loans typically includes 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 may include visits with company management, and we seek 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/or has adopted internal processes for assigning internally-generated credit ratings ("Internal Ratings"), which can differ from ratings provided by third-party credit rating agencies ("Agency Ratings") or, where permitted by applicable Client guidelines, will be used

where no Agency Rating is available. Internal Ratings reflect PIMCO's view of an issuer's creditworthiness and PIMCO utilizes a process that may differ from the process used by third-party rating agencies. Internal Ratings are designed to reflect current economic and market conditions applicable to the asset, and take into account a range of any one or combination of factors, including but not limited to the nature of the asset, the ratings assigned by certain rating agencies, 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, Internal Ratings may assess not only probabilities of default, but also expected loss upon default. PIMCO monitors the factors influencing the rating and may periodically re-evaluate Internal Ratings to determine whether changes are necessary. Because Internal Ratings may emphasize certain factors or apply different methodologies than Agency Ratings, there are, or may in the future be, occasions when an Internal Rating is higher or lower than a corresponding Agency Rating for the same issue or issuer. Similarly, events resulting in changes in Agency Ratings will not necessarily result in changes to Internal Ratings or result in changes at similar times. Please see Appendix D for a description of certain of PIMCO's current methods of analysis and investment strategies. Certain PIMCO Funds or investment products use a combination of strategies or strategies not described in Appendix D.

Notwithstanding the foregoing, PIMCO may engage in methods of analysis and investment strategies of any and all types, which exist now or are hereafter created, and uses sub-advisers at times to effectuate any such methods of analysis or investment strategies.

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

The following is a summary of the material risks associated with the significant strategies and significant methods of analysis used by PIMCO. Investing in securities and other instruments and assets involves risk of loss that Clients should be prepared to bear; however,

Clients should be aware that not all of the risks listed herein will pertain to every Account as certain risks may only apply to certain investment strategies. Furthermore, the risks listed herein are not intended to be a complete description or enumeration of the risks associated with the significant strategies and significant methods of analysis used by PIMCO. There can be no assurance that expected or targeted returns for any Client will be achieved.

An investment in an Account is highly risky. There can be no assurance that an Account will achieve its investment objective or any particular level of returns. An investor may lose all of its money by investing in an Account. Among other things, an Account may invest in assets that are underperforming or non-performing and/or in securities of issuers who are under financial stress. By their nature, such investments are considered speculative and entail substantial risks that are generally higher than the risks of investments in performing assets and securities of issuers that are not under financial stress. Any losses in an Account will be borne solely by investors in the Account and not by PIMCO or any of its affiliates (except to the extent they invest capital in the Account, in which case they, with respect to such capital invested, will bear their pro rata portions of such loss).

### ***Alternative Investment Fund Managers Directive.***

Certain Accounts are likely to be considered "alternative investment funds" ("AIFs") for purposes of the European Union's Alternative Investment Fund Managers Directive ("AIFMD"), and PIMCO is considered an "alternative investment fund manager" ("AIFM"). It is possible that AIFMD could restrict certain Accounts from being operated in the manner and on the terms envisaged by PIMCO and/or limit PIMCO's ability to carry out an Account's investment objectives or strategies. In particular, (i) AIFMD increases the regulatory burden and costs of doing business in the European Economic Area ("EEA") member states; (ii) AIFMD imposes extensive disclosure and/or other obligations on certain Accounts and underlying investments that are located in EEA member states, potentially disadvantaging the Accounts

when compared to non-AIF/AIFM competitors that may not be subject to the requirements of AIFMD; and (iii) AIFMD restricts the marketing of certain Accounts to prospective investors in certain states within the EEA.

In certain or all EEA member states, PIMCO may choose not to market the Accounts at its own initiative or otherwise take any action that would result in any measure giving effect to or supplementing the AIFMD applying to PIMCO and the Accounts. In this respect, PIMCO may decide to only accept investors where such investors approached PIMCO at their own initiative or that any measure taken to give effect to or supplement the AIFMD would not otherwise apply to PIMCO or the Accounts or any person acting on their behalf. There is a risk that an EEA member state or regulatory or governmental authority may reach a different conclusion than PIMCO and find that the relevant measures taken in order to give effect to or supplement the AIFMD in one or more EEA member states do apply to PIMCO or the Accounts. Such a finding may result in a regulatory or governmental authority or court in one or more EEA member states requiring PIMCO or the Accounts to return any capital or other funds to investors or otherwise seeking to take other enforcement or remedial action against PIMCO and/or the Accounts. This may result in a reduction in the overall amount of capital available to the Accounts that limit, in turn, the range of investment strategies and investments that the Accounts are able to pursue and make or otherwise result in a loss to the Accounts. Additionally, there is a risk that failure to adhere to the AIFMD could result in penalties or other sanctions, which, among other things, could limit PIMCO's ability to achieve the AIF's investment objective.

**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. Forecasting market movements is difficult, and securities may be mispriced or improperly valued by PIMCO. Securities issued by the same entity, or

securities otherwise considered similar, may not be priced or valued similarly across markets or in the same market, and attempts to profit from pricing differences may not be successful for several reasons, including unexpected changes in pricing and valuation. To the extent an Account uses derivatives to pursue certain strategies, the Account is subject to the additional risk that the derivative's performance does not correlate perfectly, if at all, with the value of an underlying asset, reference rate or index. 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.

**Call Risk.** An Account that invests in fixed income securities will be subject to the risk that an issuer may exercise its right to redeem a fixed income security earlier than expected (a call). Issuers may call outstanding securities prior to their maturity for a number of reasons (e.g., declining interest rates, changes in credit spreads and improvements in the issuer's credit quality). If an issuer calls a security that an Account has invested in, the Account may not recoup the full amount of its initial investment or may not realize the full anticipated earnings from the investment and may be forced to reinvest in lower-yielding securities, securities with greater credit risks or securities with other, less favorable features.

**Collateralized Debt Obligation Risks and Other Structured Products.** The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which an Account invests. Due to the complex nature of a CDO, an investment in a CDO may not perform as expected. An investment in a CDO also is subject to the risk that the issuer and the investors may interpret the terms of the instrument differently, giving rise to disputes. Normally, collateralized bond obligations ("CBOs"), CLOs and other CDOs are privately offered and sold, and thus, are not registered under the securities laws. CDOs are subject to the typical risks associated with fixed income securities. In addition to the other risks associated with investment



in fixed income securities, investing in CDOs may entail a variety of unique risks. Among other risks, CDOs may be subject to prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates). For CBOs, CLOs and CDOs, cash flows are split into two or more portions, called tranches, varying in risk and yield. The riskiest portion is the “equity” tranche (i.e., subordinated debt) which bears the first loss from any defaults from the bonds or loans in the CDO, CBO, or CLO, although more senior tranches may also bear losses. Additional risks of CDOs, CBOs, and CLOs include, without limitation (i) the possibility that distributions from collateral securities will be insufficient to make interest or other payments; (ii) the possibility that the quality of the collateral may decline in value or default; and (iii) the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

**Commodity Risk.** An Account’s investments in commodity-linked investments, including physical commodities and commodity derivatives, may subject the Account to greater volatility than investments in traditional securities. The value of physical commodity-linked investments may be affected by changes in overall market movements, foreign currency exchange rates, commodity index volatility, changes in interest rates, or supply and demand factors affecting a particular industry or underlying commodity market, such as drought, floods, weather, livestock disease, embargoes, taxation, war, terrorism, cyber hacking, economic and political developments, environmental proceedings, tariffs, changes in storage costs, availability of transportation systems, and international economic, political and regulatory developments. To the extent an Account concentrates assets in a particular sector of the commodities market (such as oil, metal, environmental or agricultural products), it may be more susceptible to risks associated with those sectors. An Account’s investments in physical commodities may be subject to additional risks associated with theft, fraud, cyber hacking, and

failure to make or take delivery of the commodity, which may result from the failure of counterparties, clearinghouses or other intermediaries to fulfill delivery obligations, or from operational complications associated with the holding, settlement, or custody of the physical commodity, all of which may result in loss to the Account. The prices for commodities in those sectors may fluctuate widely due to factors such as supply and demand disruptions in major producing or consuming regions, and governmental regulatory policies. Further, PIMCO’s ability to invest in certain commodity interests may be limited due to applicable regulations pertaining to position limits.

**Consumer Loans.** Certain Accounts may hold or be exposed to consumer loans, including credit card receivables, automobile loans, student loans, peer-to-peer loans, litigation finance loans, or other loans. These loans are subject to risks of prepayment, delinquency and default similar to those present in mortgage loans. Consumer loans may be backed by collateral (as in automobile loans) or they may be unsecured, exposing the Account to default risk as an unsecured creditor of an individual borrower. Congress, regulators such as the Consumer Financial Protection Bureau and the individual states may further regulate the consumer credit industry in ways that make it more difficult for servicers of such loans to collect payments on such loans, resulting in reduced collections. Changes to federal or state bankruptcy or debtor relief laws may also impede collection efforts or alter timing and amount of collections.

**Control Positions Risk.** An Account may seek investment opportunities that allow the Account to have a meaningful influence on the management, operations and strategic direction of one or more portfolio investments in which it invests. The exercise of control over an investment may impose additional risks of liability for environmental damage, product defects, failure to supervise management, pension and other fringe benefits, violation of governmental regulations (including securities laws) or other types of liabilities. The exercise of control and/ or meaningful influence over a portfolio company could expose the assets of an Account

to claims by such portfolio company, its security holders and its creditors, which may lead to losses for the Account. In addition, the exercise of control and/or meaningful influence may subject an Account to certain bankruptcy or securities law restrictions or requirements, which could (among other things) impact the liquidity of an Account's investment and/or subject the Account to filing or reporting requirements.

**Corporate Debt Securities Risk.** Corporate debt securities include corporate bonds, debentures, notes (which are transferable securities listed or traded on a regulated market) and other similar corporate debt instruments, including convertible securities. Debt securities may be acquired with warrants attached. Corporate income-producing securities may also include forms of preferred or preference stock. The rate of interest on a corporate debt security may be fixed, floating or variable, and may vary inversely with respect to a reference rate. The rate of return or return of principal on some debt obligations may be linked or indexed to the level of exchange rates between the USD and a different currency or currencies. In addition, corporate debt securities may be highly customized and as a result may be subject to, among others, liquidity risk and pricing transparency risks.

Corporate debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. When interest rates rise, the value of corporate debt securities can be expected to decline. Debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities. Company defaults can impact the level of returns generated by corporate debt securities. An unexpected default can reduce income and the capital value of a corporate debt security. Furthermore, market expectations regarding economic conditions and the likely number of corporate defaults may impact the value of corporate debt securities.

**Credit Risk.** An Account could lose money if the issuer or

guarantor of a fixed income security (including a security purchased with securities lending collateral), the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, or the issuer or guarantor of collateral, is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. The downgrade of the credit of a security or of the issuer of a 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. Measures such as average credit quality may not accurately reflect the true credit risk of the Account. This is especially the case if the Account consists of securities with widely varying credit ratings. Therefore, an Account with an average credit rating that suggests a certain credit quality may in fact be subject to greater credit risk than the average would suggest. This risk is greater to the extent the Account uses leverage or derivatives in connection with the management of the Account.

**Currency Risk.** If an Account invests directly in foreign (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. currencies and/or non-U.S. currency-denominated securities may reduce the returns of the Account. Currency risk may be particularly high to the extent that an Account invests in non-U.S. currencies or engages in non-U.S. currency transactions that are economically tied to emerging



market countries. Please see “Emerging Markets Risk” below.

**Cyber Security Risk.** As the use of technology, including cloud-based technology, has become more prevalent in the course of business, Accounts have become potentially more susceptible to operational and information security risks resulting from breaches in cyber security. A breach in cyber security refers to both intentional and unintentional cyber events that may, among other things, cause an Account to lose proprietary information, suffer data corruption and/or destruction or lose operational capacity, result in the unauthorized release or other misuse of confidential information, or otherwise disrupt normal business operations. Cyber security breaches may involve unauthorized access to the digital information systems that support an Account (e.g., through “hacking” or malicious software coding), but may also result from intentionally or unintentionally harmful acts of PIMCO personnel or outside attacks such as denial-of-service attacks (i.e., efforts to make network services unavailable to intended users). In addition, cyber security breaches involving third party Service Providers that provide services to PIMCO or an Account (including but not limited to vendors, advisers, sub-advisers, administrators, transfer agents, regulatory authorities, custodians, registry operators, distributors and other third parties), trading counterparties, issuers in which an Account invests can also subject an Account to many of the same risks associated with direct cyber security breaches. PIMCO’s increased use of cloud-based Service Providers could heighten or change these risks. Moreover, cyber security breaches involving trading counterparties or issuers in which an Account invests could adversely impact such counterparties or issuers and cause an Account’s investment to lose value.

Cyber security failures or breaches may result in financial losses to an Account. These failures or breaches may also result in disruptions to business operations, potentially resulting in financial losses; impediments to trading; violations of applicable privacy and other laws; regulatory fines; penalties; reputational damage; reimbursement or

other compensation costs; additional compliance and cyber security risk management costs and other adverse consequences.

PIMCO has established business continuity plans and risk management systems designed to reduce the risks associated with cyber security breaches. However, there are inherent limitations in these plans and systems, including that certain risks may not have been identified, in large part because different or unknown threats may emerge in the future. As such, there is no guarantee that such efforts will succeed, especially because PIMCO does not directly control the cyber security systems of issuers, trading counterparties, Service Providers or other third parties. There is also a risk that cyber security breaches may not be detected.

**Data Source Risk.** PIMCO uses a variety of proprietary and non-proprietary data to evaluate securities and formulate investment advice. If a data source is incorrect or unexpectedly becomes unavailable or unreliable, Client accounts may be negatively impacted. PIMCO also subscribes to external data sources for various purposes and functions, including in making investment decisions. While PIMCO believes those third party data sources to be generally reliable, PIMCO does not guarantee that the data received will be accurate or complete, and is not responsible for errors by these sources.

**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, as part of strategies designed to gain exposure to, for example, issuers, portions of the yield curve, indices, sectors, currencies, and/or geographic regions, and/or to reduce exposure to other risks, such as interest rate, credit, or currency risk. PIMCO may also use derivatives for leverage, in which case their use would involve leveraging risk, and in some cases, may subject an

Account to the potential for unlimited loss. The use of derivatives may cause an Account's investment returns to be impacted by the performance of securities the Account does not own and result in the Account's total investment exposure exceeding the value of its portfolio. 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 (which may be heightened for highly-customized derivatives), interest rate risk, market risk, call risk, credit risk and management risk, as well as the risks associated with the underlying asset, reference rate or index. Swaps, forwards, futures, options and other "synthetic" or derivative instruments that are cleared by a central clearing organization, which generally are supported by guarantees of the clearing organization's members, daily marking-to-market and settlement and segregation and minimum capital requirements applicable to intermediaries, are still subject to different risks, including the creditworthiness of the central clearing organization and its members. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative instrument may not correlate perfectly with, or may be more sensitive to market events than, its underlying asset, rate or index. In that event, hedging transactions entered into for an Account might not accomplish their objective and could result in losses to an Account or increased losses incurred on a portfolio asset. An Account investing in a derivative instrument could lose more than the initial amount invested and derivatives may increase the volatility of an Account, especially in unusual or extreme market conditions. Over-the-counter ("OTC") derivatives are also subject to the risk that a counterparty to the transaction will not fulfill its contractual obligations to the other party, as many of the protections afforded to centrally-cleared derivatives may not be available. In evaluating the risks and contractual obligations associated with particular derivative instruments, it is important to consider that certain derivative transactions may be modified or terminated

only by mutual consent of an Account and its counterparty and certain derivative transactions may be terminated by the counterparty or an Account, as the case may be, upon the occurrence of certain Account-related or counterparty-related events, which may result in losses or gains to an Account based on the market value of the derivative transactions entered into between the Account and the counterparty. Upon the expiration or termination of a particular contract, an Account may wish to retain the Account's position in the derivative instrument by entering into a similar contract, but may be unable to do so if the counterparty to the original contract is unwilling to enter into the new contract and no other appropriate counterparty can be found, which could cause the Account not to be able to maintain certain desired investment exposures or not to be able to hedge other investment positions or risks, which could cause losses to the Account. Furthermore, after such an expiration or termination of a particular contract, an Account may have fewer counterparties with which to engage in additional derivative transactions, which could lead to potentially greater counterparty risk exposure to one or more counterparties and which could increase the cost of entering into certain derivatives. In such cases, the Account may lose money. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that an Account will engage in these transactions to reduce exposure to other risks when doing so would be beneficial or that, if used, such strategies will be successful. In addition, for certain Funds, PIMCO utilizes strategies, such as paired swaps, that are designed to increase or maintain dividends, but are likely to result in corresponding losses of capital (and may result in declining net asset value) of relevant Accounts.

The regulation of the derivatives markets has increased over the past several years, and additional future regulation of the derivatives markets may make derivatives more costly, may limit the availability or reduce the liquidity of derivatives, or may otherwise adversely affect the value or performance of derivatives. Any such adverse future developments could impair the effectiveness or raise the costs of an Account's derivative

transactions, impede the employment of the Account's derivatives strategies, or adversely affect the Account's performance. Please see "Government and Regulatory Risk" below.

**Disposition of Investments.** An Account may dispose of its investments through whatever manner it deems to be advisable, including through asset sales, repackaging transactions, securitizations, strategic transactions and other mergers and acquisitions activity, and/or any combination thereof. Therefore, the disposition of Account investments will be subject to the risks associated with the particular exit strategy utilized. In particular, certain disposition techniques and structures may expose an Account to liability for (among other things) potential securities laws violations, breaches of representations and warranties, risk retention obligations, and repurchase or "putback" obligations with respect to securitizations or similar structures

**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. Issuers of distressed company securities 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 the value of its entire investment. Investments in distressed securities often involve increased control position risk and litigation risk.

**Dividend-Oriented Stocks Risk.** Accounts that may invest in dividend-oriented securities carry certain risks. Issuers that have paid regular dividends or distributions to shareholders may not continue to do so in the future. An issuer may reduce or eliminate future dividends or

distributions at any time and for any reason. During certain market conditions, the securities of issuers that have paid regular dividends or distributions may not be widely available or may be highly concentrated in particular sectors of the market. The value of a security of an issuer that has paid dividends in the past may decrease if the issuer reduces or eliminates future payments to its shareholders. If the dividends or distributions received by an Account decrease, the Account's performance may be impacted. Equity securities with higher dividend yields may be sensitive to changes in interest rates, and as interest rates rise, the prices of such securities may fall, which may result in losses to the Account. 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. In addition, Accounts that invest in equities issued by companies that have paid regular dividends to shareholders may decrease or eliminate dividend payments in the future. A decrease in dividend payments by an issuer may result in a decrease in the value of the security held by the Account or the Account receiving less income. In addition, equity securities with higher dividend yields may be sensitive to changes in interest rates, and as interest rates rise, the prices of such securities may fall.

**Emerging Markets Risk.** Foreign (non-U.S.) 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 or other investments may present market, credit, currency, liquidity, legal, political and other risks different from and potentially greater than, the risks of investing in securities and instruments economically tied to developed foreign countries. Emerging market securities or other investments may also be more volatile, less liquid, more difficult to value and are often more vulnerable to market and economic events than are developed market securities. Many emerging market countries have experienced substantial, and in some periods extremely high, rates of inflation for

many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on such countries' economies and securities markets. In determining whether an instrument is economically tied to an emerging market country, PIMCO will use such factors and criteria as it deems reasonable in its discretion, which may differ from the factors and criteria used by others.

**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 securities, convertible stocks and warrants. The values of equity securities, such as common stocks and preferred securities may decline due to general market conditions that 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.

**Focused Investment Risk.** To the extent that an Account focuses its investments in a particular industry, the Account's portfolio will be more susceptible to events or factors affecting companies in that industry. These may include, but are not limited to, governmental regulation, inflation, rising interest rates, cost increases in raw materials, fuel and other operating expenses, technological innovations that may render existing products and equipment obsolete, competition from new entrants, high research and development costs, increased costs associated with compliance with environmental or other regulation and other economic, market, political or other developments specific to that industry. Also, an Account may invest a substantial portion of its assets in companies in related sectors that may share common characteristics, are often subject to similar business risks and regulatory burdens and whose securities may react similarly to the types of events and factors described above, which will subject the Account to greater risk. An Account also will be subject to focused investment risk to the extent that it invests a substantial portion of its assets in a particular

country or geographic region. Please see also "Foreign Investment Risk" and "Emerging Markets Risk."

**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 or government entities. 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 or issuer domiciled in a foreign country. In the event of nationalization, expropriation or other confiscation, an Account could lose the value of 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. Further, an Account that authorizes PIMCO to transact in non-U.S. markets may be subject to the regulatory regime of that jurisdiction, which may adversely impact the Account as described below under "Government and Regulatory Risk."

**Government and Regulatory Risk.** Legal, tax and regulatory changes could occur and may adversely affect Accounts and their ability to pursue their investment strategies and/or increase the costs of implementing such strategies. New (or revised) laws or regulations may be imposed by the U.S. Commodity Futures Trading Commission ("CFTC"), the SEC, the Internal Revenue Service, the Department of Labor, the U.S. Federal Reserve or other banking regulators, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets (including non-U.S. regulatory authorities, to the extent applicable), of which the potential impact on the value of securities and other assets held by an Account is unknown. However, the

greater level of regulation, and the costs of compliance required to be borne by market participants, can generally be expected to increase the cost of investing and trading activities. Federal, state, and non-U.S. 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 an Account 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. Laws and regulations affecting PIMCO and its clients may cause PIMCO to take actions or forgo actions or investments that PIMCO believes might otherwise benefit an Account.

**Hedging Risk.** PIMCO has engaged, and may in the future, engage in hedging transactions. To the extent PIMCO employs a hedging strategy, the success of any such hedging strategy will depend, in part, upon PIMCO's ability to correctly assess the degree of correlation

between the performance of the instruments used in the hedging strategy and the performance of the investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of such hedging strategy will also be subject to PIMCO's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While PIMCO may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance than if PIMCO had not engaged in such hedging transactions. Additionally, PIMCO may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. Moreover, there is no guarantee that such intended hedging strategy will be successful in hedging out the subject risks.

**High Yield Risk.** Accounts that invest in high yield securities and unrated securities of similar credit quality (commonly known as "high yield securities" or "junk bonds") may be subject to greater levels of credit risk, call risk and liquidity risk than Accounts that do not invest in such securities. These securities are considered predominantly speculative with respect to an issuer's continuing ability to make principal and interest payments, and may be more volatile than other types of securities. An economic downturn or individual corporate developments could adversely affect the market for these securities and reduce an Account's ability to sell these securities at an advantageous time or price. An economic downturn would generally lead to a higher non-payment rate and a high yield security may lose significant market value before a default occurs. High yield securities structured as zero-coupon bonds or pay-in-kind securities tend to be especially volatile as they are particularly sensitive to downward pricing pressures from rising interest rates or widening spreads and may require an Account to make taxable distributions of imputed income without receiving the actual cash currency. Issuers of high yield securities may have the right to "call" or redeem the issue prior to maturity, which may result in the Account having to reinvest the proceeds in other



high yield securities or similar instruments that may pay lower interest rates. An Account may also be subject to greater levels of liquidity risk than funds that do not invest in high yield securities. In addition, the high yield securities in which an Account invests may not be listed on any exchange and a secondary market for such securities may be comparatively illiquid relative to markets for other more liquid fixed income securities. Consequently, transactions in high yield securities may involve greater costs than transactions in more actively traded securities. A lack of publicly-available information, irregular trading activity and wide bid/ask spreads among other factors, may, in certain circumstances, make high yield debt more difficult to sell at an advantageous time or price than other types of securities or instruments. These factors may result in an Account being unable to realize full value for these securities and/or may result in an Account not receiving the proceeds from a sale of a high yield security for an extended period after such sale, each of which could result in losses to the Account. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of high yield securities, especially in thinly-traded markets. When secondary markets for high yield securities are less liquid than the market for other types of securities, it may be more difficult to value the securities because such valuation may require more research, and elements of judgment may play a greater role in the valuation because there is less reliable, objective data available. Please also see "Senior Loan Risk" for a description of certain other risks associated with high yield securities.

***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 ("TIPS"), 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 and corporate inflation-indexed securities are a small component of their respective bond markets, they may be subject to liquidity risk.

***Inflation and Deflation Risk.*** An Account may be subject to inflation and deflation risk. Inflation risk is the risk that the present value of assets or income of an Account will be worth less in the future as inflation decreases the present value of money. Deflation risk is the risk that prices throughout the economy decline over time creating an economic recession, which could make issuer default more likely and may result in a decline in the value of an Account's assets.

***Insurance-Linked Instrument Risk.*** Accounts may invest directly or indirectly in a wide range of financial instruments involving insurance exposures and risks and derivatives of such investments. Such insurance-linked instruments may include, without limitation, collateralized reinsurance contracts, catastrophe bonds, industry loss warranties, sidecars, catastrophe swaps and debt and equity securities of insurance and reinsurance companies. Consequently, the performance of an Account invested in such instruments is contingent on the occurrence or non-occurrence of specific insurance events. There are many different types of insurance events, but they are generally characterized by frequency (how often the event happens) and severity (how costly the event is when it happens). The estimated severity and frequency of different insurance risks are based on historical data and actuarial analysis.

There is no guarantee that the actual losses incurred will turn out to be in line with expectations. The result of the actual losses incurred may have a material, adverse effect on an Account investment in such instruments. In particular, the value of an Account can be expected to fluctuate, among other instances, (i) in the event of

catastrophes and other insurance events; or (ii) reflecting market expectations of insurance events that could potentially impact the insurance contracts to which the Portfolio has exposure; or (iii) reflecting market expectations of the final losses related to insurance events that have occurred. The occurrence of such insurance events is inherently unpredictable.

**Interest Rate Risk.** Interest rate risk is the risk that fixed income securities, dividend-paying equity securities and other instruments in an Account will decline in value because of changes in interest rates. A wide variety of factors can cause interest rates to change, including but not limited to, central bank monetary policies, inflation rates, and general economic conditions. As nominal interest rates rise, the value of certain fixed income securities or dividend-paying equity 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. Interest rate changes can be sudden and unpredictable, and an Account may lose money as a result of movements in interest rates. 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. Inflation-indexed bonds, including TIPS, decline in value when real interest rates rise. In certain interest rate environments, such as when real interest rates are rising faster than nominal interest rates, inflation-indexed bonds may experience greater losses than other fixed income securities with similar durations. Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. Inverse floating rate securities may decrease in value if interest rates increase. Inverse floating rate securities may also exhibit greater price volatility than a fixed rate obligation with similar credit quality. When an Account holds variable or floating rate securities, a decrease (or, in the case of inverse floating

rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the value of the Account.

Dividend-paying equity securities, particularly those whose market price is closely related to their yield, may be more sensitive to changes in interest rates. During periods of rising interest rates, the values of such securities may decline, which may result in losses to the Account. A portfolio's average duration may not accurately reflect the interest rate risk of the portfolio, especially if the portfolio consists of securities with widely varying durations. Under current market conditions fixed income portfolios currently face a heightened level of interest rate risk because interest rates are low relative to historic levels. PIMCO may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. Additionally, any hedges may not work as intended. Rising interest rates could also affect the value of an Account's investment in a PIMCO Fund.

Convexity is an additional measure used to understand a security's or Account's interest rate sensitivity. Convexity measures the rate of change of duration in response to changes in interest rates. With respect to a security's price, a larger convexity (positive or negative) may imply more dramatic price changes in response to changing interest rates. Convexity may be positive or negative. Negative convexity implies that interest rate increases result in increased duration, meaning increased sensitivity in prices in response to rising interest rates. Thus, securities with negative convexity, which may include bonds with traditional call features and certain mortgage-backed securities, may experience greater losses in periods of rising interest rates. Accordingly, Accounts holding such securities may be subject to a greater risk of losses in periods of rising interest rates.

**Risks Associated with the London Interbank Offered Rate ("LIBOR").** Certain accounts are invested and may continue to invest in a variety of instruments that rely in some fashion upon LIBOR. The United Kingdom's Financial Conduct Authority, which regulates LIBOR, has announced plans to phase out the use of LIBOR by the



end of 2021. There remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate. Any potential effects of the transition away from LIBOR on an Account or on certain instruments in which an Account invests can be difficult to ascertain, and they may vary depending on factors that include, but are not limited to: (i) existing fallback or termination provisions in individual contracts and (ii) whether, how, and when industry participants develop and adopt new reference rates and fallbacks for both legacy and new products and instruments. For example, certain investments may involve individual contracts that have no existing fallback provision or language that contemplates the discontinuation of LIBOR, and those investments could experience increased volatility or illiquidity as a result of the transition process. In addition, interest rate provisions included in such contracts may need to be renegotiated in contemplation of the transition away from LIBOR. The transition may also result in a reduction in the value of certain instruments held by an Account, or a reduction in the effectiveness of related Account transactions such as hedges. Any such effects of the transition away from LIBOR, as well as other unforeseen effects, could result in losses to an Account.

***Investments in the People's Republic of China.*** Certain Accounts that invest in emerging market countries may invest in securities and instruments that are economically tied to the People's Republic of China ("PRC"). In determining whether an instrument is economically tied to the PRC, PIMCO uses the criteria for determining whether an instrument is economically tied to an emerging market country as set forth above under "Emerging Markets Risk." In addition to the risks listed above under "Foreign Investment Risk," including those associated with investing in emerging markets, investing in the PRC presents additional risks. These additional risks include (without limitation): (a) inefficiencies resulting from erratic growth; (b) the unavailability of consistently-reliable economic data; (c) potentially high rates of inflation; (d) dependence on exports and international trade; (e) relatively high levels of asset price volatility; (f) potential shortage of liquidity and limited accessibility by foreign investors; (g) greater competition

from regional economies; (h) fluctuations in currency exchange rates or currency devaluation by the PRC government or central bank, particularly in light of the relative lack of currency hedging instruments and controls on the ability to exchange local currency for U.S. dollars; (i) the relatively small size and absence of operating history of many PRC companies; (j) the developing nature of the legal and regulatory framework for securities markets, custody arrangements and commerce; and (k) uncertainty and potential changes with respect to the rules and regulations of market access programs through which such investments are made; (l) the commitment of the PRC government to continue with its economic reforms; and (m) PRC regulators may suspend trading in Chinese issuers (or permit such issuers to suspend trading) during market disruptions, and that such suspensions may be widespread. As a result of PRC regulatory requirements, and a lack of clarity in the laws and regulations, an Account may be limited in its ability to invest in securities or instruments tied to the PRC and/or may be required to liquidate its holdings in securities or instruments tied to the PRC. Under certain instances, such liquidations may result in losses for an Account. In addition, securities exchanges in the PRC typically have the right to suspend or limit trading in any security traded on the relevant exchange. The PRC government or relevant PRC regulators may also implement policies that may adversely affect the PRC financial markets. Such suspensions, limitations or policies may have a negative impact on the performance of an Account's investments.

***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, reputation, 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. A change in the financial condition of a single issuer may affect one or more other issuers or securities markets as a whole.

***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. Leverage is a speculative technique that may expose an Account to greater risk and increased costs. For example, leveraging may cause an Account to set aside or liquidate portfolio assets to satisfy its obligations, including at times when it may be disadvantageous to do so. In addition, leveraging, including borrowing, may cause an Account to be more volatile than if the Account had not been leveraged because leverage 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. Interest, fees and other expenses of leverage are generally borne entirely by the Account, which would have the effect of reducing investment returns. For some Accounts, fees received by PIMCO will be based on an Account's total assets (including assets attributable to certain types of leverage). In these circumstances, PIMCO has a financial incentive for the Account to use certain forms of leverage, which may create a conflict of interest between PIMCO, on the one hand, and its Clients or other investors in an Account, on the other.

**Limited Assets Risk.** When the value of an Account falls below the PIMCO minimum account size established by PIMCO for a particular strategy, PIMCO may be limited in pursuing the objectives of the Account. For example, PIMCO may be constrained in its ability to gain exposure to certain instruments because the allocation may not be meaningful (i.e., an odd lot allocation). Therefore, the Account may be less diversified than other Accounts with assets that exceed the minimum account size. Similarly, the Account may have performance dispersion that is greater than other Accounts in the same investment strategy due to variations in portfolio holdings.

**Liquidity Risk.** Liquidity risk exists when particular investments are difficult to purchase or sell, and may be particularly pronounced for long-term investments. 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, which could prevent the Account from taking advantage of other investment opportunities. 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 or may be unable to sell investments when desired or at a favorable price. Illiquid securities may be difficult to value, especially under changing market conditions. To the extent that an Account's principal investment strategy involves securities of companies with smaller market capitalizations, foreign (non-U.S.) securities, Rule 144A securities, illiquid sectors of fixed income securities, derivatives or securities with substantial market and/or credit risk, the Account will tend to have the greatest exposure to liquidity risk. Further, fixed income securities with longer durations until maturity face heightened levels of liquidity risk as compared to fixed income securities with shorter durations until maturity.

**Risks of Originated Investments.** An Account may originate certain investments and may syndicate a portion of one or more investments to other affiliated funds or third parties, subject to the completion of each such purchaser's own investment-review process, the Account's investment guidelines and applicable law. In originating and purchasing loans, an Account competes with a broad spectrum of lenders, some of which may have greater financial resources than the Account. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to Accounts. Prior to any syndication of such loans, or if such syndication is not successful, an Account's exposure to the originated investment may exceed the exposure that the Account intends to have over the long-term or would have had if it had purchased such investment in

the secondary market rather than originating it. Specifically, if an Account is unable to sell, assign or successfully close transactions for the loans that it originates, the Account will be forced to hold its interest in such loans for an indeterminate period of time. This could result in an Account's investments being over-concentrated in certain borrowers. In such circumstances, the Account may elect to sell all or a portion of an originated investment at a loss in order to rebalance the Account's portfolio. The level of analytical sophistication, both financial and legal, necessary for successful financing to companies, particularly companies experiencing significant business and financial difficulties, is unusually high. There is no assurance that PIMCO will correctly evaluate the value of the assets collateralizing an Account's loans or the prospects for successful repayment or a successful reorganization or similar action.

In addition, originating loans could subject the Account, PIMCO or their affiliates, to various regulatory regimes, such as lender licensing requirements. As a result of complying with such regulatory regimes, restrictions may be placed on an Account or PIMCO's ability to take certain actions to protect the value of its investments in such assets and impose compliance costs. Loan origination and servicing companies are routinely involved in legal proceedings concerning matters that arise in the ordinary course of business. These legal proceedings range from actions involving a single plaintiff to class action lawsuits with potentially tens of thousands of class members. In addition, a number of participants in the loan origination and servicing industry (including control persons of industry participants) have been the subject of regulatory actions by state regulators, including state Attorneys General, and by the federal government. Governmental investigations, examinations or regulatory actions, or private lawsuits, including purported class action lawsuits, may adversely affect such companies' financial results. To the extent an Account seeks to engage in origination and/or servicing directly, or has a financial interest in, or is otherwise affiliated with, an origination or servicing company, the Account will be subject to enhanced risks of litigation,

regulatory actions and other proceedings. As a result, an Account may be required to pay legal fees, settlement costs, damages, penalties or other charges, any or all of which could materially adversely affect the Account and its investments.

**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 or that the due diligence conducted by PIMCO and its portfolio managers exposes all material risks associated with an investment. Additionally, PIMCO and its portfolio managers may not be able to identify suitable investment opportunities and may face competition from other investment managers when identifying and consummating certain investments. There can be no assurance that PIMCO will be able to identify and obtain a sufficient number of investment opportunities to invest the full amount of capital that may be available in an Account. Certain securities or other instruments in which an Account seeks to invest may not be available in the quantities desired. In addition, regulatory restrictions, actual or potential conflicts of interest or other considerations may cause PIMCO to restrict or prohibit participation in certain investments. In such circumstances, PIMCO or the individual portfolio managers may determine to pursue other investments and/or purchase other securities or instruments as substitutes. Such other investments, substitute securities or instruments may not perform as intended, which could result in losses to the Account. To the extent an Account employs strategies targeting perceived pricing inefficiencies, arbitrage strategies or similar strategies, it is subject to the risk that the pricing or valuation of the securities and instruments involved in such strategies may change unexpectedly, which may result in reduced returns or losses to the Account. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to PIMCO and the individual portfolio manager in connection with managing an Account. There also can be no assurance

that all of the personnel of PIMCO, including the portfolio manager(s) for an Account, will continue to be associated with PIMCO for any length of time. The loss of the services of one or more key employees of PIMCO could have an adverse impact on an Account's ability to realize its investment objective.

**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 or credit markets generally or particular industries represented in the securities markets. The value of a security may decline due to general market conditions that 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, adverse changes to credit markets or adverse investor sentiment generally. The value of a security may also decline due to factors that 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 even if the performance of those asset classes is not otherwise historically correlated. Investments may also be negatively impacted by market disruptions and by attempts by other market participants to manipulate the prices of particular investments. Current market conditions may pose heightened risks with respect to Accounts that invest in fixed income securities. As discussed more under "Interest Rate Risk," interest rates in the U.S. are at relatively low levels. However, interest rates may rise in the future. Future interest rate increases could cause the value of an Account that invests in fixed income securities to decrease. As such, fixed income securities markets may experience heightened levels of interest rate, volatility and liquidity risk.

Beginning in January 2020, global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines,

supply chain disruptions, lower consumer demand and general market uncertainty. The effects of COVID-19 have and may continue to adversely affect the global economy, the economies of certain nations and individual issuers, all of which may negatively impact the performance of Accounts.

Additionally, Exchanges and securities markets may close early, close late or issue trading halts on specific securities, which may result in, among other things, an Account being unable to buy or sell certain securities or financial instruments at an advantageous time or accurately price its portfolio investments.

**Minority Investments Risk.** Accounts, especially Accounts focusing on debt securities, will generally hold minority or non-controlling interests. Such investments may not give PIMCO the ability to influence the management of the issuer or to elect a representative to the issuer's board of directors. In addition, the management of the issuer or its shareholders may have economic or business interests which are inconsistent with those of Accounts, and they may be in a position to take action contrary to such Account's investment objectives. A minority or non-controlling interest may be especially adverse to Accounts in circumstances, such as certain stressed or distressed situations, where an element of control or influence might be beneficial to the subject investment.

**Mortgage Loans Risk.** Residential mortgage loans are secured by single-family residential property and are subject to risks of delinquency and foreclosure and risks of loss. An Account may hold or be exposed to "non-prime" or "sub-prime" residential mortgage loans made to borrowers who have poor or limited credit histories and, as a result, do not qualify for traditional mortgage products. Non-prime and sub-prime mortgages have materially higher rates of delinquency, foreclosure and risk of loss. Commercial mortgage loans are generally secured by multi-family or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that may be greater than similar risks associated with residential mortgage loans that are secured by single-family residential property. The ability of a

borrower to repay a loan secured by income-producing property is dependent primarily upon the successful operation of such property. If the net operating income of the property is reduced (as can occur as a result of property management decisions, competition from other properties and changes in law or regulation, among other factors), the borrower's ability to repay the loan may be impaired.

In addition, various state licensing requirements may apply with respect to investments in loans, including mortgage loans, and other similar assets. The licensing requirements could apply depending on the location of the borrower, the location of the collateral securing the loan, or the location where PIMCO or the applicable Account operates or has offices. In states in which it is required to be licensed, PIMCO or the Account will be required to comply with applicable laws and regulations, including consumer protection and anti-fraud laws, which could impose restrictions on PIMCO's ability to take certain actions to protect the value of investments in such assets and impose compliance costs. Failure to comply with such laws and regulations could, among other penalties, require an Account to divest assets located in or secured by real property at disadvantageous times or prices.

Please see also "Mortgage-Related and Other Asset-Backed Securities Risk" and "Real Estate Risk" for a description of certain other risks associated with investing in mortgage loans.

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

**Risk.** Mortgage-related and other asset-backed securities represent interests in "pools" of mortgages or other assets such as consumer loans or receivables held in trust and often involve risks that are different from or possibly 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 since individual mortgage holders are less likely to exercise

prepayment options, thereby putting additional downward pressure on the value of these securities. 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. If PIMCO or its affiliates or Accounts originates mortgage-related securities or asset-backed securities, its Accounts may be subject to lender liability and other risks.

These securities are also subject to the risks of the underlying loans. In some circumstances, a servicer's or originator's mishandling of documentation related to the underlying collateral (e.g., failure to properly document a security interest in the underlying collateral) may affect the rights of security holders in and to the underlying collateral. 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. The underlying assets of asset-backed securities may include receivables of any kind, including, without limitation, such items as motor vehicle installment sales or installment loan contracts, leases of various types of real and personal property, and



receivables from credit card agreements. Direct investments in mortgages and other types of collateral are subject to risks similar (and in some cases to a greater degree) to those described above.

***Municipal Securities Risk.*** Municipal securities are issued by or on behalf of states, territories, possessions and local governments and their agencies and other instrumentalities, and may be secured by the issuer's general obligations or by the revenue associated with a specific capital project. Both "general obligation" municipal bonds and "revenue" bonds are subject to interest rate, credit and market risk, and uncertainties related to the tax status of a municipal bond or the rights of investors invested in these securities. The ability of an issuer to make payments could be affected by litigation, legislation or other political events or the bankruptcy of the issuer. In the event of bankruptcy of such an issuer, an Account investing in the issuer's securities could experience delays in collecting principal and interest, and the Account may not, in all circumstances, be able to collect all principal and interest to which it is entitled. In addition, imbalances in supply and demand in the municipal market may result in a deterioration of liquidity and lack of price transparency in the market. At certain times, this may affect pricing, execution, and transaction costs associated with a particular trade. The value of certain municipal securities, in particular obligation debt, may also be adversely affected by rising health care costs, increasing unfunded pension liabilities, changes in accounting standards, and by the phasing out of federal programs providing financial support. Municipal securities may be less liquid than taxable bonds and there may be less publicly available information on the financial condition of municipal securities issuers than for issuers of other securities, and the investment performance of an Account investing in municipal securities may therefore be more dependent on the analytical abilities of PIMCO than if the Account held other types of investments such as stocks or taxable bonds. The secondary market for municipal securities also tends to be less well-developed or liquid than many other securities markets, a by-product of lower capital commitments to the asset class by the dealer community,

which may adversely affect an Account's ability to sell municipal securities it holds at attractive prices or value municipal securities. Lower rated municipal bonds are subject to greater credit and market risk than higher quality municipal bonds.

***OFAC, FCPA and Related Considerations.*** Economic sanction laws in the United States and other jurisdictions may prohibit PIMCO, its personnel and any Account from transacting with or in certain countries and with certain individuals and companies. In some countries, there is a greater acceptance than in the United States of government involvement in commercial activities, and of corruption. PIMCO and its Accounts may be adversely affected because of its unwillingness to participate in transactions that violate such laws or regulations. Such laws and regulations may make it difficult in certain circumstances for PIMCO and its portfolio managers to act successfully on investment opportunities. In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the U.S. Foreign Corrupt Practices Act (the "FCPA"). In addition, the United Kingdom has significantly expanded the reach of its anti-bribery laws. Violations of the FCPA or other applicable anti-corruption laws or anti-bribery laws could result in, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect an Account's ability to achieve its investment objective and/or conduct its operations.

***Operational Risk.*** Accounts are subject to operational risks arising from factors, including but not limited to, processing errors, human errors, inadequate or failed internal or external processes, fraud by employees or other parties, failure in systems and technology, changes in personnel and errors caused by third-party Service Providers. Such factors may result in losses to an Account.

***Originating Financing to Companies in Distressed Situations Related Risks.*** As part of their investment activities, an Account or its affiliates may originate financing to companies that are experiencing significant

financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although the terms of such financing may result in significant financial returns to an Account, they involve a substantial degree of risk. The level of analytical sophistication, both financial and legal, necessary for successful financing to companies experiencing significant business and financial difficulties is unusually high. There is no assurance that PIMCO will correctly evaluate the value of the assets collateralizing the Account's financing or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company that an Account funds, the Account may lose all or part of the amounts advanced to the borrower or may be required to accept collateral with a value less than the amount of the financing advanced by the Account or its affiliates to the borrower.

**Participation on Creditors' Committees Risk.** Although it has no obligation to do so, PIMCO, on behalf of one or more Accounts, may participate on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy or the Account may seek to negotiate directly with the debtors with respect to restructuring issues. If an Account does join a creditors' committee, the participants on the committee would be interested in obtaining an outcome that is in their respective individual best interests and there can be no assurance of obtaining results most favorable to the Account in such proceedings. By participating on such committees, an Account may be deemed to have duties to other creditors represented by the committees, which might thereby expose the Account to liability to such other creditors who disagree with the Account's actions. In certain cases, PIMCO may decide not to participate on a committee or may be prohibited from doing so, which could limit an Account's recovery.

**Passive ETF Risk.** Investments in exchange-traded funds ("ETFs") entail certain risks; in particular, investments in passive ETFs involve the risk that the ETF's performance may not track the performance of the index the ETF is

designed to track. Unlike the index, an ETF incurs advisory and administrative expenses and transaction costs in trading securities. In addition, the timing and magnitude of cash inflows and outflows from and to investors buying and redeeming shares in the ETF could create cash balances that cause the ETF's performance to deviate from the index (which remains "fully invested" at all times). Performance of an ETF and the index it is designed to track also may diverge because the composition of the index and the securities held by the ETF may occasionally differ. Although ETFs will generally trade close to net asset value, market volatility, lack of an active trading market for ETF shares, disruptions at market participants (such as Authorized Participants or market makers) and any disruptions in the ordinary functioning of the creation/redemption process may result in ETF shares trading significantly above (at a "premium") or below (at a "discount") net asset value. In addition, errors in the construction, calculation, or transmission of an index could cause an ETF's price to differ materially from its index. As a result, an Account may sustain significant losses when transacting in ETF shares.

**Portfolio Holdings Risk.** PIMCO serves as investment adviser to various Funds that may have investment objectives, strategies and portfolio holdings that are substantially similar to or overlap with those of an Account, and in some cases, the Funds may publicly disclose portfolio holdings. For example, portfolio holdings for PIMCO-advised actively managed ETFs are required, by the terms of the applicable SEC exemptive relief, to be publicly disclosed each business day. Similarly, PIMCO serves as an investment adviser to Separate Accounts that may have investment objectives, strategies and portfolio holdings that are substantially similar to or overlap with those of an Account, and the Separate Account holdings that are disclosed to the Client or others under the terms of the Client's investment management agreement could be similar or identical to Account holdings. As a result, it is possible that other market participants may use such information for their own benefit, which could negatively impact an Account's execution of purchase and sale transactions.



**Potential Brexit-Related Risks.** On January 31, 2020, the United Kingdom withdrew from the European Union (the "EU") and entered into an 11-month transitional period for the United Kingdom and the EU to negotiate its future relationship. Given the size and importance of the United Kingdom's economy, its withdrawal from the EU may result in substantial volatility in foreign exchange markets and may lead to a sustained weakness in the British pound's exchange rate against the United States dollar, the euro and other currencies. The United Kingdom's withdrawal from the EU may also result in a sustained period of market uncertainty, as the United Kingdom seeks to negotiate the terms of its exit. In this regard, there is a significant degree of uncertainty about how negotiations relating to the United Kingdom's withdrawal and new trade agreements will be conducted, as well as the potential consequences and precise timeframe. It may also destabilize some or all of the other 27 members of the EU (some of which are countries in which PIMCO conducts business) and/or the Eurozone. There may be detrimental implications for the value of certain of an Account's investments, its ability to enter into transactions, to value or realize certain of its investments or otherwise to implement its investment policy. This may be due to, among other things, increased uncertainty and volatility in the United Kingdom, EU and other financial markets, fluctuations in asset values, fluctuations in exchange rates, increased illiquidity of investments located, traded or listed within the United Kingdom, the EU or elsewhere, changes in the willingness or ability of financial and other counterparties to enter into transactions, or the price and terms on which they are prepared to transact; and/or changes in legal and regulatory regimes to which an Account, PIMCO and/or certain of an Account's assets are or become subject.

Furthermore, the exit of the United Kingdom from the EU could have a material impact on the United Kingdom's economy and the future growth of that economy, impacting adversely an Account's investments in the United Kingdom. It could also result in prolonged uncertainty regarding aspects of the United Kingdom economy and damage consumers' and investors'

confidence. Any of these events, as well as an exit or expulsion of a member state other than the United Kingdom from the EU, could have a material adverse effect on an Account.

**Quantitative Investing Risk.** PIMCO employs and/or relies on algorithms, models or other systems in connection with certain of its investment activities, including research, forecasting, selection, and execution processes (together, "Systems"). These Systems rely heavily on the use of proprietary and nonproprietary data, software, hardware, and intellectual property, including data, software and hardware that may be licensed or otherwise obtained from third parties. The use of such Systems has inherent limitations and risks. Although we take reasonable steps to develop and use Systems appropriately and effectively, there can be no assurance that we will successfully do so. Errors may occur in the design, writing, testing, monitoring, and/or implementation of Systems, including in the manner in which Systems function together. The effectiveness of Systems may diminish over time, including as a result of market changes and changes in the behavior of market participants. The quality of the resulting analysis, investment selections, portfolio construction, asset allocations, proposed trades, risk management and trading strategies depends on a number of factors including the accuracy and quality of data inputs into the Systems, the mathematical and analytical assumptions and underpinnings of the Systems' coding, the accuracy in translating those analytics into program code or interpreting the output of a System by another System in order to facilitate a transaction, change in market conditions, the successful integration of the various Systems into the portfolio selection and trading process and whether actual market events correspond to one or more assumptions underlying the Systems. Accordingly, Systems are subject to errors and/or mistakes ("System Incidents") that may adversely impact Accounts. For example, System Incidents may result in Systems performing in a manner other than as intended, including but not limited to, failure to achieve desired performance or investment objectives, execution of unanticipated trades or failure to execute intended trades, or failure to

identify hedging or other risk management opportunities or targets. Further, if incorrect market data are entered into an otherwise properly functioning System, the Systems' resulting output, including proposed trades or investment recommendations, may be inconsistent with the underlying investment strategy. Most Systems require continual monitoring and enhancements, and there is no guarantee that such enhancements will be successful or that Systems will operate as intended. The successful deployment of the investment strategy, the portfolio construction process and/or the trading process could be severely compromised by software or hardware malfunctions, viruses, glitches, connectivity loss, system crashes or various other System Incidents, including, in particular, where multiple Systems contribute to the process (e.g., where one System develops a potential recommended signal or possible trade and another System interprets or optimizes that recommended signal or possible trade to facilitate a trade order). System Incidents may be difficult to detect and PIMCO may not immediately or ever detect certain System Incidents, which may have an increasing impact on an Account over time. PIMCO has adopted policies and procedures that are reasonably designed to prevent, detect, escalate and remediate System Incidents. PIMCO will address System Incidents in accordance with this policy but there is no guarantee that measures taken to address a System Incident will be successful. PIMCO generally does not classify System Incidents to be Trade Errors (as defined below) and Accounts generally will bear all losses associated with System Incidents, except as otherwise determined by PIMCO in its discretion. Further, PIMCO generally does not expect to disclose System Incidents to Clients. Please see Item 12, "Brokerage Practices," for additional information on Trade Errors.

Given the complexity of the investments and strategies of certain Accounts, PIMCO relies on quantitative models, data, and trading algorithms supplied by third parties for certain Accounts. Such models, data and algorithms are used to construct sets of transactions and investments, to implement investment decisions, and to provide risk management insights. When the third-party models, data or algorithms prove to be incorrect or incomplete, any

decisions or investments made in reliance thereon expose Accounts to additional risks. For example, PIMCO does not have the same insight or access into the construction, coding or testing of the algorithms, and PIMCO will be exposed to systems, cyber security and other risks associated with the third party models, data or algorithms. For these reasons, PIMCO generally will not compensate Accounts for any losses associated with third-party models, data, or algorithms and Accounts generally will bear all such losses.

**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 at the federal, state and local levels 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: lack of liquidity; difficulty in valuation; 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; availability of financing; bankruptcy and other credit risks of tenants, operating partners or other relevant parties; natural catastrophes, war, terrorism, vandalism, and squatting or holding over; risk of uninsurable losses; breach of contract relating to real estate; and the quality and strategy of third party operators, managers, servicers or controlling parties. An investment in a real estate investment trust ("REIT") or in a security or derivative instrument that is linked to the value of a 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 applicable law, 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. Investments in non-traded REITs are generally subject to greater risks than investments in publicly-traded REITs. An Account or some of the REITs in which an Account may invest may be permitted to hold senior or residual interests in real estate mortgage investment conduits ("REMICs") or debt or equity interests in taxable mortgage pools ("TMPs"). An Account may also hold interests in "Re-REMICs", which are interests in securitizations formed by the contribution of asset backed or other similar securities into a trust which then issues securities in various tranches. An Account may participate in the creation of a Re-REMIC by contributing assets to the trust and receiving junior and/or senior securities in return. An interest in a Re-REMIC security may be riskier than the securities originally held by and contributed to the trust, and the holders of the Re-REMIC securities will bear the costs associated with the securitization. Please see also "Mortgage Loans Risk" and "Mortgage-Related and Other Asset-Backed Securities Risk."

***Reliance on Portfolio Company Management Risk.***

The success or failure of an investment may depend to a significant extent on the investment's management team. A member of an investment's management team may engage in activities that pose legal, regulatory, financial, reputational or other risks to the investment, and such activities may be difficult or impossible to detect.

***Repurchase Agreement Risk.*** In any repurchase transaction to which an Account is a party, collateral for a repurchase agreement may include cash items and obligations issued by the U.S. Government or its agencies or instrumentalities. For certain Accounts, however, collateral may include instruments other than cash items and obligations issued by the U.S. Government or its agencies or instrumentalities, including securities that the Account could not hold directly under its investment strategies without the repurchase obligation.

The type of collateral underlying repurchase agreements may also pose certain risks for an Account. Lower quality collateral and collateral with longer maturities may be subject to greater price fluctuations than higher quality

collateral and collateral with shorter maturities. If the repurchase agreement counterparty were to default, lower quality collateral may be more difficult to liquidate than higher quality collateral. Should the counterparty default and the amount of collateral not be sufficient to cover the counterparty's repurchase obligation, the Client would retain the status of an unsecured creditor of the counterparty (i.e., the position the Client would normally be in if it were to hold, pursuant to its investment policies, other unsecured debt securities of the defaulting counterparty) with respect to the amount of the shortfall. As an unsecured creditor, the Client would be at risk of losing some or all of the principal and income involved in the transaction. Repurchase agreements and purchase and sale contracts may be entered into only with financial institutions that meet certain minimum capital requirements.

***Environmental, Social, and Governance Investing***

***Risk.*** An Account that employs an environmental, social, and governance ("ESG") investing strategy, which typically selects or excludes securities of certain issuers for reasons other than performance, carries the risk that the Account's performance will differ from Accounts that do not utilize an ESG investing strategy. For example, the application of this strategy could affect the Account's exposure to certain sectors or types of investments, which could negatively impact the Account's performance. In determining the efficacy of an issuer's ESG practices, PIMCO will use its own proprietary assessments of ESG factors and will, when appropriate, reference standards as set forth by recognized global organizations such as the United Nations. There is no guarantee that the factors utilized by PIMCO or any judgment exercised by PIMCO will reflect the opinions of any particular Client, and the factors utilized by PIMCO may differ from the factors that any particular Client considers relevant in evaluating an issuer's ESG practices. In evaluating an issuer, PIMCO is dependent upon information and data obtained through voluntary or third-party reporting that may be incomplete, inaccurate or unavailable, which could cause PIMCO to incorrectly assess an issuer's business practices with respect to ESG practices. Socially responsible norms differ by region, and an issuer's ESG practices or PIMCO's assessment of an

issuer's ESG practices may change over time.

PIMCO's ESG process seeks to exclude issuers deemed to be fundamentally misaligned with sustainability principles. In addition, PIMCO seeks to identify opportunities for a company to improve its ESG practices, and will endeavor to work collaboratively with company management to establish concrete objectives and to develop a plan for meeting those objectives. As a result of these engagement activities, an Account may purchase securities that do not currently engage in ESG practices to PIMCO's satisfaction, in an effort to improve an issuer's ESG practices. Successful application of an Account's ESG investing strategy and PIMCO's engagement efforts will depend on PIMCO's skill in properly identifying and analyzing material ESG issues, and there can be no assurance that the strategy or techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results.

**Restricted Securities Risk.** An Account's investments may include securities ("restricted securities") that have not been registered for sale to the public under the U.S. Securities Act pursuant to an exemption from registration. Restricted securities are generally only sold to institutional investors in private sales from the issuer or from an affiliate of the issuer. These securities may be less liquid than securities registered for sale to the general public. The liquidity of a restricted security may be affected by a number of factors, including: (i) the credit quality of the issuer; (ii) the frequency of trades and quotes for the security; (iii) the number of dealers willing to purchase or sell the security and the number of other potential purchasers; (iv) dealer undertakings to make a market in the security; and (v) the nature of the security and the nature of marketplace trades. Also, restricted securities may be difficult to value because market quotations may not be readily available.

**Restrictions on Foreign Investment Risk.** A number of emerging securities markets restrict foreign investment to varying degrees. Furthermore, repatriation of investment income, capital and the proceeds of sales by foreign investors may require governmental registration

and/or approval in some countries. While an Account that may invest in securities and instruments that are economically tied to emerging market countries will only invest in markets where these restrictions are considered acceptable, new or additional repatriation or other restrictions might be imposed subsequent to the Account's investment. If such restrictions were to be imposed subsequent to the Account's investment in the securities markets of a particular country, PIMCO's response might include, among other things, applying to the appropriate authorities for a waiver of the restrictions or engaging in transactions in other markets designed to offset the risks of decline in that country. Such restrictions will be considered in relation to the Account's liquidity needs and all other acceptable positive and negative factors. Some emerging markets limit foreign investment, which may decrease returns relative to domestic investors. An Account may seek exceptions to those restrictions. If those restrictions are present and cannot be avoided by the Account, the Account's returns may be lower.

**Securitization Risk.** In connection with the acquisition, financing or disposition of certain investments, an Account may participate in the securitization of certain investments, including through the formation of one or more CDOs, CLOs or repackaged securities, while sometimes retaining the exposure to the performance of these investments. This would sometimes involve creating a special purpose vehicle, contributing a pool of assets to such special purpose vehicle (each, a "Securitized Vehicle"), and selling debt interests in such Securitized Vehicle to purchasers (including potentially other clients of PIMCO, which may result in conflicts of interest). An Account may retain equity of the Securitized Vehicle, together possibly with other tranches as well. In the case of loans or securities that the Securitized Vehicle has sold instead of retained, the Securitized Vehicle may be required to indemnify purchasers for losses or expenses incurred as a result of a breach of a representation or warranty. Any significant repurchases or indemnification payments could materially and adversely affect the liquidity, financial condition and operating results of the Securitized Vehicle and/or any Account which participated or invested in the securitization.

Subject to certain exceptions “risk retention” rules in the United States require the “sponsor” of a securitization transaction (or a majority-owned affiliate of the sponsor) to retain, unhedged, a portion of the credit risk associated with the securitization. In addition, current “risk retention” rules in the EU place an indirect requirement on EU institutional investors to ensure that the required retention is made by the “originator”, “sponsor,” or “original lender.” In respect of securitization transactions the securities of which are issued on or after January 1, 2019 and to any securitization that creates new securitization positions on or after January 1, 2019, such rules place a direct requirement on the “originator”, “sponsor” or “original lender” to make the required retention (in each case to the extent EU law applies). The future impact of the risk retention rules on the securitization markets and on the future performance of an Account is uncertain. It is likely, however, that the requirements imposed by these rules will increase the costs to originators and securitizers of asset-backed securities in many cases, and these increased costs could be passed along to Accounts as investors in such securitized products. In addition, it is possible that PIMCO or an Account could be considered to be a sponsor (or in respect of the EU risk retention rules, a sponsor, originator, or original lender) of a securitization and as a result be required to comply (directly or indirectly) with the risk retention requirements of the risk retention rules.

**Senior Loan Risk.** An Account that invests in senior loans may be subject to greater levels of credit risk, call risk, settlement risk, and liquidity risk, than Accounts that do not invest in such instruments. Senior loans are often issued by heavily indebted companies, and therefore can be particularly susceptible to a wide variety of risks. Senior loans may not be backed by adequate collateral and can be subject to faster payment schedules than other types of obligations. These instruments are considered predominately speculative with respect to an issuer’s continuing ability to make principal and interest payments, and may be more volatile and more difficult to value than other types of instruments (including other debt securities). In addition, an economic downturn or

individual corporate developments could adversely affect the market for these instruments and reduce an Account’s ability to sell these instruments at an advantageous time or price. An economic downturn would generally lead to a higher non-payment rate and, a senior loan may lose significant market value before a default occurs. In addition, the senior loans in which an Account invests may not be listed on any exchange and a secondary market for such loans may be less liquid than markets for other more liquid fixed income securities. Consequently, transactions in senior loans may involve greater costs than transactions in more actively traded instruments. Restrictions on transfers in loan agreements, a lack of publicly-available information, irregular trading activity and wide bid/ask spreads among other factors, may, in certain circumstances, make senior loans difficult to value accurately or sell at an advantageous time or price than other types of securities or instruments. These factors may result in an Account being unable to realize full value for the senior loans and/or may result in an Account not receiving the proceeds from a sale of a senior loan for an extended period after such sale, each of which could result in losses to the Account. Senior loans may have extended trade settlement periods, which may result in sale proceeds not being immediately available to an Account, which could make it difficult for an Account to make additional investments or meet redemption requests or other cash requirements like margin calls. An Account may seek to satisfy any short-term liquidity needs resulting from an extended trade settlement process by, among other things, selling Account assets, holding additional cash or entering into temporary borrowing arrangements with banks and other potential funding sources. Loan purchasers have no entitlement to receive from loan sellers delayed compensation payments that are intended to incentivize shorter settlement periods. Consequently, there is no certainty that PIMCO will be able to obtain delayed compensation payments in connection with loan transactions. If an issuer of a senior loan prepays or redeems the loan prior to maturity, an Account may have to reinvest the proceeds in instruments that pay lower interest rates. Senior loans in which an Account invests



may be collateralized, although the loans may not be fully collateralized and the collateral may be unavailable or insufficient to meet the obligations of the borrower. An Account may have limited rights to exercise remedies against such collateral or a borrower, and loan agreements may impose certain procedures that delay receipt of the proceeds of collateral or require the Account to act collectively with other creditors to exercise its rights with respect to a senior loan.

Senior loans may not be considered “securities,” and therefore purchasers, such as an Account, may not be entitled to rely on the anti-fraud protections of the federal securities laws. Loans and other debt instruments that are not in the form of securities may therefore offer less legal protection to the Account in the event of fraud or misrepresentation.

In addition, in certain circumstances, PIMCO may restrict itself from receiving material non-public information (“MNPI”) with respect to an issuer of senior loans so as not to restrict its ability to trade in other securities of such issuer, even if such information may be beneficial to the Accounts holding such senior loans. Even when PIMCO restricts itself from receiving MNPI, foregoing a possible opportunity to engage in a private transaction, PIMCO ultimately may not trade in the securities of such issuer.

***Servicers and Associated Risks.*** In addition to risks associated with borrowers and collateral on assets that an Account may originate or acquire or to which it otherwise has exposure, the creditworthiness, servicing practices and viability of the servicers of structured investments are also significant risks. For example, commercial mortgage-backed securities or CDOs may provide that the servicer is required to make advances in respect of delinquent mortgage loans. However, servicers experiencing financial difficulties may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the

extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer’s obligation to make such advances may be limited to the amount of its servicing fee.

***Short Exposure 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 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 equal to the increase in price from the time that the short sale was entered into plus any transaction costs (i.e., premiums and interest) paid to the broker-dealer to borrow securities. 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. By contrast, a loss on a long position arises from decreases in the value of the security and is limited by the fact that a security’s value cannot decrease below zero. In times of unusual or adverse market, economic, regulatory, or political conditions, an Account may not be able, fully or partially, to implement its short selling strategy. Periods of unusual or adverse market economic, regulatory, or political conditions generally may exist for as long as six months and in some cases, much longer. Also, there is the risk that the third party to the short position will not fulfill its contractual obligations, causing a loss to the Account.

***Small-Cap and Mid-Cap Company Risk.*** Investments in small-capitalization and mid-capitalization companies involve greater risk than investments in large-capitalization companies. The general risks associated with fixed income securities and equity securities are particularly pronounced for securities issued by companies with smaller market capitalizations. These companies may have limited product lines, markets or financial resources or they may depend on a few key employees. As a result, they may be subject to greater

levels of credit, market, and issuer risk. Securities of smaller companies may trade less frequently and in lesser volumes than more widely held securities and their values may fluctuate more sharply than other securities. Companies with medium-sized market capitalizations may have risks similar to those of smaller companies.

**Sovereign Debt Risk.** An Account that invests in fixed income instruments issued by sovereign entities may decline in value as a result of default or other adverse credit events resulting from the issuer's inability or unwillingness to make principal or interest payments in a timely fashion. A sovereign entity's failure to make timely payments on its debt can result from many factors, including, without limitation, insufficient foreign currency reserves or an inability to sufficiently manage fluctuations in relative currency valuations, an inability or unwillingness to satisfy the demands of creditors and/or relevant supranational entities regarding debt service or economic reforms, the size of the debt burden relative to economic output and tax revenues, cash flow difficulties, and other political and social considerations. The risk of loss to an Account in the event of a sovereign debt default or other adverse credit event is heightened by the unlikelihood of any formal recourse or means to enforce its rights as a holder of the sovereign debt. In addition, sovereign debt restructurings, which may be shaped by entities and factors beyond an Account's control, may result in a loss in value of an Account's sovereign debt holdings.

**Speculative Position Limits Risk.** PIMCO's ability to invest in certain derivatives may be constrained by applicable regulations pertaining to speculative position limits. Certain regulators and exchanges have rules limiting the positions which any person or group may own, hold or control in certain derivatives. In applying such limits, certain regulators and exchanges require that the adviser aggregate any positions over which it has trading control. In some instances, position limits apply directly to Clients, as beneficial owners of the positions (e.g., CFTC spot month limits and certain position limits imposed by non-U.S. regulators). In such circumstances, Clients are responsible for ensuring that their

accumulated position in the derivative position across all of their relevant investments does not exceed the applicable position limit. In addition to other risks involving investments in derivatives, investments in derivatives that have positions limits may be subject to regulatory risk associated with exceeding an applicable position limit, and could be required to liquidate positions in order to comply with such limits. Similarly, PIMCO could be required to liquidate positions that it manages in order to comply with such limits, or may not be able to fully implement trading instructions generated by its trading models, in order to comply with such limits. Any such liquidation or limited implementation could result in substantial costs. PIMCO has implemented procedures to reasonably mitigate such risks, should they arise.

**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 an Account'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 account 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 Account and a risk of loss of all or a part of a participant's invested value in an Account. Stable value pooled funds in which an Account invests have similar

risks and, additionally, the risk that the pooled fund may fail to make a timely payment to the Account or may pay less than the Account's invested value in the pooled fund.

**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.

**Sub-Adviser Risk.** In accordance with the terms of the applicable governing documents for a Separate Account or PIMCO Fund, PIMCO may from time to time utilize other investment advisers, which may or may not be affiliated with PIMCO (collectively, "Sub-Advisers"), for the purpose of participating in particular market opportunities or executing particular strategies that PIMCO believes can be effectively accessed and/or managed by such Sub-Advisers. In general, the methods of analysis and investment strategies undertaken on behalf of a Separate Account or PIMCO Fund will be subject to substantially similar material risks whether performed by PIMCO or a Sub-Adviser. To the extent that PIMCO utilizes Sub-Advisers to effectuate the investment objectives of a Separate Account or PIMCO Fund, the Sub-Adviser, subject to oversight by PIMCO, would be involved in the day-to-day management of such Separate Account or PIMCO Fund, and such Separate Account or PIMCO Fund will be subject to the possible defaults or misconduct of such Sub-Advisers. Conversely, in some circumstances, regulatory restrictions, conflicts of interest or other considerations may cause PIMCO, in its oversight role, to intervene with

respect to a Sub-Adviser's day-to-day management of a Separate Account or PIMCO Fund and require certain alterations to the Sub-Adviser's proposed investment activities with respect to such Separate Account or PIMCO Fund. Although in some cases PIMCO may pay a Sub-Adviser fee from fees that it receives from an Account, in other cases an Account may pay fees directly to the Sub-Adviser as well as to PIMCO.

PIMCO generally has the right to terminate a Sub-Adviser. Therefore, PIMCO may terminate a Sub-Adviser even when a client may not wish it to do so. In addition, in certain cases PIMCO has an economic or other relationship with a Sub-Adviser which may create a disincentive for PIMCO to terminate or recommend the termination of a Sub-Adviser. For example, certain PIMCO Funds are sub-advised by Gurtin, a wholly-owned subsidiary of PIMCO. In addition, PIMCO has agreements with Research Affiliates, LLC ("RA") to develop and offer multiple PIMCO Fund and Separate Account products ("RA Strategies") for which PIMCO serves as investment adviser and RA as sub-adviser, the terms of which may create economic disincentives for PIMCO to terminate or recommend the termination of RA as sub-adviser. Further, PIMCO and RA also have engaged Parametric Portfolio Associates LLC to implement and/or provide sub-advisory services for certain RA Strategies.

**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. PIMCO is generally not required to consider the tax status or tax needs of an Account when managing investments, although it may choose to do so.

**Third-Party Involvement Risk.** An Account may hold a portion of its investments through partnerships, joint ventures, securitization vehicles or other entities with third-party investors (collectively, "joint ventures"). Joint venture investments involve various risks, including the risk that the Account will not be able to implement

investment decisions or exit strategies because of limitations on the Account's control under applicable agreements with joint venture partners, the risk that a joint venture partner may become bankrupt or may at any time have economic or business interests or goals that are inconsistent with those of the Account, the risk that a suitable replacement joint venture partner may not exist or be able to be engaged if needed, the risk that the activities of a joint venture partner may increase regulatory or legal risk to applicable Account(s) and/or PIMCO, the risk that a joint venture partner may be in a position to take action contrary to the Account's objectives or fails to perform its obligations in respect of the joint venture, the risk of liability based upon the actions of a joint venture partner and the risk of disputes or litigation with such partner and the inability to enforce fully all rights (or the incurrence of additional risk in connection with enforcement of rights) one partner may have against the other, including in connection with foreclosure on partner loans because of risks arising under state law. In addition, an Account may be liable for actions of its joint venture partners.

**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.

**Unsecured Debt Risks.** Accounts may invest in unsecured debt instruments that are not secured by collateral. In the event of default on an unsecured debt instrument, the first priority lien holder has first claim to the underlying collateral of the debt instrument. It is

possible that no collateral value would remain for an unsecured holder and therefore result in a complete or partial loss. Because unsecured debt instruments are lower in priority of payment to secured debt instruments, they are subject to the additional risk that the cash flow of the borrower may be insufficient to meet scheduled payments after giving effect to the secured obligations of the borrower. Unsecured debt instruments generally have greater price volatility than secured debt instruments and may be less liquid.

**Valuation Risk.** The process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties, and the resulting values may differ from values that would have been determined had readily available market quotations been available for such securities. As a result, the values placed on such securities by PIMCO or a PIMCO Fund may differ from values placed on such securities by other investors or a Client's custodian and from prices at which such securities may ultimately be sold. Where appropriate, third-party pricing information, which may be indicative of, or used as an input in determining, fair value may be used, but such information may at times not be available regarding certain assets or, if available, may not be considered reliable. Even if considered reliable, such third-party information might not ultimately reflect the price obtained for that security in a market transaction, which could be higher or lower than the third-party pricing information. Disruptions in the credit markets have from time to time resulted in a severe lack of liquidity for many securities or other financial instruments or assets, making them more difficult to value and, in many cases, putting significant downward pressure on prices. This risk will be enhanced for Accounts (in particular, certain Private Funds) in respect of which market quotations are not expected to be obtainable for many of the Account's assets. In addition, an Account may rely on various third-party sources to calculate its market value. As a result, the Account is subject to certain operational risks associated with reliance on Service Providers and Service Providers' data sources. In addition, the values placed on securities will affect the value of the applicable Accounts, any fees

determined based on the Account value, and the performance of the Account. This may result in potential conflicts of interest where PIMCO is exercising discretion regarding the fair valuation process. PIMCO will seek to take appropriate measures to mitigate any such conflicts of interest.

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

## ITEM 9. Disciplinary Information

On December 1, 2016, PIMCO entered into a settlement agreement with the SEC relating to disclosures in connection with the PIMCO Total Return Active Exchange-Traded Fund's performance attribution during the first four months of its existence in 2012 and the valuation of 43 smaller-sized ("odd-lot") positions of non-agency mortgage-backed securities using third-party vendor prices, as well as PIMCO's compliance policies and procedures related to these matters. Under the terms of the settlement, PIMCO agreed to pay to the SEC \$19.8 million, which includes a penalty, fee disgorgement, and interest. PIMCO has enhanced its pricing and disclosure policies to address the SEC's findings and, as part of the settlement, retained an independent compliance consultant to review its policies regarding the valuation of smaller-sized positions.

PIMCO and its management persons have no other 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 representatives of PIMCO's affiliated, registered, limited purpose broker-dealer, PIMCO Investments LLC ("PI"). PI is registered with the SEC and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA").

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

PIMCO is registered with the CFTC as a commodity pool operator and commodity trading advisor, and in certain circumstances qualifies as an exempt commodity pool operator. Certain of PIMCO's personnel are listed as principals and/or as associated persons of PIMCO with the CFTC.

### New Affiliations

PIMCO formed the Services Company to serve as a Service Provider for certain Clients. Currently, all personnel of the Services Company are also employees of PIMCO and will be providing services on behalf of both PIMCO and the Services Company. It is expected that in the future some individuals will be employed exclusively by the Services Company while others will continue to be Dual Employees of PIMCO and the Services Company.

On January 2, 2019, PIMCO completed the acquisition of Gurtin, such that Gurtin is now a wholly-owned subsidiary of PIMCO. Gurtin is an SEC registered investment adviser specializing in the management of municipal bond portfolios for high net worth and ultra-high net worth individuals nationwide. Gurtin currently operates independently from PIMCO in many respects; however, certain operational and compliance functions have been integrated, and it is expected that various other functions will be further integrated over time. In addition, certain Gurtin and PIMCO personnel from time to time will share information, perceptions, advice and recommendations about market trends and outlook, the valuations and credit ratings of individual securities, investment strategies, and certain client engagement



initiatives, except where restricted by information barriers established by PIMCO and/or Gurtin or by applicable law or regulation. Certain Gurtin employees are registered representatives of PI.

### **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, the interests of other Clients, or the interests of Affiliate Clients. Some of these conflicts of interest are inherent to our business. We have adopted policies and procedures that are designed to address conflicts of interest.

We are majority owned by Allianz, a global financial services company, and have various wholly-owned subsidiaries (including Gurtin) and other controlled affiliates engaged in investment advisory and related businesses. Accordingly, 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 engages in business activities with some or all of these companies, subject to our policies and procedures governing how we handle conflicts of interest. We also engage our affiliates to provide other services to our Clients in accordance with applicable law. Similarly, our affiliates may lend money to or engage in investment transactions with our Clients, subject to applicable law.

PIMCO and its affiliates advise a number of Clients and Affiliate Clients, respectively, which include other affiliates. PIMCO and its affiliates may advise some Clients or Affiliate Clients or take actions for such clients that differ from recommendations or actions taken for other Clients or Affiliate Clients. PIMCO and its affiliates are not obligated to recommend to any or all Clients or Affiliate Clients any investments that it recommends to, or purchases or sells for, certain other Clients or Affiliate Clients. PIMCO's employees regularly share among each other information, perceptions, advice and

recommendations about market trends, the valuations and credit ratings of individual securities and, investment strategies, except where restricted by information barriers established by PIMCO or by applicable law or regulation. In addition, PIMCO shares or receives similar information from certain of its affiliates, including Gurtin. Persons associated with PIMCO or its affiliates have investments in securities, pooled investment vehicles, or other assets, including real estate, that are recommended to Clients or Affiliated Clients or held in Accounts, subject to compliance with our policies regarding personal investments. 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.** We do not use affiliated broker-dealers to execute transactions for our Clients. However, certain PIMCO products are distributed by PI. PI is a limited purpose broker-dealer and currently serves as the distributor and principal underwriter of the PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO ETF Trust, PIMCO Managed Accounts Trust, PIMCO Flexible Credit Income Fund and PIMCO Flexible Municipal Income Fund. PI also provides services such as marketing support for initial offerings of PIMCO-managed closed-end mutual funds and shareholder servicing thereafter, performs marketing and shareholder services with respect to certain offshore funds (such as PIMCO Funds: Global Investor Series plc), acts as placement agent for certain Private Funds and certain Affiliate Clients, and as sub-placement agent for certain access funds managed by third party investment advisers ("Access Funds") that invest substantially all of their assets in PIMCO Private Funds, and provides marketing services with respect to the CITs. PI also acts as solicitor for certain Client Accounts (including the Wrap Programs) and acts as solicitor for certain accounts managed by Gurtin. PIMCO employees who are involved in marketing or soliciting these products are also licensed, registered representatives of PI. These employees, in appropriate circumstances and consistent with Clients' objectives, recommend to investment

management Clients or prospective clients the purchase of shares in PIMCO Funds or other PIMCO-managed investment companies or pooled investment vehicles that PI distributes or underwrites or PIMCO advisory services.

With the exception of the Access Funds, these investment companies or pooled investment vehicles typically pay investment management and supervisory and administrative fees to PIMCO, and certain share classes pay distribution and/or service fees to PI, including 12b-1 fees, sales loads, and/or contingent deferred sales charges. In addition to these fees and charges, PIMCO pays, from its own profits, a fee to PI for marketing and related services that PI provides to certain PIMCO-managed registered investment companies. Certain of PI's registered representatives are employees of PI, in which case such PI employees are also supervised persons of PIMCO. Certain PI employees receive commissions or other compensation for the sale of certain products, such as certain PIMCO-managed open-end funds, closed-end funds (including interval funds) and Wrap Programs. The compensation may be paid at different levels for different products, and takes a number of variables into account, which may provide an incentive to PI employees to promote, recommend or solicit the sale of a particular product over another. Pursuant to policy, no PI employee is permitted to promote, recommend or solicit the sale of one product over another solely because that product will provide higher revenue or compensation to the employee, PI or PIMCO.

**Other Investment Advisers or Financial Planners.** In rendering investment management services to Clients, including U.S. registered investment companies, PIMCO uses the resources of the investment adviser affiliates listed in Appendix C (the "Investment Adviser Affiliates") and the Non-U.S. Advisers to provide portfolio management, research, and trading services. Client fees are allocated between PIMCO and/or the Investment Adviser Affiliate and the Non-U.S. Adviser based on a number of factors, including but not limited to relevant U.S. and foreign tax laws and the types of services

provided in the relevant jurisdiction. 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 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.

In addition, while Gurtin currently operates independently from PIMCO in many respects and its employees do not currently provide direct portfolio management services to Clients and Accounts (other than pursuant to separate subadvisory agreements with Gurtin), certain employees of PIMCO and Gurtin from time to time will share information regarding market trends and outlook, the valuations and credit ratings of individual securities, investment strategies and certain client engagement initiatives, except where prohibited by information barriers established by PIMCO and/or Gurtin or by applicable law or regulation. In addition, certain employees of Gurtin currently or may in the future serve as secondees at PIMCO, and certain employees of PIMCO may in the future serve as secondees at Gurtin. As Gurtin and PIMCO become more integrated over time, they will

share additional functions. For example, certain employees are expected to become dual employees such that they are providing services on behalf of both PIMCO and Gurtin. Because of the nature of the relationship and information that is shared, certain employees of Gurtin are considered to be “associated persons” of PIMCO and certain employees of PIMCO are considered to be “associated persons” of Gurtin. These relationships may present potential conflicts of interest relating to PIMCO’s activities and the activities of its affiliates. Please see Item 11, “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” for additional information.

PIMCO also acts as a sub-adviser for certain open-end registered investment companies sponsored by third parties. In addition, PIMCO and/or certain of the Investment Adviser Affiliates act as sub-adviser to accounts advised by the Non-U.S. Advisers. Certain of the Non-U.S. Advisers also provide administrative services in relation to Accounts advised by PIMCO and/or the Investment Adviser Affiliates.

**Management of Affiliated Assets.** PIMCO manages assets for Allianz and other direct and indirect equity holders in Allianz Asset Management of America L.P and other Allianz affiliates. 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.** Certain employees of PIMCO and its affiliates serve on the boards of directors of portfolio companies of investment management Clients and other employees may serve on such boards in the future. 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, and may increase the risk that the relevant Clients

will be subject to control person liabilities. Any such conflicts will be handled on a case-by-case basis. In addition, Accounts or investments held in those Accounts may be required to indemnify PIMCO employees for liability associated with serving as a director.

Many PIMCO Fund and other Account offering or governing documents provide for the indemnification of PIMCO and its affiliates or employees against losses relating to PIMCO’s provision of advisory or other services. Such indemnification provisions may result in investors in such Accounts having a more limited right of action in certain cases than they would in the absence of such standards. As a result, the application of these provisions may result in such Account bearing significant financial losses even where such losses were caused by the negligence (even if heightened) of such covered PIMCO employees.

## **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 or address conflicts of interest. Our policies and procedures, including the PIMCO Code of Ethics (the “Code”), apply to all employees and 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. Because Gurtin currently operates independently from PIMCO in many respects, Gurtin is subject to many of its own policies and procedures, which differ in certain significant respects from PIMCO’s policies and procedures.

The Code, sets out standards of conduct and is designed to help us detect and prevent or address 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, the Code contains preclearance procedures, reporting requirements and other provisions that restrict trading by employees. Employees are required to disclose their personal brokerage accounts upon commencing employment at PIMCO and must 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 personal brokerage account information. The Code also contains disclosure and preclearance procedures with respect to certain personal real estate investments to the extent employees focus on real estate investing on behalf of Clients.

**Blackout Periods.** Certain employees who are involved in executing Client transactions or 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, a percentage reduction in discretionary performance compensation that would otherwise be awarded, 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 complete an annual certification regarding their compliance with the Code.

## Gifts and Entertainment

Our Policy on Gifts, Entertainment and Related Anti-Corruption Measures limits the giving and receiving of certain meals, gifts and entertainment by our employees. Our personnel occasionally 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 from making, soliciting

or coordinating 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 immediate family members) make, solicit, or coordinate any contributions to a political candidate, government official, political party or political action committee.

## Potential Conflicts Relating to Advisory Activities

PIMCO is a leading global investment management firm that offers a wide variety of products and services to a diverse global client base. Accordingly, there are numerous conflicts of interest that may arise in connection with PIMCO's advisory activities, including, but not limited to, those identified below.

The results of our investment activities for a Client may differ significantly from the results achieved by us for other Clients, or by our affiliates for Affiliate Clients. We will manage the assets of a Client in accordance with the investment mandate and investment guidelines 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 or with the advice our affiliates may give to or take on behalf of Affiliate Clients. For example, we may buy or sell positions for one Client while we or our affiliates are undertaking for another Client or Affiliate Client the same or a different, including potentially opposite, strategy or position. In addition, to the extent permitted by applicable law, Clients may engage in investment transactions that may result in other Clients or Affiliate Clients being relieved of obligations, or that may cause other Clients or Affiliate 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' or Affiliate Clients' investments. Similarly, our management of Client assets may benefit us or our affiliates. For example, and as discussed further

herein, 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, because certain Clients are affiliates of PIMCO (including Allianz) or have investors who are affiliates or employees of PIMCO, we will have incentives to resolve conflicts of interest in favor of these Clients over other Clients. In addition, PIMCO manages strategies on behalf of its Clients that are similar to the strategies managed by our affiliates on behalf of Affiliate Clients, which gives rise to certain other potential conflicts of interest, as discussed in more detail below. We have established a Conflicts Committee and related policies and procedures that seek to identify, manage and/or mitigate such potential conflicts of interest, although they may not be successful in doing so.

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

**Process.** PIMCO typically aggregates Client orders where appropriate in an effort to obtain more favorable execution, to the extent permitted by internal policies and procedures, the Clients' investment management agreements and applicable law. PIMCO does not currently aggregate Client orders with Affiliate Clients of Gurtin but may do so in the future consistent with applicable law.

From time to time, aggregation may not be possible because a security or other instrument is thinly traded or otherwise not able to be aggregated and allocated among all Clients and Affiliate Clients seeking the investment opportunity and Clients and Affiliated Clients may be limited in, or precluded from, participating in an aggregated trade. Also, an issuer in which Clients or Affiliated 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 Clients to participate in the opportunity.

The overriding objective of our trade allocation policy is

to achieve fair and equitable treatment of Accounts over time. We have also adopted procedures that seek 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, including the considerations discussed in more detail under "Trade Allocation" below, as may be applicable in the particular circumstance.

**Fixed Income.** Subject to our policies and procedures, we will, 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, subject to the considerations discussion under "Trade Allocation" below. Accounts furthest from achieving a portfolio characteristic parity typically receive priority in allocations.

**Equity.** Subject 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, 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 will generally bear commissions, fees and charges pro rata.



**Trade Allocation.** PIMCO's trade allocation policy is to treat all Clients fairly and equitably over time. Accordingly, each portfolio manager allocates trades among his or her eligible Accounts. In allocating trades, portfolio managers seek to 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; liquidity; 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 a trivial amount or an amount below the established minimum quantity; regulatory requirements; the origin of the investment; the bases for an issuer's allocation to PIMCO; and other Account-specific factors. On a regular basis, portfolio managers review all Accounts to identify those whose current risk exposures and/or portfolio characteristics differ significantly from targets. Portfolio managers managing specialized Accounts, such as Accounts focused on international securities, mortgage-backed securities, bank loans, or other specialized asset classes, may receive an increased distribution for those Accounts where the distribution involves a specialized asset class that matches the investment objective or focus of those Accounts.

PIMCO and Gurtin generally make independent portfolio management decisions and do not currently allocate investment opportunities to the other's clients or otherwise coordinate their trading activities (although these processes will be integrated in the future, in a manner that is consistent with applicable law). Therefore, Clients of PIMCO and Affiliate Clients of Gurtin may compete for investment or disposition opportunities, which could disadvantage Clients and/or Affiliate Clients.

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 with respect to such funds.

**Potential Conflicts of Interest Stemming from Trade Aggregation and Allocation.** Although allocating orders among Clients can create potential conflicts of interest including, without limitation, because we receive greater fees or compensation (including performance fees or similar incentive compensation) from some Clients than other Clients, or because we are affiliated or have other relationships with certain Clients, we will not make allocation decisions based on such factors. 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. For example, some Clients may have higher risk tolerances than other Clients, which, in turn, may allow PIMCO to allocate a wider variety and/or greater percentage of certain types investments (which may or may not outperform other types of investments) to such Clients. In addition, portfolio managers managing specialized Accounts focusing on certain types of investments or asset classes (e.g., emerging market securities, mortgage-backed securities, bank loans, or other specialized strategies) may be given priority in the allocation process for those Accounts with respect to the investments or asset classes that are the focus of their investment mandate. Similarly, portfolio managers who are responsible for structuring

or monitoring certain investments may be given priority in the allocation process for the Accounts they manage. We may also take into account the bases for an issuer's allocation to PIMCO, for example, by giving priority allocations to Accounts holding existing positions in the issuer's debt if the issuer's allocation to PIMCO is based on such holdings. 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. In addition, legal, contractual, or regulatory issues and/or related expenses applicable to PIMCO or one or more Clients may result in certain Clients not receiving securities that may otherwise be appropriate for them or may result in PIMCO selling securities out of Accounts even if it might otherwise be beneficial to continue to hold them. 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 that may provide greater fees or other compensation (including performance-based fees or allocations) to PIMCO.

In addition, certain conflicts of interest may arise from situations in which PIMCO does not aggregate and allocate trades among Clients and Affiliate Clients. For example, PIMCO's affiliates will not have an incentive to share investment recommendations or analysis with PIMCO, in order to protect investment opportunities for Affiliate Clients. In addition, because PIMCO manages strategies for its Clients that are similar to strategies managed by PIMCO's affiliates for Affiliate Clients, Clients and Affiliate Clients may compete for investment opportunities. For example, although PIMCO (for accounts that permit municipal securities) and Gurtin each invest for their respective clients in municipal securities, they generally do not coordinate their investment or trading activities, and therefore may compete for investment or disposition opportunities, which may make it difficult to transact or to transact at desired times or prices.

**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. However, with regard to transactions in fixed income securities, 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 trade allocation policy and procedures. As set forth under "Overview of Trade Aggregation and Allocation" in this Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," the overriding objective of our trade allocation policy is to achieve fair and equitable treatment of Accounts over time. PIMCO seeks 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, including the considerations discussed in more detail under "Trade Allocation" as may be applicable in the particular circumstance. Our apportionment of trades may not be strictly pro rata depending on our determination of all relevant factors such as lot size, relative liquidity of the position, existing or targeted account weightings in particular securities, account size, cash availability, diversification requirements and investment objectives, restrictions and time horizons, which may result in more particularized allocations. Please see Item 12, "Brokerage Practices."

**Potential Conflicts Relating to Non-Discretionary Advisory Services.** We 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. In these circumstances, we generally do not execute purchases or sales on behalf of the Client or a Client may require that PIMCO seek the Client's approval prior to executing any buy or sell transactions for the Client's Account. Discretionary and non-discretionary Clients may hold the same or similar instruments. Where PIMCO is given authority to execute transactions upon the approval of a non-discretionary Client, 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. Non-discretionary Clients may not be able to participate in aggregated transactions due to such timing differences. As a result, non-discretionary Clients may not be able to benefit from the most favorable price for a particular investment or may not be able to participate in certain investment opportunities. 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 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 or Affiliate 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 Affiliate Clients in which we have an interest, or which pay us higher fees or a performance fee. For example, a Client or Affiliate Client may buy a security and another Client or Affiliate 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 other Client or Affiliate Client holds. Similarly, transactions or investments by one or more Clients or Affiliate Clients may have the effect of diluting or otherwise disadvantaging the values, prices or

investment strategies of another Client or Affiliate Client. In addition, PIMCO and its affiliates may cause Clients or Affiliate Clients to engage in or otherwise participate in transactions that have the effect of providing financing to other Accounts (or their portfolio companies) or to PIMCO or its affiliates. When we implement for one Client a portfolio decision or strategy ahead of, or contemporaneously with, similar portfolio decisions or strategies of another Client or Affiliate Client, market impact, liquidity constraints or other factors could result in one or more Clients or Affiliate Clients receiving less favorable trading results, the costs of implementing such portfolio decisions or strategies could be increased or such Clients or Affiliate Clients could otherwise be disadvantaged. On the other hand, potential conflicts may also arise because portfolio decisions regarding a Client or Affiliate Client may benefit other Clients or Affiliate Clients. For example, the sale of a long position or establishment of a short position for a Client or Affiliate Client may decrease the price of the same security sold short by (and therefore benefit) other Clients or Affiliate Clients, and the purchase of a security or covering of a short position in a security for a Client or Affiliate Client may increase the price of the same security held by (and therefore benefit) other Clients or Affiliate Clients.

Under certain circumstances, a Client could invest in a transaction in which one or more other Clients or Affiliate Clients are expected to participate, or already have made or will seek to make, an investment. Such Clients or Affiliate 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. When making such investments, PIMCO may do so in a way that favors one Client or Affiliate Client over another Client or Affiliate Client, even if both Clients or Affiliate Clients are investing in the same security at the same time. Certain Clients or Affiliate Clients (typically, certain Private Funds) may invest on a "parallel" basis (i.e., proportionately in all transactions at substantially the same time and on substantially the

same terms and conditions). In addition, other Clients invest in many of the same types of investments as another Client or Affiliate Client. However, there may be investments in which one or more of such Clients do not invest (or invest on different terms or on a non-pro rata basis) due to factors such as legal, tax, regulatory, business, contractual, financial or other similar considerations or due to the provisions of a Client's or Affiliate Client's governing documents. Decisions as to the allocation of investment opportunities among such Clients and Affiliate Clients present numerous conflicts of interest, which may not be resolved in a manner that is favorable to a Client's interests. To the extent an investment is not allocated pro rata among such entities, a Client could incur a disproportionate amount of income or loss related to such investment relative to such other Client.

In addition, certain Clients and or Affiliate Clients invest alongside one another in the same underlying investments or otherwise pursuant to a substantially similar investment strategy as one or more other Clients or Affiliate Clients. In such cases, certain Clients (such as Separate Accounts) or Affiliate Clients may have preferential liquidity and information rights relative to other Clients or Affiliate Clients holding the same investments, with the result that such Clients or Affiliate Clients will be able to withdraw/redeem their interests in underlying investments in priority to Clients or Affiliate Clients who may have more limited access to information or more restrictive withdrawal/redemption rights. Clients with more limited information rights or more restrictive liquidity may therefore be adversely affected in the event of a downturn in the markets.

Further, potential conflicts may be inherent in our use of multiple strategies. For example, conflicts will arise in cases where different Clients or Affiliate Clients invest in different parts of an issuer's capital structure, including circumstances in which one or more Clients or Affiliate Clients may own private securities or obligations of an issuer and other Clients or Affiliate Clients may own or seek to acquire securities of the same issuer. For example, a Client or Affiliate Client may acquire a loan,

loan participation or a loan assignment of a particular borrower in which one or more other Clients or Affiliate Clients have an equity investment, or may invest in senior debt obligations of an issuer for one Client or Affiliate Client and junior debt obligations or equity of the same issuer for another Client or Affiliate Client.

We may also, for example, direct a Client to invest in a tranche of a structured finance vehicle, such as a CLO or CDO, where we or an affiliate are also, at the same or different time, directing another Client or Affiliate Client to make investments in a different tranche of the same vehicle, which tranche's interests may be adverse to other tranches, either now or in the future. We may also cause a Client or Affiliate Client to purchase from, or sell assets to, an entity, such as a structured finance vehicle, in which other Clients or Affiliate Clients may have an interest, potentially in a manner that will have an adverse effect on the other Clients or Affiliate Client. There may also be conflicts where, for example, a Client holds certain debt or equity securities of an issuer, and that same issuer has issued other debt, equity or other instruments that are owned by other Clients or Affiliate Client or by an entity, such as a structured finance vehicle, in which other Clients or Affiliate Client have an interest. PIMCO may also cause Clients to invest in structured finance vehicles or other entities managed or serviced by PIMCO or its affiliates to which PIMCO, its affiliates or other Clients or Affiliate Clients contributed assets. This could lead to conflicts where, for example, Clients that own securities of the issuer may benefit from pursuing claims against the Clients or Affiliate Clients or PIMCO affiliates that contributed assets. PIMCO may also structure and/or cause Clients to invest in or otherwise transact with vehicles whose purpose is to mitigate PIMCO's or its affiliates' "risk retention" requirements. PIMCO may also cause Clients or Affiliate Clients to invest in or otherwise engage in transactions that have the effect of supporting the growth of new lines of business being developed by PIMCO and/or its affiliates generally. In each of the situations described above, we may take actions with respect to the assets held by one Client or Affiliate Clients that are adverse to the other Clients or Affiliate Clients, for example, by foreclosing on

loans, disposing of equity or by putting an issuer into default, or by exercising rights to purchase or sell to an issuer or liquidate an issuer, causing an issuer to take actions adverse to certain classes of securities, or otherwise. In negotiating the terms and conditions of any such investments, or any subsequent amendments or waivers or taking any other actions, we may find that the interests of a Client or Affiliate Client and the interests of one or more other Clients or Affiliate Clients could conflict. In these situations, decisions over items such as whether to make the investment, exercise certain rights, or take or determine not to take an action, proxy voting, corporate reorganization, how to exit an investment, or bankruptcy or similar 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 or Affiliate 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 certain investments on behalf of Clients in order to avoid or mitigate certain conflicts of interest or to prevent adverse regulatory or other effects on PIMCO, or may sell investments for certain Clients or Affiliate Clients (in each case potentially disadvantaging the Clients or Affiliate Clients on whose behalf the actions are not taken, investments not made, or investments sold). In other cases, PIMCO may not refrain from taking actions or making investments on behalf of certain Clients or Affiliate Clients that have the potential to disadvantage other Clients or Affiliate Clients. In addition, PIMCO may take actions or refrain from taking actions in order to mitigate legal risks to PIMCO or its affiliates or another Client or Affiliate Client even if

disadvantageous to a Client.

Examples of when PIMCO may determine to refrain from or proceed with pursuing investments that could have conflicting effects on Clients include, but are not limited to, when (i) PIMCO or its affiliates are providing (or may provide) advice or services to an entity involved in such activity or transaction; (ii) PIMCO or an affiliate may be engaged in the same or a related activity or transaction to that being considered on behalf of the Client; (iii) there are political, public relations, or other reputational considerations relating to counterparties or other participants in such activity or transaction; or (iv) such activity or transaction on behalf of or in respect of a Client could affect in tangible or intangible ways PIMCO, its affiliates, and/or other Clients or Affiliate Clients.

Additionally, certain conflicts may exist with respect to portfolio managers who make investment decisions on behalf of several different types of Clients. Such portfolio managers have an incentive to allocate trades, time or resources to certain Clients, including those Clients who pay higher investment management fees or that pay incentive fees or allocations, over other Clients. These conflicts may be heightened with respect to portfolio managers who are eligible to receive a performance allocation under certain circumstances as part of their compensation. To mitigate these conflicts, PIMCO's policies and procedures seek to ensure that all Clients are treated fairly and equitably over time without consideration of PIMCO's or its affiliates' (or such personnel's) pecuniary, investment or other financial interests.

Portfolio managers may also have an incentive to temporarily improve the appearance of an Account's performance before the end of a reporting period. For example, a portfolio manager may (i) place market-moving orders in a security that is held in an Account to increase the market price and, as a result, the value of the holdings in the Account; and/or (ii) sell holdings that have experienced losses and purchase high-performing securities at the end of the period so that the list of holdings reported includes the securities that performed well and excludes the securities that performed poorly. Such trading practices, also known as "portfolio pumping" and "window dressing,"



are prohibited.

In addition, certain strategies are only able to accommodate a limited amount of capital or can become more challenging to implement as assets increase above certain levels. In situations where PIMCO is paid asset-based fees, PIMCO has an incentive to accept new assets or form products with qualities similar to existing products in situations that may disadvantage existing Clients.

PIMCO may conduct litigation or engage in other legal actions on behalf of one or more Clients. In such cases, Clients may be required to bear certain fees, costs, expenses and liabilities associated with the litigation. Other Clients or Affiliate Clients that are or were investors in, or otherwise involved with, the subject investments may or may not (depending on the circumstances) be parties to such litigation actions, with the result that certain Clients may participate in litigation actions in which not all Clients or Affiliate Clients with similar investments may participate, and such non-participating Clients or Affiliate Clients may benefit from the results of such litigation actions without bearing or otherwise being subject to the associated fees, costs, expenses and liabilities. PIMCO, for example, typically does not pursue legal claims on behalf of its Separate Accounts. Furthermore, in certain situations, litigation or other legal actions pursued by PIMCO or its affiliates on behalf of a Client or Affiliate Client may be brought against or otherwise adverse to a portfolio company or other investment held by a Client or Affiliate Client.

PIMCO or its affiliates may have conflicts with respect to the exercise of proxies, consents and similar rights. In addition, PIMCO may restrict or otherwise limit its governance or voting rights with respect to a Client investment in order to avoid certain regulatory consequences that could result in additional costs and disclosure obligations for, or impose restrictions on PIMCO, its affiliates and/or other Clients or Affiliate Clients. This could have a negative impact on the Clients whose voting rights are limited. Please refer to Item 17. Voting Client Securities for additional detail on PIMCO's proxy voting policy.

The foregoing is not a complete list of conflicts to which

PIMCO or Clients may be subject. Any conflict 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, applicable PIMCO policies and procedures, and applicable laws. Clients (and investors in PIMCO Funds) should be aware that conflicts will not necessarily be resolved in favor of their interests and may in fact be resolved in a manner adverse to their interests. PIMCO will attempt to resolve such matters fairly, but even so, matters may be resolved in favor of other Clients or Affiliate Clients, 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 in or returns from certain investments than if such conflicts of interest did not exist.

Conflicts of the nature described above may also occur between Clients, on the one hand, and PIMCO or its affiliates, on the other. These conflicts will not always be resolved in favor of the Client. In addition, because PIMCO has numerous affiliates, including Allianz, a large multi-national financial institution, and Gurtin, a wholly-owned subsidiary and registered investment adviser, conflicts similar to those described above may occur between PIMCO's Clients and these affiliates or clients and accounts managed by these affiliates. These affiliates (or their clients), certain of which generally operate autonomously from PIMCO, may take actions that are adverse to PIMCO's Clients. In many cases, including on account of their autonomous operations, PIMCO will have limited or no ability to mitigate those actions or address those conflicts, which could adversely affect Client performance. In addition, certain regulatory restrictions may prohibit us from using certain brokers or investing in certain companies (even if such companies are not affiliated with Allianz) because of the applicability of certain laws and regulations applicable to PIMCO, Allianz SE or their affiliates. An Account's willingness to negotiate terms or take actions with respect to an investment may also be, directly or indirectly, constrained

or otherwise impacted to the extent Allianz SE, PIMCO, and/or their affiliates, directors, partners, managers, members, officers or personnel are also invested therein or otherwise have a connection to the subject investment (e.g., serving as a trustee or board member thereof).

### ***Performance-Based Fees and Side-By-Side***

***Management.*** As discussed above and under Item 6, “Performance-Based Fees and Side-by-Side Management,” we manage different types of Accounts having different fee arrangements. Side-by-side management of different types of Accounts raises 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 has an incentive to favor certain Accounts over others that may be less lucrative to PIMCO or its affiliates, or to favor Accounts in which it or its affiliates have a significant proprietary interest.

In addition, it is possible for there to be situations in which PIMCO is incentivized to influence the valuation of certain investments. For example, where applicable, PIMCO could be incentivized to employ valuation methodologies or take other actions that: (i) improve an Account’s track record; (ii) minimize losses from investments that have experienced a permanent

impairment that must be returned prior to receiving performance-based or incentive fees or allocations; or (iii) increase fees payable to PIMCO or its affiliates. Similarly, when PIMCO receives performance-based fees or allocations, or PIMCO portfolio management personnel have a financial incentive to achieve gains in excess of the disincentive to suffer losses (e.g., through incentive compensation arrangements), PIMCO and/or such personnel have an incentive to choose investments that are riskier or more speculative than might otherwise be chosen. PIMCO may also be incentivized to hold on to investments that have poor prospects for improvement in order to receive ongoing fees in the interim and, potentially, additional compensation (for example, carried interest) if such asset’s value appreciates in the future. Depending on the structure of the arrangement, performance-based fees and allocations may provide for compensation to PIMCO on unrealized gains, and may provide a financial disincentive to the client to terminate the advisory arrangement. To mitigate these conflicts, PIMCO’s policies and procedures seek to provide that investment and valuation decisions are made based on the best interests of Clients, in accordance with applicable law, 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 investments on behalf of and in anticipation of opening a Private Fund to hold such 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. Additionally, certain Private Funds that are generally expected to invest on a “parallel” basis (i.e., proportionately in all transactions at substantially the same time and on substantially the same terms and conditions) may engage in transactions at the end of the offering period that are intended to rebalance the portfolio in accordance with the final size and/or

available capital of each respective entity. 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 at times will receive information regarding proposed investment activities for PIMCO, its affiliates, Clients or Affiliate 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 will 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 could 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.

A potential conflict of interest may arise as a result of the portfolio manager's day-to-day management of an Account. Because of their role in managing Client Accounts, the portfolio managers know the size, timing and possible market impact of a Client's trades. It is possible that the portfolio managers could use this information, or other information (including material non-public information ("MNPI")) about and learned from the investments made by the Client, to the advantage of other Clients or Affiliate Clients they manage and to the possible detriment of a Client.

### **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. Employees may obtain such information through PIMCO's investment management activities or through an employee's outside activities. Under applicable law, PIMCO personnel generally will 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, he or she generally will 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, thereby limiting the investment opportunities or exit strategies available to Clients. In addition, holdings in the securities or other instruments of an issuer by PIMCO or its affiliates may affect the ability of a Client to make certain acquisitions of or enter into certain transactions with such issuer. 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 herein relating to information barriers, that are designed to control the flow of and 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 that 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 in violation of applicable law.

**Information Barriers.** To control the flow of MNPI within the PIMCO organization 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 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 personnel, as well as other policies and procedures designed to prevent the unauthorized access to, or dissemination of, MNPI. Information barriers have been established between certain groups of designated personnel who often have access to confidential information, including MNPI, and the rest of PIMCO, which is not intended to have access to such information. The purpose of these information barriers is, among other things, to limit the receipt of MNPI to such personnel who often have access to confidential information, such that the investment activities of the rest of PIMCO are not otherwise restricted because the designated personnel may have MNPI that would be imputed to the rest of PIMCO in the absence of an information barrier. PIMCO has established and is expected to continue to establish, additional information barriers when appropriate, including in connection with certain investments or business units. As a result, MNPI may not be transmitted to PIMCO personnel even if the information would be beneficial (and otherwise not conflict with relevant securities laws) for Accounts managed by other PIMCO personnel.

**Other Trading Restrictions.** In addition, PIMCO maintains certain restricted lists of securities and issuers that are subject to certain trading restrictions due to PIMCO’s and its affiliates’ business activities. We generally will restrict trading in an issuer’s securities if the issuer is on a restricted list or if we otherwise have MNPI about that issuer. In some situations, we may restrict Clients from trading in a particular issuer’s securities, in order to allow PIMCO or its affiliates to receive MNPI on behalf of other Clients or Affiliate Clients. An Account may be unable to buy or sell certain securities until the restriction is lifted, which could disadvantage the Account. In some situations, PIMCO could be restricted from making (or divesting of) investments in respect of some Clients but not others. 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. In addition, PIMCO will, in many cases, rely on public information in

connection with the valuation of certain securities when another business unit within PIMCO or one of its affiliates may be otherwise in possession of MNPI suggesting that such valuations may be inaccurate.

## Other Potential Conflicts

**Clients, Service Providers, and Vendors.** PIMCO and its affiliates provide a variety of services for, and render advice to, various Clients and Affiliate Clients, including issuers of securities that PIMCO or its affiliates may recommend for purchase or sale to Clients or Affiliate Clients. From time to time, we recommend to or purchase or sell on behalf of Clients or Affiliate 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 equivalent), 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 Affiliate Clients. PIMCO has a potential conflict in such circumstances because PIMCO or its affiliates may be incentivized to favor its Clients or Affiliate Clients that issue securities over the Client or Affiliate Clients on whose behalf PIMCO is making the investment. Similarly, some of our Service Providers, certain distributors or placement agents of our 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. Where appropriate and permitted under an Account’s governing documents, we may from time to time recommend that certain of our Clients file claims or threaten action against other parties. To the extent such party is a Client or Affiliate Client, Service Provider, distributor or other vendor, we may have a disincentive to recommend such action. It is PIMCO’s general policy when making investment decisions not to take into account the fact that an issuer is our Client, Affiliate Client, Service Provider, distributor, or vendor.

PIMCO may cause a Client to (directly or indirectly) engage or otherwise transact with Service Providers and operating companies that are owned by, affiliated with,

or otherwise related to PIMCO or its affiliates (or their respective personnel) or other Clients or Affiliate Clients (including, without limitation, the Services Company). For example, a Client may acquire mortgages from an affiliated origination company or other affiliated entity, and/or utilize an affiliated servicer to service mortgages. Similarly, because certain services provided by Service Providers, such as the identification or analysis of investments and/or legal, accounting or tax services, might otherwise be provided by PIMCO employees, PIMCO has an incentive to retain such Service Providers and have them be paid by a PIMCO Fund rather than hiring employees or otherwise paying for these services out of its own resources, particularly since the fees, costs, expenses, and liabilities of these parties may be substantial.

A Client's involvement with Affiliated Service Providers (including the Services Company) will give rise to conflicts of interest. For example, (i) while PIMCO has an incentive to cause a Client to utilize Affiliated Service Providers, there can be no guarantee that such Affiliated Service Providers will have a positive impact on the Client or its investments, or that they will have more expertise or produce results better than unaffiliated Service Providers; (ii) PIMCO may be less incentivized to pursue remedies and enforce rights against an Affiliated Service Provider as compared to an unaffiliated Service Provider; (iii) PIMCO may be incentivized to utilize an Affiliated Service Provider in order to support such entity, benefit or reduce amounts owed by the other users of or purchasers from such entity, and/or benefit the PIMCO-affiliated owners of such entity (which may not include the Client), including by generating fees or other compensation paid to such entity (which may not offset or reduce fees or other amounts paid by the Client); (iv) PIMCO may be incentivized to agree to more favorable compensation terms with an Affiliated Service Provider than with an unaffiliated Service Provider, and such terms will not necessarily be confirmed as being comparable to the market rates for such services; (v) to the extent any Affiliated Service Provider is owned by or services multiple PIMCO-affiliated entities, the allocation of opportunities and expenses among the relevant entities

will require the exercise of discretion, and (vi) the apportionment of working time of and/or other services performed by Dual Employees and the determination of amounts charged will be subject to PIMCO's discretion. In addition, any such Affiliated Service Provider may have duties to parties other than the Client, and the Client may not be able to control or influence the standards or actions of such Affiliated Service Provider notwithstanding its affiliation. Any such Affiliated Service Provider may also be acquired by one or more third parties or a PIMCO affiliate, which could reduce or eliminate any benefits the Client previously received by virtue of its prior affiliation.

PIMCO and its affiliates may arrange for or provide financing or leverage for a Private Fund's investment program and/or investments, and the Private Fund may pledge or sell assets (including pursuant to reverse repurchase agreements) to PIMCO and its affiliates in connection therewith. Additionally, certain Accounts may invest in securities for which Allianz or its affiliates may have a relationship, such as by providing principal protection, insurance or other services.

Additionally, PIMCO or certain PIMCO Funds or other Accounts may contract with one or more broker-dealers or placement agents to assist in the placement of interests in a Fund or Account. Such broker-dealers or placement agents typically receive a flat fee or in some cases a percentage of the investments they bring to the respective Fund. Basing the placement agent's compensation on an investor's decision to invest creates a conflict of interest by incentivizing the placement agent or broker-dealer to attract investors when it may not be in the investors' best interests to subscribe.

PIMCO believes that the nature and range of or Affiliate 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 or Affiliate Clients that are also issuers or that act as distributors of PIMCO products from a Client's portfolio. Accordingly, unless a Client's governing documents prohibit such investments, 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.

In addition, PIMCO and its Clients may engage common legal counsel and other advisers in a particular transaction, including a transaction in which there may be conflicts of interest. Members of the law firms or other Service Providers engaged to represent Clients may be investors in a PIMCO Fund and may also represent one or more portfolio companies or investors in a PIMCO Fund. In the event of a significant dispute or divergence of interest between PIMCO, its Clients and/or its affiliates, the parties may engage separate counsel in the sole discretion of PIMCO and its affiliates, and in litigation and other circumstances separate representation may be required.

Additionally, PIMCO, its Clients and its portfolio companies engage other common Service Providers. In certain circumstances, the Service Provider may charge varying rates or engage in different arrangements for services provided to PIMCO, its Clients, and/or the portfolio companies of a Fund. This may result in PIMCO receiving a more favorable rate on services provided to it by such a common Service Provider than those payable by the Clients and/or the portfolio company, or PIMCO receiving a discount on services even though its Clients and/or the portfolio companies receive a lesser, or no, discount. This creates a conflict of interest between PIMCO, on the one hand, and its Clients and/or portfolio companies, on the other hand, in determining whether to engage such Service Providers, including the possibility that PIMCO will favor the engagement or continued engagement of such persons if it receives a benefit from such Service Providers, such as lower fees, that it would not receive absent the engagement of such Service Provider by its Clients and/or the portfolio companies.

Service Providers often charge varying amounts or otherwise have different fee arrangements for different

types of services provided. For instance, fees for various types of work often depend on the complexity of the matter, the expertise required and the time demands of the Service Provider. As a result, to the extent the services required by PIMCO or its affiliates differ from those required by its Clients and/or its portfolio companies, PIMCO and its affiliates will pay different rates and fees than those paid by its Clients and/or its portfolio companies.

**Information Sharing.** Subject to applicable legal, regulatory and contractual requirements, PIMCO and its affiliates may obtain or have access to information or data from or relating to portfolio investments held by an Account. This information may allow PIMCO, its Clients and/or other portfolio companies to better discern economic or other trends and developments. However, information sharing may involve conflicts of interest between Clients and/or between Clients and PIMCO. For example, data analytics based on inputs from one portfolio investment may inform business decisions by other portfolio investments, or investment decisions by PIMCO and its affiliates, without the source of the data being directly compensated.

PIMCO and its affiliates may utilize such data outside of Client activities in a manner that could provide a material benefit to PIMCO, without directly compensating or otherwise benefiting Clients. As a result, PIMCO may have an incentive to pursue investments based on the data that may be accessible as a result of owning such investments, and/or to utilize such data in a manner that benefits PIMCO and/or investments held by other Clients.

It is impractical, and in many cases impossible, to measure exactly the benefits that any individual entity may derive from access to or receipt of this type of data, or to provide for specific and direct monetary compensation from the recipients of a particular benefit to the sources of the data or the purchasing power (as applicable) that enabled the benefit to be obtained.

**Co-Investments.** PIMCO may from time to time offer co-investment opportunities to investors in its Private Funds and to third parties. PIMCO is under no obligation to provide co-investment opportunities to investors or its

Clients, and any such co-investment opportunity may be offered to one or more third parties and/or some and not other investors. Co-investment opportunities will not necessarily be offered to Clients of PIMCO or investors in PIMCO Funds. Co-investment opportunities will be allocated as determined by PIMCO in its sole discretion, and any such allocations as between investors may not correspond to their pro rata interests in the relevant Private Fund or the size of their Accounts. In determining such allocations, PIMCO may take into account any facts or circumstances it deems appropriate, including the size of the prospective co-investor's investment in the Fund and any other PIMCO Funds, Accounts and/or Affiliate Clients; PIMCO's evaluation of the financial resources, sophistication, experience and expertise of the potential co-investor, with respect to the execution of co-investment transactions generally, and with respect to the geographic location or business activities of the applicable investment; perception of past experiences and relationships with each prospective co-investor; whether or not such person has co-invested previously and the ability of any such co-investor to respond promptly and appropriately to potential investment opportunities; perception of the legal, regulatory, reporting, public relations, competitive, confidentiality or other issues that may arise with respect to any prospective co-investor; and any strategic value or other benefit to PIMCO, the Funds, or PIMCO's affiliates resulting from offering such co-investment opportunity to a prospective co-investor. Additionally, to the extent PIMCO offers co-investment opportunities to investors in a Private Fund, PIMCO from time to time grants certain investors in a Private Fund or other Clients a priority right to participate in such co-investment opportunities. The existence of such priority co-investment rights may result in other investors receiving fewer or no co-investment opportunities. Co-invest opportunities may also be provided to induce additional investments from existing or new investors into a Fund and PIMCO may use co-investment opportunities to benefit the growth of PIMCO's or its affiliates' franchise. Because co-investors may not be identified and/or may not agree to invest until relatively late in the investment process, or for other

reasons, co-investors may not bear their proportionate share of investment-related expenses (including "broken deal" expenses). A non-binding indication of interest in co-investments does not require PIMCO to notify such interested party of any co-investment opportunity.

Co-investments may result in conflicts between the Private Fund and other co-investors (for example, over the price and other terms of such investment, exit strategies and related matters, including the exercise of remedies of their respective investments). Furthermore, to the extent that the relevant Private Fund holds interests that are different (or more senior) than those held by such other co-investors, PIMCO may be presented with decisions involving circumstances where the interests of such co-investors are in conflict with those of the Private Fund. To the extent any affiliate of PIMCO (including Allianz) co-invests with any Private Fund or holds an interest in any co-investing entity, such conflicts will be heightened.

***Investments in Affiliated Funds.*** As noted above, if permitted by the relevant investment guidelines and applicable law, we purchase for Accounts (including Wrap Program Accounts) interests in PIMCO 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 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, including the Investment Adviser Affiliates, and those not affiliated with PIMCO, we will 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 will nevertheless have a financial incentive to favor investments in PIMCO-affiliated funds and managers (for example, to increase the assets under management of, or otherwise provide support to, certain funds, products or lines of business). 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.

**Expenses.** The appropriate allocation of fees and expenses among Clients will often be unclear and require the exercise of discretion. In certain circumstances, a Client will bear expenses related to investments that it does not consummate; such investments may ultimately be made by other Clients, which in certain circumstances will not reimburse the Client initially bearing such expenses. While PIMCO has adopted policies and procedures designed to fairly and equitably allocate expenses, PIMCO will be subject to conflicts of interest in making such determinations, and there can be no assurance that errors will not arise in such allocations, or that any allocations (i) will reflect a Client's pro rata share of such expenses based on the amounts invested (or anticipated to be invested)/market value of the investment held (or anticipated to be held) by each Client; or (ii) be in proportion to the number of participating Clients or the proportion of time spent on each Client, or that such allocations will not confer an economic benefit on other entities at a Client's expense. For example, PIMCO will have an incentive to allocate expenses to a Client that does not pay incentive compensation.

In addition, PIMCO or its affiliates may receive management consulting fees, investment banking fees, advisory fees, breakup fees, servicing fees, directors' fees,

closing fees, transaction fees related to the negotiation of the acquisition of a portfolio investment and similar fees (including interest, commitments or other fees received in connection with a bridge financing), whether in cash or in kind, including options, warrants and other non-cash consideration, in connection with certain Clients' actual or contemplated investments (collectively, "Special Fees"). Special Fees are generally allocated among Clients participating in the applicable investment. Certain Clients or investors may be entitled to apply all or a portion of Special Fees allocated to them to reduce management fees otherwise payable to PIMCO. Special Fees not allocated to a participating Client, or allocated to a Client without a management fee offset, will be retained by PIMCO or its affiliates, as applicable.

From time to time, PIMCO or its affiliates, will compensate financial firms or their affiliated companies for certain services, including technology, operations, tax or audit consulting services, or may pay or reimburse financial firms for certain technology enhancements relevant to selling or servicing the Funds, and will pay such firms for permitting PIMCO to attend investment forums and conferences sponsored by such consultants, or for access to studies, surveys, industry data, research and access to information about, and contact information for, particular financial advisors who have sold, or may in the future sell, shares of the Registered Funds (i.e., "leads"). If permitted by an Account's documentation or organizational documents, PIMCO may cause a Client to pay for these services.

The determination of whether an expense (for instance, the fees and expenses of consultants, contract employees, outside legal counsel and temporary employees (as well as secondees and any of the foregoing) who work on Client-related matters) is appropriately borne by the Client or PIMCO often cannot be resolved by reference to a pre-existing formula and will require the exercise of discretion, and PIMCO will be subject to conflicts of interest in making such determinations. In particular, PIMCO will be incentivized to (i) classify expenses as borne by a Client as opposed to PIMCO and (ii) decrease the level or quality of third-party

services provided to a Client to the extent such services are paid for by PIMCO.

For administrative and other reasons, PIMCO may (i) cause one or more Clients to be invoiced for, advance or otherwise bear on a temporary basis all or a portion of an expense ultimately intended to be borne in whole or in part by another Client and/or (ii) make corrective allocations of expenses among Clients to reflect their appropriate share of such expenses. Such measures generally will not include the imposition of an interest charge or other payments designed to compensate (whether for time value, opportunity cost or otherwise) a particular Client for temporarily bearing a disproportionate share of expenses.

**Intangible and Other Benefits.** PIMCO and its personnel can be expected to receive certain intangible and/or other benefits arising or resulting from their activities on behalf of Clients that will not be offset by fee reductions or otherwise shared with Clients, investors and/or portfolio companies. For example, airline travel or hotel stays incurred as Client expenses may result in “miles” or “points” or credit in loyalty/status programs, and such benefits and/or amounts will, whether or not de minimis or difficult to value, inure exclusively to PIMCO and/or such personnel (and not the Clients, investors and/or portfolio companies) even though the cost of the underlying service is borne by the Clients, investors and/or portfolio companies. In addition, PIMCO and its personnel and/or other affiliates may, in certain instances, receive discounts on products and services provided by portfolio companies owned by Funds managed by PIMCO and/or the customers or suppliers of such portfolio companies.

**Managing Proprietary Capital.** We generally do not actively trade or manage assets on our own behalf. However, we 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 trade or manage assets on their own behalf. Subject to applicable legal requirements, PIMCO employees are generally permitted to invest in certain Clients and Affiliate Clients. From time

to time, we buy or sell the same securities and products for Affiliate Clients that we also buy or sell for our Clients, or we pursue investment strategies for our Affiliate Clients that are the same as those of our Clients. We serve as investment adviser to certain Funds where PIMCO, our employees, or an affiliate provides the initial investment, or seed capital. We 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. We may hedge the exposure of affiliated investments in Private Funds to the extent we manage such affiliates’ assets, by trading in other Private Funds or affiliated Accounts or through other methods. The foregoing activities give rise to a potential conflict of interest in the allocation of investment opportunities (such as limited offerings) as between our Affiliate Clients and our Accounts. As previously described, we have adopted trade allocation policies and procedures that seek to ensure that all Clients are treated fairly and equitably over time. Additionally, in connection with our employee benefits plans, certain PIMCO employees, or employees of our affiliates, hold interests in funds that we 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. For certain of our Clients, PIMCO also adopted a policy to generally prevent the purchase of securities that have been issued by Allianz, its insurance company subsidiaries, or any control affiliate. Other Clients may, however, transact with Allianz and such subsidiaries and affiliates in connection with their investment activities, including their investments in insurance-linked instruments and other insurance-related transactions, and these transactions will give rise to various conflicts of interest. In addition, PIMCO may be restricted from making certain investments on behalf of some (but not necessarily all) Clients as a result of these affiliations or as

a result of PIMCO or its Clients owning a certain percentage of an underlying issuer. 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, which are adverse to our Clients (including many of the actions discussed above). PIMCO will typically not have any advance knowledge of these actions by its affiliates 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, from time to time we execute cross trades, or sell a security or other instrument for one of our Clients to another Client or Affiliate Client, without the use of a broker-dealer.

We will perform a cross trade only when it complies with our cross trade policies 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 Account and the buying Account. However, cross trades present an inherent conflict of interest because PIMCO or its affiliates represent the interests of both the selling party and the buying party in the same transaction. As a result, Clients for whom we execute cross trades bear the risk that one or more Clients or Affiliate Clients in the cross trade may be treated more favorably by us than another party, particularly in cases where a party pays us a higher management or performance-based fee or allocation. Additionally, there is a risk that the price of a security or other instrument bought or sold through a cross trade may not be as favorable as it might have been had the trade been executed in the open market or that a Client receives a security that is difficult to dispose of in a market transaction. This could happen, for example, if market quotations used to determine the cross trade price do not reflect the price that would be obtained in an actual market transaction. The identities of the parties engaging in a cross trade generally will be reported to any registered investment company that also participates

in that cross trade.

To address these and other concerns associated with cross trades, our policies generally require that cross trades be effected at the independent "current market price" of the security or other instrument, as determined by reference to independent third party sources, and that we will execute cross trades only in the best interests of both the buying Account and the selling Account. Under certain circumstances set forth in our policies we may execute cross trades on behalf of our Private Funds in investments that do not have an independent current market price. Under our policies, cross trades are not permitted in Accounts that are subject to ERISA except pursuant to PIMCO's individual exemption from the Department of Labor that permits the in-kind purchase of Fund shares by an ERISA Client Account. We may not engage in cross trades for Accounts in which we act as principal in the transaction without appropriate consent. In certain limited circumstances, with Client consent and otherwise in accordance with applicable law, we will engage in principal trades between PIMCO affiliated entities, including Allianz and its affiliates, and PIMCO Clients.

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 or regulatory issues, 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 will have conflicts in allocating



their time and services among each portfolio and investment program and the other Clients or Affiliate Clients now or in the future advised by us and/or our affiliates.

To the extent that PIMCO receives performance fees or allocations from a Client or otherwise receives higher performance fees or allocations or investment management fees than it does with respect to Clients generally, PIMCO will have an economic incentive to allocate additional resources or investment professionals to such Client and, to the extent such resources are limited, away from other Clients.

PI registered representatives receive differing levels of compensation from the sale of various products (including Wrap Programs), which may create potential 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.

On occasion PIMCO will retain third parties, such as accountants, administrators, lenders, bankers, brokers, attorneys, consultants and independent contractors to provide services to Clients. These services may relate to sourcing, conducting due diligence on or developing potential investments, as well as structuring, valuing, modeling, managing, monitoring and disposing of investments. Some consultants or independent contractors that PIMCO hires may have general industry and/or regional expertise, and may serve on the boards of directors of, or in other capacities at, portfolio companies. These consultants may have close business or personal relationships with PIMCO. PIMCO may also utilize other similar consultants with, for example, more narrow expertise in a particular field. Such consultants and contractors may have tailored compensation arrangements specific to their engagement. They may, for example, receive compensation in multiple forms, depending on their individual arrangement and the services they provide, including cash payments from

PIMCO or its affiliates, a Client or Affiliate Client or a portfolio company, carried interest payments, profit interests in a portfolio company, equity or stock option grants from a portfolio company, and/or fees relating to a particular transaction. As independent contractors, such consultants are generally not affiliates or employees of PIMCO, and therefore would not generally be subject to certain restrictions and conditions in a Client's or Account's governing documents that relate specifically to employees and affiliates of PIMCO.

Furthermore, in some cases, PIMCO hires third party Service Providers, including the Services Company, to perform services that PIMCO's employees could also provide or have in the past provided. Determining whether to engage a Service Provider or a PIMCO employee gives rise to conflicts of interest. For example, in some situations, PIMCO will have an incentive to retain Service Providers rather than hire additional employees and/or to outsource to Service Providers functions that our employees could perform or have previously performed.

#### ***Personal Relationships with Persons at other***

***Financial Services Firms.*** PIMCO seeks to avoid potential conflicts of interest arising from personal relationships employees may have with individuals at other financial services firms. PIMCO's policies and procedures require employees to disclose such relationships and prohibit employees from allowing personal relationships to influence any work-related recommendations or decisions for Clients, including decisions to select broker-dealers.

#### ***Investments By PIMCO, Our Employees and Affiliates.***

Certain of our qualified employees and affiliates invest in certain vehicles managed by us (or our affiliates) either through general partner 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. In addition, such vehicles, especially those with particularly high concentrations of employees, give rise to potential conflicts of interest, including by creating a heightened

incentive to allocate investment opportunities to, and expenses away from, such vehicles.

In addition, PIMCO and its affiliates expect to continue to sponsor and manage new investment vehicles as PIMCO and its affiliates continue to develop their investment management and related businesses, including by engaging in strategic transactions involving the acquisition of or investment in other financial services companies or investment vehicles. Strategic transactions pursued by PIMCO or its affiliates for their own accounts may overlap or compete with potential investment opportunities for PIMCO Clients and Accounts. Furthermore, any overlap among investment vehicles and businesses could give rise to additional conflicts of interest, such as those related to competition for the same or related investment opportunities, allocation of resources and competition for capital from investors.

## ITEM 12. Brokerage Practices

We have policies and procedures that seek to 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. It is our policy to seek to obtain best execution on Client transactions. We seek to select broker-dealers and route orders to broker-dealers based on our evaluation of the broker-dealer's ability to achieve best execution of Client transactions and the level of commissions or other compensation charged by the broker-dealers, among other relevant factors. 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, derivatives, or other investments 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 of the broker-dealer to make a market in particular securities, the broker-dealer's 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 ability of a broker to execute on an automated basis, the adequacy and reliability of recordkeeping, whether the broker-dealer treats PIMCO fairly in resolving disputes, any contractual arrangements with the broker-dealer, whether the broker-dealer can provide access to underwritten offerings and secondary markets, and, under appropriate circumstances, 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.** Under current U.S. regulations, an investment manager may cause clients to pay a broker-dealer effecting a securities transaction a commission (which includes a markup, markdown, commission equivalent or other fee) that is higher than the commission another broker-dealer might have charged if the investment manager determines in good faith that

the commission paid was reasonable given the research and/or brokerage services provided by the broker-dealer. An investment manager is typically in a position to make the necessary determination with agency transactions in equity securities and in other circumstances where there is sufficient transparency to objectively determine the transaction price and commission (e.g., where the commission and transaction price are fully and separately disclosed on the confirmation and the transaction is reported under conditions that provide independent and objective verification of the transaction price), which currently does not exist generally with principal transactions in fixed income securities.

Specifically, Section 28(e) of the Securities Exchange Act of 1934, as amended (the "1934 Act") and SEC interpretations thereunder, permits investment managers such as PIMCO to cause a Client to pay a broker-dealer a commission that is higher than another broker-dealer might have charged when the investment manager believes that is reasonable given the value of any research and/or brokerage services provided by the broker-dealer that provide lawful and appropriate assistance to the investment manager in its investment decision-making or trade execution processes. In such circumstances, the investment manager may be deemed to be paying for such research and/or brokerage services with client commissions (sometimes called "soft dollars"). PIMCO generally does not negotiate specific soft dollar commission payment amounts with broker-dealers or have arrangements with broker-dealers under which a specified portion of a commission is set aside for PIMCO to use in paying for third-party research and/or third-party brokerage services. Nevertheless, broker-dealers may and do provide PIMCO with research and/or third-party brokerage services, including, among other things, research reports, analyses of credit, economic and market data, access to senior executives of companies, access to broker-dealer research analysts and analyst earnings estimates, which may be created or developed by the broker-dealer, including at our request. There may be circumstances where PIMCO determines 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. PIMCO may do this when it believes a higher commission is reasonable given the value of the research or brokerage services received. From time to time PIMCO may ask, or may accept certain offers from, brokers to arrange for meetings with senior management of corporate issuers. In such instances, PIMCO compensates the broker directly for any agreed upon costs and does not pay for such services with client commissions. In certain circumstances, our Private Funds may be permitted to pay for all or a portion of these costs directly. When PIMCO believes a number of broker-dealers are capable of providing best execution for Client transactions and PIMCO has negotiated commission rates with those broker-dealers that are similarly favorable to Clients, we may select a broker-dealer that provides us with research or brokerage services that, in our view, offers value in connection with our investment decision-making and trading processes. Research or other brokerage services received may not always be used by or for the benefit of the Client that pays the commissions used to obtain the research or brokerage services.

In selecting broker-dealers that provide research or brokerage 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 or brokerage services, but rather uses brokerage commissions generated by Client transactions to pay for them. In these circumstances, PIMCO will have an incentive to select a broker-dealer based upon the broker dealer's research or brokerage services instead of the broker-dealer's ability to achieve best execution.

**Brokerage for Client Referrals.** PIMCO does not consider as a factor in selecting or recommending broker-dealers, whether it or a PIMCO affiliate receives client or investor referrals from the broker-dealer. 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 direct us to use specific broker-dealers for their Account transactions. 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 negotiate 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 also might not be able to participate in certain investment opportunities because the Client's 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 and this can result in the Client's order being executed on less favorable terms than we obtain for non-directed orders. In addition, not all broker-dealers have the systems or expertise to effectively process transactions that may be beneficial for an Account. An Account also may achieve lower returns compared to Accounts of Clients that do not ask us to use a specific broker-dealer. As discussed above, Wrap Program fees typically include transaction-specific commissions on agency trades executed by the Sponsor or a broker-dealer designated under the Wrap Program (i.e., such trades executed through the Sponsor or designated broker-dealer are effectively at a zero commission rate), but generally do not include dealer commissions, commission equivalents or spreads on fixed income security transactions. PIMCO will typically execute fixed income security transactions for Wrap Program Client Accounts according to its trade allocation policy and procedures, which will in most cases result in such trades being executed away from the Sponsor or its designated broker-dealer. Discretionary

Wrap Program Clients generally will pay transaction-specific commissions, commission equivalents or spreads on such trades in addition to the Wrap Program fees. These transaction fees or charges may be separately charged to the Account or reflected in the security net price paid or received. Transactions in mutual fund shares purchased for Accounts will typically be submitted directly to the transfer agent or distributor of the mutual fund. To the extent PIMCO invests in securities other than fixed income securities, or mutual funds for a Discretionary Wrap Program Client, it is anticipated that PIMCO will typically effect a large percentage of those transactions for a Discretionary Wrap Program Client's Account with the Sponsor or its designated broker-dealer. In some 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.

**Counterparty Review Process.** Our Counterparty Risk Committee evaluates the creditworthiness of our counterparties on an ongoing basis. For certain transactions (such as commercial real estate transactions) we may evaluate the creditworthiness of a counterparty in the context of the transaction rather than having the counterparty considered by the Counterparty Risk Committee. 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 Process.** From time to time custodians or counterparties make claims or claim payments in connection with transactions entered into by PIMCO for an Account. Claims are typically transaction expenses assessed by custodian banks as overdraft charges or by broker counterparties for compensation related to the counterparty's use of funds (such as claims that result from failed or late settlement of transactions) or other

related claims unique to certain markets. PIMCO maintains standardized procedures addressing such claims. Generally, unless PIMCO is responsible for the fail or claim, we will not reimburse an Account and will treat the fail or claim as an unrecoverable cost of doing business if it is less than \$500. Any claims over \$500 are reviewed to determine the source of the charge for appropriate resolution.

**Foreign Currency Transactions.** In managing an Account PIMCO may engage in foreign currency transactions consistent with a Client's investment guidelines or instructions to PIMCO. 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 certain restricted foreign currencies. In these instances, we may trade foreign currency through a Client's custodian via fax and/or standing instructions. We will not be responsible for overseeing charges of or execution quality provided by a Client's custodian; Clients should contact their custodians directly for this information.

### 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.

**Trade Errors.** Trade errors ("Trade Errors") may occur in connection with PIMCO's management of Accounts and PIMCO Funds. PIMCO has policies and procedures that address identification and correction of Trade Errors, consistent with applicable standards of care and any relevant offering documents. PIMCO makes its determinations regarding Trade Errors pursuant to its policies and procedures on a case-by-case basis, in its discretion. Not all mistakes or errors that are caused by PIMCO will be considered Trade Errors, and not all Trade Errors will be considered compensable to the Account or PIMCO Fund.

PIMCO's policies and procedures generally do not require perfect implementation of investment management decisions, trading, processing or other

functions performed by the Adviser. Generally, errors in judgment in making investment decisions for clients—which include errors in securities analysis and, for quantitative/systematic strategies, System Incidents (as defined above), including errors in writing computer code or other model construction and implementation activities that relate to the process by which investment decisions are made for an Account (i.e., errors that reflect subjective judgments or mistakes made at the time of developing, testing or implementing a System or Systems or mistakes that concern the process of constructing an investment strategy)—are not considered to be Trade Errors. Similarly, errors in process or other mistakes in implementation will not generally constitute Trade Errors, including, without limitation: (i) an incorrect trade order that is identified and corrected prior to settlement; (ii) an error that is the fault of an executing broker-dealer, custodian, or counterparty or other third party (irrespective of whether PIMCO seeks compensation on behalf of the Client from such parties); (iii) a purchase or sale of a security or financial instrument that violates restrictions arising from a contractual obligation to a third party other than the applicable Client; (iv) an incorrect over- or under-allocation of an investment to a Client that does not otherwise violate that Client's investment guidelines; (v) an error that does not result in a transaction in a Client Account (such as an error that results in the loss of an investment opportunity); (vi) an investment that does not perform favorably but otherwise complies with applicable contractual requirements; (vii) errors that PIMCO cures in accordance with express provisions in an applicable Account's governing documents; (viii) errors resulting from unavailability of (or disruptions in) electronic services or other force majeure events; (ix) the purchase of a security for which a Client is ineligible under the issuer's prospectus, offering documents or other issuer-related rules; and/or (x) a failure to follow any formal or informal internal targets, risk or other internal guidelines, or other parameters that may be used to manage risk or otherwise guide decision-making by investment professionals.

When PIMCO determines that a Trade Error has occurred



for which reimbursement is appropriate, the Account or PIMCO Fund will be compensated as determined by PIMCO in its discretion. Resolution of Trade Errors may include, but is not limited to, permitting Accounts and PIMCO Funds to retain gains or reimbursing Accounts or PIMCO Funds for losses resulting from the Trade Error. The calculation of the amount of any gain or loss will depend on the particular facts surrounding the Trade Error, and the methodology used by PIMCO to calculate gain or loss may vary. Compensation is generally expected to be limited to direct and actual out-of-pocket monetary losses (in certain circumstances, net of any associated gains) and will not include any amounts that PIMCO deems to be uncertain or speculative, nor will it cover investment losses not caused by the Trade Error or other opportunity costs.

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

PIMCO strives to ensure compliance with a Client's investment guidelines consistent with its fiduciary responsibility to manage the Client's portfolio 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-allocation and post-trade testing for compliance with those parameters. Manual reviews are also performed on a periodic basis for those investment guidelines that cannot be tested automatically. For certain transactions in Accounts, PIMCO will test for compliance on a pre-trade basis and the trader may not immediately execute the relevant transaction. In these instances, to the extent an Account receives compliance approval to participate in the transaction, such approval will be effective for the remainder of the trading day. 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. Certain aspects or portions of Client guidelines will be subject to reasonable

interpretation by PIMCO, which creates potential conflicts of interest because of the effect an interpretation may have on PIMCO's ability to invest in certain securities on behalf of a Client's Account and/or with respect to guideline compliance. PIMCO has implemented policies and procedures that are designed to help appropriately mitigate conflicts of interest with respect to guideline interpretations that PIMCO makes on behalf of Client accounts.

Reviews of Accounts also occur when investment strategies and objectives are changed by the Client or PIMCO and when significant events occur that are expected to affect the value of the Accounts. PIMCO typically 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. From time to time, certain Clients request that PIMCO monitor for gain/loss requirements in their Accounts. PIMCO will undertake reasonable efforts to monitor for such activity; however, because PIMCO is not the official accounting agent for any Account, any such calculations have inherent limitations and may differ from the records of a Client's accounting agent.

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 engages 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, from time to time, pays 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 an 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. Similarly, PIMCO employees may serve as Referral Agents for certain of PIMCO's affiliates, including Gurtin. In such circumstances, PIMCO employees will provide the prospective client with information regarding PIMCO's relationship with the applicable affiliate.

PIMCO, the Registered Funds 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 or in accordance with Rule 12b-1 under the 1940 Act, upfront commissions on sales of certain classes of the Registered Funds,

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, as well as occasional tickets to events or other entertainment, meals, as well as small gifts to such firms' representatives and charitable contributions to charitable organizations to the extent permitted by applicable law, rules and regulations. Furthermore, PI may pay investment consultants or their affiliated companies for certain services including technology, operations, tax, or audit consulting services and may pay such firms for the PI's attendance at investment forums sponsored by such firms. PI may also pay intermediaries for various studies, surveys, industry data, research and leads. PI may pay intermediaries to make available on their platforms or affiliated platforms certain Model Portfolios. PI may pay or reimburse intermediaries for certain technology enhancements relevant to selling or servicing the Funds. Certain of the technology payments may be described as "platform payments." These payments may be used for an intermediary's development, maintenance and availability of services including, but not limited to, platform education and communications, relationship management support, development to support new or changing products, trading platforms and related infrastructure/technology and/or legal risk management and regulatory compliance infrastructure in support of investment-related products, programs and services. In addition, PI may also make payments to intermediaries in connection with certain transaction fees (also referred to as "ticket charges") incurred by such intermediaries. Additionally, 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 or is otherwise disclosed to the relevant investors. 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.

## ITEM 15. Custody

We do not act as a custodian for Client assets. However, under the Advisers Act, PIMCO may, as described further below, be deemed to have constructive custody of Client assets in certain instances.

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. Under a Client's investment management agreement, PIMCO's authority is generally limited to trading authority with respect to the Account. Notwithstanding anything in a Client's custody agreement with a third party custodian that purports to give PIMCO powers that may be construed as custody over such Client's assets, PIMCO unilaterally disclaims such authority in order to avoid being deemed to have custody over such assets. For Separate Accounts where we may be deemed to have constructive custody with regard to the payment of fees or Clients have authorized PIMCO to debit fees from their Accounts, we confirm on an annual basis that each Separate Account's custodian sends required periodic account statements. Whether PIMCO is deemed to have custody or not, 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 their PIMCO account statement, Clients should contact their custodian or PIMCO account representative for more information.

In the case of Wrap Programs where the Wrap Program Client contracts with the Sponsor and not with PIMCO, PIMCO typically will not be deemed to have custody of such Wrap Program Client assets, although under certain fee payment arrangements for such Wrap Programs, PIMCO may be deemed to have constructive custody of Wrap Program Client assets. In such circumstances, PIMCO confirms on an annual basis that the relevant custodian sends required periodic account statements. Wrap Program Clients should carefully review their custodian statements to ensure they reflect appropriate activity in the Wrap Program Account.

## ITEM 16. Investment Discretion

PIMCO provides discretionary investment management services to a Client only if the Client or its agent and PIMCO have signed a written investment management agreement or other document showing the Client's grant of discretion or other authority for its portfolio. 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's portfolio. In exercising its discretionary authority to make investment decisions for a Client's portfolio, PIMCO adheres to the investment policies, limitations and restrictions of the portfolio. For Wrap Program Accounts, PIMCO's discretionary authority is limited by the selected mandate's investment strategy and can 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. Some Clients authorize PIMCO to utilize Internal Ratings as a primary credit quality source. In such instances, a Client may allow PIMCO to invest in securities or financial instruments that have Agency Ratings that are lower than those permitted by the Client's guidelines (if the Internal Rating is higher than the Agency Rating).

As discussed in Item 4, "Non-Discretionary 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 a written proxy voting policy (the "Proxy Policy") as required under the Advisers Act.

As a general matter, when PIMCO has proxy voting authority, PIMCO has an obligation to monitor corporate events and to take appropriate action on Client proxies that come to its attention. Each proxy is voted on a case-by-case basis, taking into account relevant facts and circumstances in the best interest of the Client. When considering Client proxies, PIMCO may determine not to vote a proxy in limited circumstances in accordance with its fiduciary duties.

PIMCO has retained an Industry Service Provider ("ISP") to provide research and voting recommendations for proxies relating to equity securities in accordance with the ISP's guidelines. In furtherance of its fiduciary obligations, PIMCO performs due diligence and oversight of the ISP, which includes, but is not limited to, the periodic evaluation and review of the ISP's capacity and competency to provide research and voting recommendations, the ISP's process for seeking timely input from issuers, voting methodologies, and the ISP's

policies, procedures and practices, including those regarding conflicts of interest. By following the guidelines of an independent third party, PIMCO seeks to mitigate conflicts of interest PIMCO may have with respect to proxies covered by the ISP. PIMCO will follow the recommendations of the ISP unless: (i) the ISP does not provide research or a voting recommendation; or (ii) a PM decides to override the ISP's voting recommendation. In either such case as described above, PIMCO will review the proxy to determine whether a conflict of interest, or the appearance of one, exists.

Fixed income securities can be processed as proxy ballots or corporate action-consents at the discretion of the issuer/custodian. When processed as proxy ballots, the ISP generally does not provide a voting recommendation and their role is limited to election processing and recordkeeping. When processed as corporate action-consents, PIMCO will review all election forms to determine whether a conflict of interest, or the appearance of one, exists with respect to the PM's consent election. PIMCO's Credit Research and Portfolio Management Groups are responsible for issuing recommendations on how to vote proxy ballots and corporation action-consents with respect to fixed income securities.

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 working group to assess and resolve the conflict (the "Proxy Working Group"); or (ii) vote in accordance with protocols previously established by the Proxy Policy, the Proxy Working Group and/or other relevant procedures approved by PIMCO's Legal and Compliance department with respect to specific types of conflicts. These conflicts can favor one Client over another, or favor PIMCO over a Client. This may also result in PIMCO exercising proxies or consents for some Clients in a different manner than it does for other Clients. Similarly, PIMCO may exercise investment decision consents differently for some Clients than for others. 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 proxy voting 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.

more than \$1,200 in fees per Client six months or more in advance, this item is inapplicable.

### **Sub-Adviser Engagement**

As an investment manager, PIMCO may exercise its discretion to engage a sub-adviser to provide portfolio management services to certain Accounts. Consistent with its management responsibilities, the sub-adviser will assume the authority for voting proxies on behalf of PIMCO for these Accounts. Sub-advisers may utilize third parties to perform certain services related to their portfolio management responsibilities. As a fiduciary, PIMCO will maintain oversight of the investment management responsibilities performed by the sub-adviser and contracted third parties.

### **Alternative Proxy Voting Arrangements**

With respect to those Client portfolios 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



## Appendix A Principal Owners

The following affiliated entities own 25% or more of PIMCO directly or 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

#### 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 (Full Authority Guidelines) 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

#### Credit

##### Bank Loans:

First \$100 million	0.475%
Thereafter	0.400%
Minimum Account Size:	\$100 million

##### Capital Securities

First \$100 million	0.700%
Thereafter	0.500%
Minimum Account Size:	\$75 million

##### Credit Opportunities

On All Assets	0.600%
Minimum Account Size:	\$100 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

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

First \$75 million	0.330%
Next \$125 million	0.285%
Thereafter	0.250%
Minimum Account Size:	\$100 million

##### Global Investment Grade ESG:

First \$75 million	0.380%
Next \$125 million	0.315%
Thereafter	0.250%
Minimum Account Size:	\$100 million

##### High Yield:

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

##### Diversified Income:

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

### Developing Local Markets

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

#### Dynamic Bond

First \$200 million	0.600%
Thereafter	0.550%
Minimum Account Size:	\$100 million

### Emerging Local Bonds

##### Standard:

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

##### Asia Local Bond:

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

### Emerging Market Bonds

##### Fixed Fee:

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

##### Performance Fee:

Base Fee (Full Authority Guidelines) 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

### 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 Bond

##### Fixed:

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

##### Performance Fee:

Base Fee (Full Authority Guidelines) 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

### Global Advantage®

##### Fixed Fee:

First \$100 million	0.450%
Next \$100 million	0.400%
Thereafter	0.350%
Minimum Account Size:	\$100 million

##### Performance Fee:

Base Fee (Full Authority Guidelines) of 0.150% plus 20% 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

### Global ESG

First \$75 million	0.380%
Next \$125 million	0.315%
Thereafter	0.250%
Minimum Account Size:	\$75 million

### Long Duration/Long Credit

##### Fixed Fee:

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

##### Performance Fee:

Base Fee (Full Authority Guidelines) of 0.150% plus 15% 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: \$250 million

### Low Duration

##### Fixed Fee:

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

##### Performance Fee:

Base Fee (Full Authority Guidelines) of 0.150% plus 15% 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

## 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

## 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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## Money Market

On All Assets	0.1125%
Minimum Account Size:	\$200 million

### Money Market Plus:

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

## Mortgage

### Mortgage:

On All Assets	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

## Municipal Bonds

### Full Discretion:

First \$50 million	0.250%
Next \$50 million	0.200%
Thereafter	0.180%
Minimum Account Size:	\$50 million

### Limited Discretion:

First \$50 million	0.180%
Next \$50 million	0.125%
Thereafter	0.100%
Minimum Account Size:	\$50 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

### Fees will vary

Minimum Account Size:	\$50 million
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## High Yield Municipal Bonds

First \$100 million	0.350%
Thereafter	0.300%
Minimum Account Size:	\$50 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

### Fixed Fee:

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

### Performance Fee:

Base Fee (Full Authority Guidelines) of 0.100% 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
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## Short Term Restricted

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

## Short Term ESG

First \$175 million	0.215%
Next \$225 million	0.160%
Thereafter	0.125%
Minimum Account Size:	\$100 million

## Stable Value

First \$100 million	0.250%
Next \$300 million	0.200%
Next \$900 million	0.175%
Thereafter	0.150%
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,

## 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 (Full Authority Guidelines) 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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## Total Return ESG

First \$75 million	0.400%
Next \$25 million	0.270%
Thereafter	0.250%
Minimum Account Size:	\$75 million

## Equities

### StocksPLUS®

#### Fixed Fee (Conventional Cap-Weighted Indices):

First \$150 million	0.350%
Next \$150 million	0.300%
Thereafter	0.250%
Minimum Account Size:	\$100 million

#### Performance Fee (Conventional Cap-Weighted Indices):

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® Absolute Return

#### Fixed Fee (Conventional Cap-Weighted Indices):

First \$150 million	0.450%
Thereafter	0.400%
Minimum Account Size:	\$100 million

#### Performance Fee (Conventional Cap-Weighted Indices):

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® Long Duration

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

## RAE Fundamental

### Europe:

First \$50 million	0.350%
Next \$50 million	0.300%
Thereafter	0.250%
Minimum Account Size:	\$100 million

### Global Developed:

First \$50 million	0.350%
Next \$50 million	0.300%
Thereafter	0.250%
Minimum Account Size:	\$100 million

### Low Volatility U.S. Large:

First \$50 million	0.300%
Next \$50 million	0.250%
Thereafter	0.200%
Minimum Account Size:	\$100 million

### Low Volatility International:

First \$50 million	0.350%
Next \$50 million	0.300%
Thereafter	0.250%
Minimum Account Size:	\$100 million

### Low Volatility EM:

First \$50 million	0.500%
Next \$50 million	0.450%
Thereafter	0.400%
Minimum Account Size:	\$100 million

### U.S. Large:

First \$50 million	0.300%
Next \$50 million	0.250%

Thereafter 0.200%  
 Minimum Account Size: \$100 million

**International:**

First \$50 million 0.350%  
 Next \$50 million 0.300%  
 Thereafter 0.250%  
 Minimum Account Size: \$100 million

**EM:**

First \$50 million 0.500%  
 Next \$50 million 0.450%  
 Thereafter 0.400%  
 Minimum Account Size: \$100 million

**U.S. Small:**

First \$50 million 0.400%  
 Next \$50 million 0.350%  
 Thereafter 0.300%  
 Minimum Account Size: \$100 million

**Small International:**

First \$50 million 0.450%  
 Next \$50 million 0.400%  
 Thereafter 0.350%  
 Minimum Account Size: \$100 million

**Global All Country:**

First \$50 million 0.350%  
 Next \$50 million 0.300%  
 Thereafter 0.250%  
 Minimum Account Size: \$200 million

**Global All Country ex-U.S.:**

First \$50 million 0.400%  
 Next \$50 million 0.350%  
 Thereafter 0.300%  
 Minimum Account Size: \$200 million

## 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 0.08% and 0.35% 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 U.S. Holding II LLC, a Delaware limited liability company, Allianz Asset Management of America LLC, a Delaware limited liability company ("AAM LLC") and certain 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 Allianz Asset Management of America Holdings Inc., which is the sole managing member of AAM LLC.

### Broker-Dealer Affiliates

PIMCO Investments LLC

Allianz Global Investors  
Distributors LLC

PIMCO Canada Corp.

PIMCO Deutschland GmbH

### Investment Adviser Affiliates

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 Global Advisors  
(Luxembourg) S.A.

PIMCO Canada Corp.

PIMCO Asia Limited

PIMCO Deutschland GmbH

PIMCO Latin America  
Administradora de Carteiros Ltda.

PIMCO Australia  
Management Limited

PIMCO Investment Management  
(Shanghai) Limited

PIMCO Taiwan Limited

Gurtin Fixed Income Management,  
LLC

### 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 Conduct Authority

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

PIMCO Global Advisors (Luxembourg) 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 Australia Management Limited, 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 Carteiros 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

PIMCO Taiwan Limited, a Taipei-based securities investment consulting enterprise (SICE) regulated by Taiwan's Financial Supervisory Commission (FSC)

PIMCO Investment Management (Shanghai) Limited, a China-based wholly foreign owned enterprise regulated by the Shanghai Financial Office (SFO).



## 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 generally 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 ESG issues can affect the performance of investments, and must be given appropriate consideration by investors. Accordingly, PIMCO has incorporated ESG factors into our broad investment research process when evaluating the long-term sustainability of an issuer. Individual PIMCO strategies are discussed below.

PIMCO also offers alternative strategies, primarily through private investment vehicles such as private equity funds and hedge funds. These strategies encompass long/short, private equity, distressed debt, commercial real estate and other alternative strategies. The details of these investment strategies can be found in the offering documents of the applicable private investment vehicles.

### 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. Traditionally, we limit investment in any given issuer to under 5% and in a single industry to under 15%. Although higher concentrations may provide enhanced relative performance in the short-run, over our secular horizon, broad diversification seeks to add value without additional risk.

**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 or, if unrated, determined by PIMCO to be of comparable quality. This strategy utilizes a disciplined approach in the credit

selection process, as issuer and industry decisions will contribute meaningfully to the performance of the product. In addition to corporate bonds, the strategy may invest in investment-grade sovereign bonds, as well as supranational issuers. While macroeconomic strategies that influence sector and industry decisions are important, bottom-up security selection will most likely be the primary driver of long-term performance.

PIMCO's credit strategy focuses on adding value through a disciplined approach to credit selection combined with top-down macroeconomic forecasts for region and sector rotation. PIMCO's philosophy and approach to global credit markets is consistent with our conservative, yet innovative, approach toward fixed income markets.

Specifically, the philosophy for investing in corporate and sovereign credit markets embodies three key principles:

- Major shifts in portfolio strategy are driven by longer-term or secular trends as opposed to short-term aberrations in market conditions.
- An emphasis is placed on adding value through combining bottom-up fundamental credit research with top-down macroeconomic analysis.
- Consistent investment performance is pursued by emphasizing independent research and prudent diversification with respect to industries and issuers.

The strategy is managed in the context of the PIMCO outlook for 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.

**Floating Income Strategy** portfolios invest across a broad spectrum of credit market sectors including global corporate credit (investment grade and high yield) and emerging market debt. The strategy seeks to capitalize on attractive investment opportunities offered by these sectors while minimizing Interest rate exposure.

Investments consist mainly of floating and variable rate securities, short duration securities, or combinations of fixed-rate bonds and derivative instruments, which together create floating income exposure. Accordingly, the strategy focuses on securities whose income tends to rise when interest rates are rising, which helps mitigate one of the primary risks of bond investing - interest rate risk.

The strategy also aims to capitalize on relative value among different credit sectors. Sector allocations will vary based on PIMCO's assessment of global macroeconomic trends, security specific valuations and technical conditions. This active and dynamic approach is designed to allow for increased responsiveness in asset allocation to changing economic and market conditions while remaining anchored by PIMCO's investment process and longer-term orientation.

**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 Dynamic Bond Strategy** is an absolute return-oriented 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.

## II. Asset-Backed Strategies

**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.

**The Mortgage-Backed Securities Strategy** emphasizes actively managed exposure to agency pass-throughs, which we believe offer the greatest potential for risk-adjusted excess returns in a larger MBS portfolio. 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/Long Credit Strategy** portfolios are primarily composed of long-term investment grade credit fixed income securities that seek to maximize total return, consistent with the preservation of capital and prudent investment management. The strategy utilizes a disciplined approach in the credit selection process and focuses on credits demonstrating solid or improving fundamentals, as issuer and industry decisions will contribute meaningfully to the performance of the product. In addition to long-term corporate bonds, the credit universe includes long-term investment grade sovereign bonds, as well as supranational issuers. While macroeconomic strategies that influence duration, sector and industry decisions are important, bottom-up security selection will most likely be the primary driver of long-term performance.

**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.

#### IV. Enhanced Equity Strategies

PIMCO's enhanced equity strategies combine the best of what passive indexing and active management aim to deliver: broadly representative, transparent equity exposure plus the potential for meaningful equity market outperformance. Further, the strategies may appeal to investors for the following reasons:

- 1) Magnitude of excess returns: Drawing on PIMCO's core competencies, the enhanced equity approach benefits from tapping into structurally based sources of alpha that allows PIMCO to achieve a reasonably high magnitude of excess returns which we believe may be particularly attractive to clients.
- 2) Consistency of outperformance: The combination of passive replication of equity exposure and independent, structurally based alpha strategies allows us to outperform the market with a high degree of consistency over three year periods.

In addition to offering enhanced equity strategies managed with capitalization weighted equity index exposures, the PIMCO RAE Fundamental PLUS Strategy incorporates an equity strategy developed by RA, a global leader in asset allocation strategies and a pioneer in smart beta solutions. The Research Affiliates Equity strategy builds on RA's groundbreaking work on Fundamental Indexation by adding additional enhancements and active insights.

Our investment philosophy for the enhanced equity strategies, including the RAE Fundamental PLUS Strategy described above and other versions described below, is based on the principle that equity swaps and futures, when used to obtain long-term equity exposure, offer an attractive means for seeking to enhance equity market returns. As the equity swaps/futures that capture the returns of the equity exposure require very little capital, the majority of the cash that an investor allocates to the strategy is available to be invested in an absolute return-bond alpha strategy. This bond alpha strategy is designed to capitalize on PIMCO's more than four decades of active fixed income management.

**StocksPLUS AR Strategy** combines the absolute return bond alpha strategy described above with traditional, capitalization weighted index exposures.

**StocksPLUS** is the original version of enhanced equity at PIMCO and combines a short duration fixed income portfolio with capitalization weighted index exposures. StocksPLUS is designed to appeal to clients seeking modest excess returns with low tracking error.

**StocksPLUS Long Duration** is an additional specialty strategy, in which capital not deployed to equity index exposures is invested in a long duration style bond portfolio.

#### V. 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. 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. First, we identify countries with strong, underlying credit fundamentals (including strong fiscal positions, stable/improving political situations, comfortable reserve levels, and debt profiles that can withstand financial shocks, among others). We then

consider the impact of our global outlook on these countries, including prospects for demand from advanced economies, commodity prices, interest rate trends and other components of the external environment. Finally, we evaluate the technical conditions of the credit to identify both the upside and the imbalances that could potentially lead to market dislocations. This process provides the basis for our country weighting, duration, curve, currency and instrument selection decisions, as well as relative value assessments.

**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.

**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 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.”

## VI. 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.

## VII. Income Strategies

The Diversified Income Strategy is a multi-sector strategy that invests across a broad spectrum of credit market sectors including global corporate credit both investment grade and high yield, and emerging market debt. The allocation among each of these markets will vary based on PIMCO’s assessment of global trends and relative valuations. This active and dynamic approach allows for increased responsiveness in asset allocation to changing economic and market conditions while remaining anchored by PIMCO’s investment process and longer-term orientation. The ability to invest globally helps to improve diversification and may allow investors to benefit from differences in business cycles across regions

and credit quality trends across credit sectors.

## VIII. Money Market Strategies

PIMCO’s Money Market strategies seek to enhance short term yields with a diversified portfolio of high quality commercial paper and other short maturity, fixed income investments. Emphasis is on principal preservation and maintaining the highest credit rating.

*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 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.

## IX. Municipal Bond and Short Term 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.

We offer the following municipal bond strategies: California, High Yield, National, New York, Short Duration, and Tax-Managed Real Return.

**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.

**Global Short Term** portfolios seek a higher risk/return profile in order to improve on the returns provided by a typical money market vehicle. The Global Short Term Strategy seeks maximum total return, consistent with preservation of capital and a high level of liquidity. The strategy attempts to generate excess returns relative to its three-month U.S. dollar benchmark by investing in money market, short maturity and longer-maturity global fixed-income securities on a currency hedged basis.

## X. Real Asset Strategies

**Real Return Strategies** 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 have greater weight 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. Exposure to commodity indices is obtained through positions in commodity interests, which may consist of swaps, baskets of futures contracts or options on futures contracts designed to replicate the index.

**The Diversified Real Asset Strategy** 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 non-U.S. inflation-adjusted products.

**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.

## XI. Asset Allocation

**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.

**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.

**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.

## XII. 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 typically finishes with thorough, traditional, fundamental credit research on companies within the industries we find attractive, which may include on-site visits.

**PIMCO Absolute Return Strategy (“PARS”)** is a fundamentally driven discretionary global macro hedge fund strategy. It is afforded significant flexibility in pursuit of its objective to deliver absolute returns. The strategy combines:

- Tactically implemented trades based upon PIMCO’s secular and cyclical macroeconomic insights.
- Opportunistic, conditional and relative value trades.
- Core: fixed income, credit, and currency exposures with opportunistic positions in equities and commodities.

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.

**ESG Strategies.** PIMCO offers a number of environmental, social, and governance ("ESG") investing strategies. These strategies are founded on the belief that investors can achieve both financial returns and positive impact. Our ESG strategies are managed in an effort to outperform their benchmarks by tapping into PIMCO's time-tested investment process, utilizing our global resources and incorporating consistent macro risk factors, like duration, yield curve, and credit positioning. PIMCO's approach to ESG investing incorporates the three building blocks of PIMCO's ESG processes:

- **Exclusions.** PIMCO's ESG process seeks to exclude issuers deemed to be fundamentally misaligned with sustainability principles.
- **Evaluation.** In addition to exclusions, PIMCO's ESG process also emphasizes "best-in-class" issuers that are identified through proprietary ESG assessment of critical ESG factors.
- **Engagement.** The final building block of PIMCO ESG is constructive and collaborative engagement with issuers to influence ESG practices over time. Accordingly, PIMCO ESG strategies may invest in issuers that demonstrate a clear willingness to move toward better ESG-related practices, consistent with meeting the UN Sustainable Development Goals (SDGs).

## Appendix E PIMCO Client Privacy Policy

PIMCO considers customer privacy to be a fundamental aspect of its relationship with clients. PIMCO is committed to maintaining the confidentiality, integrity, and security of its current, prospective and former clients (collectively "clients") non-public personal information.

PIMCO has developed policies that are designed to protect this confidentiality, while allowing client needs to be served.

In the course of providing its clients with products and services, PIMCO and certain of its service providers may obtain non-public personal information about its clients. This information may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from client transactions, from client brokerage or financial advisory firm, financial adviser or consultant, and/or from information captured on applicable websites.

As a matter of policy, PIMCO does not disclose any non-public personal information provided by its clients or gathered by PIMCO to non-affiliated third parties, except as required or permitted by law or for PIMCO's everyday business purposes, such as to process transactions or service a client 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. PIMCO (or its affiliates) may also retain non-affiliated companies, to market its products, and may enter into joint marketing arrangements with them and other companies. These companies may have access to client personal and account information, but are permitted to use the information solely to provide the specific service or as otherwise permitted by law. PIMCO may also provide client personal and account information to their brokerage or financial advisory firm and/or to their financial adviser or consultant. PIMCO reserves the right to disclose or report personal or account information to non-affiliated third parties in limited circumstances where PIMCO believes in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect its rights or property, or upon reasonable request by any of its mutual funds in which clients have invested. In addition, PIMCO may disclose information about a client or their accounts to a non-affiliated third party at their request or if the client consents in writing to the disclosure.

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

PIMCO takes seriously the obligation to safeguard a client's non-public personal information. In addition to this policy, PIMCO has implemented procedures that are designed to restrict access to a client's non-public personal information to its personnel who need to know that information to perform their jobs, such as servicing a client's account or notifying a client of new products and services. Physical, electronic, and procedural safeguards are in place to guard a client's non-public personal information.

### **Information Collected From Websites**

PIMCO and its service providers and partners collect information from clients and website visitors via websites maintained by PIMCO. The information collected via PIMCO's website includes client non-public personal information, which is used and shared in accordance with this Client Privacy Policy.

From time to time, PIMCO may update or revise this privacy policy. If there are changes to the terms of this privacy policy, documents containing the revised policy on the relevant website will be updated.



## **FORM ADV PART 2B: BROCHURE SUPPLEMENT**

**Supervised Person:** Mr. David Hammer

**Contact Information:** Pacific Investment Management Company LLC  
650 Newport Center Drive  
Newport Beach, California 92660  
949-720-6000  
949-720-1376 (Facsimile)

**Date of Brochure Supplement:** March 30, 2020

This brochure supplement provides information about Mr. Hammer that supplements the Pacific Investment Management Company LLC (“PIMCO”) brochure. You should have received a copy of that brochure. Please contact a PIMCO Compliance Officer at 949-720-6000 if you did not receive PIMCO’s brochure or if you have any questions about the contents of this brochure supplement.

### **Item 2: Educational Background and Business Experience**

David Hammer (born 1978) is an executive vice president in the New York office and head of municipal bond portfolio management. He rejoined PIMCO in 2015 from Morgan Stanley, where he was managing director and head of municipal trading, risk management and research. Previously at PIMCO, he was a senior vice president and municipal bond portfolio manager, and prior to joining PIMCO in 2012, he was an executive director and head of the high yield and distressed municipal bond trading group at Morgan Stanley. He has 17 years of investment experience and holds an undergraduate degree from Syracuse University.

### **Item 3: Disciplinary Information**

Mr. Hammer has no reportable disciplinary history.

### **Item 4: Other Business Activities**

Mr. Hammer is not actively engaged in any other investment-related business or occupation.

### **Item 5: Additional Compensation**

Mr. Hammer receives no additional compensation for providing advisory services to PIMCO’s clients.

### **Item 6: Supervision**

While your portfolio manager is responsible for managing the individual investments in your account, PIMCO’s Investment Committee is responsible for developing key portfolio strategies that are implemented across PIMCO’s account base. This process is led by PIMCO’s Group Chief Investment Officer, Daniel J. Ivascyn, with the assistance of PIMCO’s Chief Investment Officers (“CIOs”), who each oversee specific segments of assets. The team of four CIOs includes Andrew Balls (CIO Global), Mark R. Kiesel (CIO Global Credit), Scott A. Mather (CIO Core Strategies), and Marc P. Seidner (CIO Non-traditional Strategies). Your portfolio manager reports up to a CIO, who can be reached at 949-720-6000.

### **Item 7: Requirements for State-Registered Advisers**

Not applicable.