



# PIMCO Diversified Fixed Interest Fund



Quarterly Investment Report | 1Q24

## Wholesale Class

For the use of Wholesale Clients (within the meaning of the Corporations Act 2001 (Cth) only). Not for retail distribution.

## **IMPORTANT NOTICE**

Please note that this material contains the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

# Executive summary

## Portfolio Performance

The Fund's interest rate, spread sector, and currency strategies contributed to relative performance over the quarter.

### CONTRIBUTORS

- Underweight exposure to duration in the U.S., as yields rose.
- Overweight exposure to U.S. non-agency MBS and high-quality CLOs, as spreads tightened.
- Selection across the coupon stack within U.S. agency MBS.

### DETRACTORS

- Overweight exposure to duration in the U.K., as yields rose.
- Short exposure to the Canadian dollar, as the currency appreciated against the Australian dollar.
- Long exposure to the Japanese yen, as the currency depreciated against the Australian dollar.

| Performance periods ended 31 Mar '24 | 3 mos. | FYTD | 1 yr. | 3 yrs. | 5 yrs. | 10 yrs. | SI   |
|--------------------------------------|--------|------|-------|--------|--------|---------|------|
| Net of fees (%)                      | 0.79   | 4.77 | 3.31  | -1.72  | 0.33   | 2.66    | 4.97 |
| Benchmark*                           | 0.35   | 3.70 | 2.01  | -1.82  | 0.04   | 2.47    | 4.71 |

### Past performance is not a reliable indicator of future results.

Returns for periods longer than 1 year are annualised.

Net of Fees - Fund performance is quoted net of fees and expenses and assumes the reinvestment of all distributions but does not take into account personal income tax.

## Portfolio strategy

- Duration and curve positioning: Underweight headline duration. We maintain an underweight to duration in Japan and China. We favor exposure to duration in the Dollar bloc (Australia, Canada, New Zealand).
- European duration positioning: Broadly neutral to euro bloc duration. Maintain modest overweight to duration in the U.K.
- Spread positioning: Emphasize high-quality securitised credit vs. corporate credit. Focus on senior issues of global systemically important banks and other financial services issuers.
- Currency positioning: Remain cautious on currency risk. Continue to use a diversified basket of funding currencies, including CAD and select Asian currencies.

|                            |             |
|----------------------------|-------------|
| Class:                     | WHOLESALE   |
| Inception date:            | 28 Apr '04  |
| Fund assets (in millions): | AUD3,143.52 |

| Summary information      | 31 Mar '24 |
|--------------------------|------------|
| Effective duration (yrs) | 4.93       |
| Benchmark duration (yrs) | 5.80       |
| Effective maturity (yrs) | 5.63       |
| Average coupon           | 3.31%      |

| Regional exposure (currency in Dur yrs) | Portfolio (yrs) | Benchmark (yrs) |
|---|-----------------|-----------------|
| United States                           | 0.90            | 1.36            |
| Japan                                   | -0.08           | 0.47            |
| Eurozone                                | 0.56            | 0.73            |
| United Kingdom                          | 0.40            | 0.17            |
| Europe non-EMU                          | 0.07            | 0.05            |
| Australia                               | 2.85            | 2.53            |
| Canada                                  | 0.13            | 0.10            |
| New Zealand                             | 0.08            | 0.00            |
| Other Industrialized Countries          | -0.07           | 0.06            |
| Emerging markets                        | 0.09            | 0.01            |
| <b>Total</b>                            | <b>4.93</b>     | <b>5.48</b>     |

| Quality Exposure (MV %)       | 31 Mar '24 |
|-------------------------------|------------|
| AAA                           | 41.32      |
| AA                            | 27.91      |
| A                             | 9.57       |
| BBB                           | 17.97      |
| Sub Investment Grade          | 3.23       |
| <b>Average Credit Quality</b> | <b>AA-</b> |

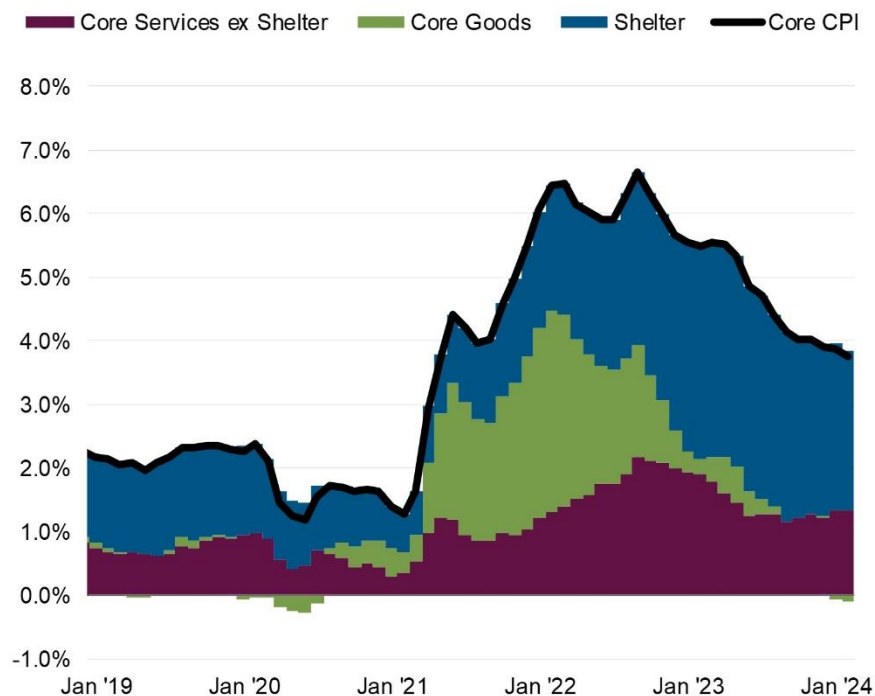
\*50% Bloomberg Global Aggregate Index hedged into AUD / 50% Bloomberg AusBond Composite 0+ Yr Index

# Quarter in Review

## Persistent inflation pushed yields and year-end rate projections higher

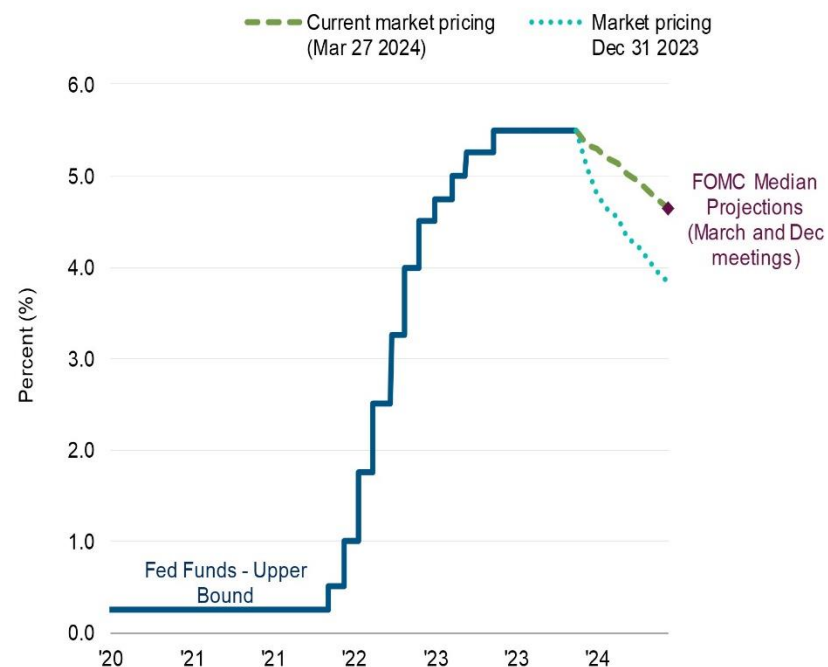
A perceived “last mile” problem in the Fed’s battle against inflation led bond markets to retrace their Q4’23 rally and bring expectations for 2024 cuts in line with the Fed’s dot plot.

Other central banks in developed market countries appear to be increasingly dovish, with the Swiss National Bank becoming the first of the larger central banks to cut interest rates. The Reserve Bank of Australia has abandoned its tightening bias amidst new data that showed a continued economic slowdown, a softer-than-expected labor market, and further moderation in inflation. In Japan, the Bank of Japan raised its policy rate for the first time since 2007, marking the end of negative interest rate policies.



Inflation in the U.S. remained sticky over the quarter, driven by core services, highlighting the “last mile” problem that the Fed is facing in its attempts to return inflation to 2%.

Source: Haver



Persistent inflationary pressures saw bond markets retrace their Q4’23 rally, with market pricing now in line with the Fed’s median dot plot projection for year end 2024 (which remained unchanged relative to December projections).

Source: Bloomberg

# Market Summary

## Q1'24: Inflation rebound in the U.S.

The Fund's interest rate, spread sector, and currency strategies contributed to relative performance over the quarter.

### Developed market debt

Sovereign yields rose over the quarter, particularly in the U.S., as inflation remained firm and economic activity robust. In contrast, Australian government bond yields remained largely unchanged over the same time, as the RBA kept rates on hold and pivoted to a more neutral policy stance.

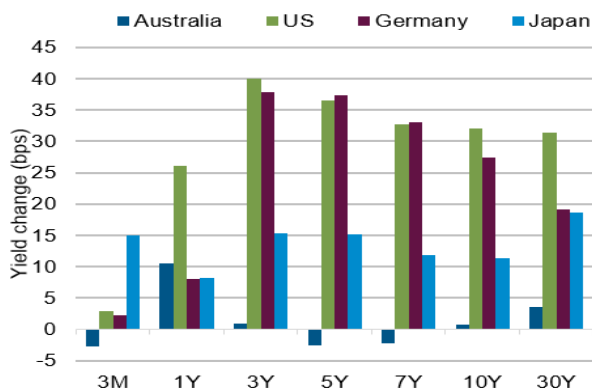
### Credit

Amid positive risk sentiment, credit spreads continued to tighten, with global investment grade credit spreads tightening by 13 bps to 92 bps, and Australian investment grade credit spreads narrowing by 5 bps to 64 bps.

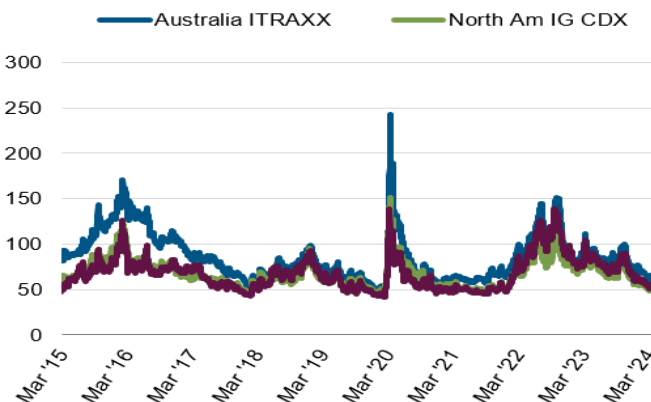
### Currencies

The Australian dollar weakened over the quarter due to the strengthening US dollar, as the market adjusted expectations for the Fed's rate cuts in 2024.

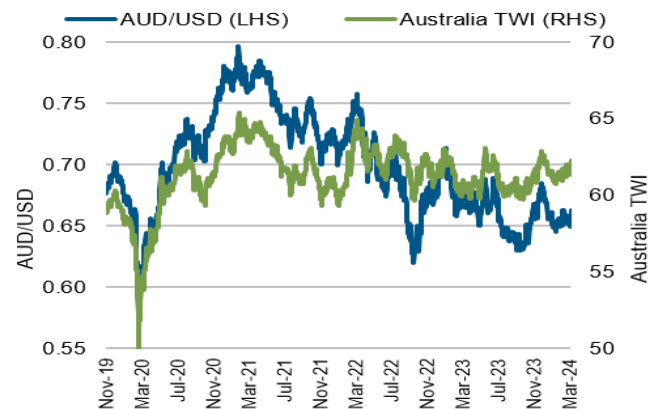
Yield Curve moves – YTD 2024



Currency



Credit Spreads



As of 31 March 2024. SOURCE: PIMCO, Bloomberg

## Investment implications: Opportune time to consider going active in global fixed income

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### Look global

Greater-than-usual focus on bond markets outside of the U.S.

### Lock in elevated yields

Intermediate maturities can offer a “sweet spot” with markets expecting cash rates to fall

### Favor high quality

Up-in-quality bias in both public and private credit markets

### Go active

Differentiated macro paths present compelling opportunities for active investors

# Portfolio Outlook

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## Strategic outlook

Higher savings balances and a slower pass-through of monetary policy in the U.S. relative to other developed markets could, in our view, keep inflation above the Fed's 2% target over the cyclical horizon. We still expect the Fed to start normalizing policy at midyear, similar to other DM central banks; however, the Fed's subsequent rate-cutting path could be more gradual. Additionally, we believe that an economic soft landing is achievable, but both recessionary and inflationary risks remain elevated in the aftermath of unprecedented global shocks to supply and demand.

## Key strategies

### Interest Rate Strategies

The Fund is underweight to overall duration with a focus on country, maturity and instrument selection. We focus duration underweight in Japan, given the end to negative interest rate policy, and the U.S., where inflation remains sticky.

### Spread Positioning

The Fund prefers exposure to senior securitised assets, particularly mortgage-related assets in the U.S. and Europe with strong fundamentals and compelling valuations. The fund moved neutral to European peripheral countries.

### Currencies

Currency strategies continue to act as a diversifying strategy in the portfolio and we seek opportunities in carry and valuation dispersion across countries.

# Sector exposure

|                               | Portfolio         |            |                   |             | Benchmark         |                   |
|-------------------------------|-------------------|------------|-------------------|-------------|-------------------|-------------------|
|                               | % of Market value |            | Duration in years |             | % of Market value | Duration in years |
|                               | 31 Dec '23        | 31 Mar '24 | 31 Dec '23        | 31 Mar '24  | 31 Mar '24        | 31 Mar '24        |
| <b>Government</b>             | 33.14             | 25.31      | 2.35              | 1.88        | 47.26             | 3.01              |
| <b>Semi-Gov</b>               | 14.66             | 15.28      | 0.92              | 0.93        | 20.68             | 1.12              |
| <b>Agency</b>                 | 7.52              | 7.22       | 0.23              | 0.22        | 3.48              | 0.13              |
| <b>IG Corporates</b>          | 9.26              | 12.14      | 0.43              | 0.54        | 13.43             | 0.67              |
| Financial                     | 11.68             | 13.24      | 0.30              | 0.39        | 6.08              | 0.23              |
| Industrial                    | 3.11              | 3.54       | 0.10              | 0.12        | 6.16              | 0.37              |
| Utilities                     | 0.46              | 0.53       | 0.02              | 0.03        | 1.19              | 0.07              |
| Other Investment Grade Credit | -5.99             | -5.17      | 0.01              | 0.00        | 0.00              | 0.00              |
| <b>High Yield</b>             | 0.46              | 0.46       | 0.01              | 0.01        | 0.00              | 0.00              |
| Financial                     | 0.12              | 0.11       | 0.00              | 0.00        | 0.00              | 0.00              |
| Industrial                    | 0.34              | 0.35       | 0.01              | 0.01        | 0.00              | 0.00              |
| Utilities                     | 0.00              | 0.00       | 0.00              | 0.00        | 0.00              | 0.00              |
| Other High Yield Credit       | 0.00              | 0.00       | 0.00              | 0.00        | 0.00              | 0.00              |
| <b>Securitized*</b>           | 28.05             | 28.81      | 1.03              | 1.11        | 7.12              | 0.37              |
| Agency Mortgages              | 19.68             | 20.18      | 0.62              | 0.71        | 5.47              | 0.31              |
| Non-Agency Mortgages          | 5.40              | 5.34       | 0.25              | 0.25        | 0.17              | 0.01              |
| Asset-Backed Securities       | 0.08              | 0.08       | 0.00              | 0.00        | 0.10              | 0.00              |
| Covered Bonds                 | 2.68              | 3.00       | 0.16              | 0.13        | 1.39              | 0.05              |
| <b>Emerging Markets**</b>     | 3.66              | 4.15       | 0.19              | 0.21        | 7.99              | 0.49              |
| Sovereigns                    | 2.79              | 2.98       | 0.13              | 0.14        | 4.82              | 0.35              |
| Quasi-Sovereigns              | 0.46              | 0.78       | 0.04              | 0.05        | 2.69              | 0.12              |
| Corporates                    | 0.40              | 0.40       | 0.02              | 0.02        | 0.48              | 0.01              |
| <b>Cash Equiv &amp; Other</b> | 3.25              | 6.64       | 0.13              | 0.02        | 0.04              | 0.01              |
| <b>Total</b>                  | <b>100</b>        | <b>100</b> | <b>5.29</b>       | <b>4.92</b> | <b>100</b>        | <b>5.80</b>       |

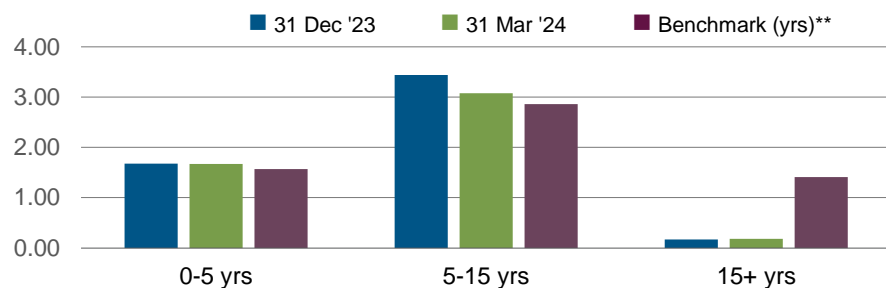
\*Securitized includes Agency MBS, non-Agency MBS, CMBS, ABS, CDO, CLO, and Pooled Funds.

\*\*Emerging markets instruments includes an emerging market security or other instrument economically tied to an emerging market country by country of risk with an effective duration less than one year and rated investment grade or higher or if unrated, determined to be similar quality by PIMCO. Emerging Markets includes the value of short duration emerging markets instruments previously reported in another category.

Benchmark: 50% Bloomberg Global Aggregate Index hedged into AUD / 50% Bloomberg AusBond Composite 0+ Yr Index

# Portfolio characteristics

## Key rate duration exposure



|              | Portfolio (yrs) |             | Benchmark (yrs)** |
|--------------|-----------------|-------------|-------------------|
|              | 31 Dec '23      | 31 Mar '24  | 31 Mar '24        |
| 0-5 yrs      | 1.68            | 1.67        | 1.57              |
| 5-15 yrs     | 3.44            | 3.08        | 2.86              |
| 15+ yrs      | 0.17            | 0.18        | 1.41              |
| <b>Total</b> | <b>5.29</b>     | <b>4.93</b> | <b>5.84</b>       |

## Interest rate exposure

|                                   | Portfolio (yrs) |            | Benchmark (yrs)** |
|-----------------------------------|-----------------|------------|-------------------|
|                                   | 31 Dec '23      | 31 Mar '24 | 31 Mar '24        |
| Effective duration                | 5.29            | 4.93       | 5.85              |
| <b>Spread duration</b>            |                 |            |                   |
| Mortgage spread duration          | 1.25            | 1.29       | 0.32              |
| Corporate spread duration         | 0.36            | 0.81       | 0.72              |
| Emerging markets spread duration  | 0.19            | 0.22       | 0.51              |
| Swap spread duration              | 1.94            | 1.21       | 0.00              |
| Covered bond spread duration      | 0.18            | 0.15       | 0.05              |
| Sovereign related spread duration | 1.16            | 1.16       | 1.28              |

\*\*Benchmark duration is calculated by PIMCO

Benchmark: 50% Bloomberg Global Aggregate Index hedged into AUD / 50% Bloomberg AusBond Composite 0+ Yr Index



# Country and currency exposure

Country exposure by country of settlement

|                       | 31 Dec '23     |        | 31 Mar '24     |        | Benchmark      |        |
|-----------------------|----------------|--------|----------------|--------|----------------|--------|
|                       | Duration (yrs) | FX (%) | Duration (yrs) | FX (%) | Duration (yrs) | FX (%) |
| <b>United States</b>  | 1.26           | 0.44   | 0.90           | 1.88   | 1.36           | -0.00  |
| <b>Japan</b>          | -0.06          | 0.75   | -0.08          | 0.50   | 0.47           | -0.00  |
| <b>Eurozone</b>       | 0.54           | -0.64  | 0.56           | -0.61  | 0.73           | 0.02   |
| Austria               | 0.00           | 0.00   | 0.00           | 0.00   | 0.02           | 0.00   |
| Belgium               | 0.00           | 0.00   | 0.01           | 0.00   | 0.04           | 0.00   |
| European Union        | 0.75           | 0.00   | 0.73           | 0.00   | 0.12           | 0.00   |
| Finland               | 0.00           | 0.00   | 0.00           | 0.00   | 0.01           | 0.00   |
| Euro Currency         | 0.00           | -0.64  | 0.00           | -0.61  | 0.00           | 0.02   |
| France                | -0.01          | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| France                | 0.00           | 0.00   | 0.00           | 0.00   | 0.16           | 0.00   |
| Germany               | -0.34          | 0.00   | -0.33          | 0.00   | 0.14           | 0.00   |
| Greece                | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Ireland               | 0.00           | 0.00   | 0.00           | 0.00   | 0.01           | 0.00   |
| Italy                 | 0.09           | 0.00   | 0.09           | 0.00   | 0.10           | 0.00   |
| Luxembourg            | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Netherlands           | 0.00           | 0.00   | 0.01           | 0.00   | 0.04           | 0.00   |
| Lithuania             | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Portugal              | 0.00           | 0.00   | 0.00           | 0.00   | 0.01           | 0.00   |
| Slovakia              | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Slovenia              | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Spain                 | 0.06           | 0.00   | 0.06           | 0.00   | 0.07           | 0.00   |
| Cyprus                | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Estonia               | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Latvia                | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Malta                 | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| <b>United Kingdom</b> | 0.33           | 0.03   | 0.40           | 0.04   | 0.17           | 0.00   |
| <b>Europe non-EMU</b> | 0.15           | 0.05   | 0.07           | -0.35  | 0.05           | -0.00  |
| Czech Republic        | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Denmark               | 0.13           | 0.01   | 0.05           | 0.00   | 0.01           | 0.00   |
| Croatia               | 0.00           | 0.00   | 0.00           | 0.00   | 0.00           | 0.00   |
| Norway                | 0.00           | 0.13   | 0.00           | 0.01   | 0.00           | 0.00   |
| Poland                | 0.00           | 0.16   | 0.00           | 0.24   | 0.00           | 0.00   |

Benchmark: 50% Bloomberg Global Aggregate Index hedged into AUD / 50% Bloomberg AusBond Composite 0+ Yr Index

# Country and currency exposure

Country exposure by country of settlement

|                                       | 31 Dec '23     |            | 31 Mar '24     |            | Benchmark      |            |
|---------------------------------------|----------------|------------|----------------|------------|----------------|------------|
|                                       | Duration (yrs) | FX (%)     | Duration (yrs) | FX (%)     | Duration (yrs) | FX (%)     |
| Sweden                                | 0.00           | -0.01      | -0.00          | -0.24      | 0.01           | -0.00      |
| Switzerland                           | 0.02           | -0.25      | 0.01           | -0.36      | 0.02           | -0.00      |
| <b>Dollar Block</b>                   | 3.05           | 99.45      | 3.06           | 98.85      | 2.63           | 99.98      |
| Australia                             | 2.84           | 100.40     | 2.85           | 100.08     | 2.53           | 99.98      |
| Canada                                | 0.11           | -1.01      | 0.13           | -1.26      | 0.10           | -0.00      |
| New Zealand                           | 0.09           | 0.05       | 0.08           | 0.03       | 0.00           | -0.00      |
| <b>Other Industrialized Countries</b> | 0.05           | -1.30      | -0.07          | -1.45      | 0.06           | 0.00       |
| Chile                                 | 0.00           | 0.01       | 0.00           | 0.01       | 0.00           | -0.00      |
| Hong Kong                             | 0.00           | 0.00       | 0.00           | 0.00       | 0.00           | 0.00       |
| Israel                                | 0.00           | 0.01       | 0.00           | 0.01       | 0.00           | 0.00       |
| Singapore                             | -0.04          | -0.01      | -0.11          | 0.02       | 0.01           | -0.00      |
| South Korea                           | 0.09           | -0.28      | 0.04           | -0.63      | 0.05           | 0.00       |
| Taiwan                                | -0.00          | -1.02      | -0.00          | -0.86      | 0.00           | 0.00       |
| <b>EM - Asia</b>                      | -0.03          | -0.16      | 0.09           | -0.26      | 0.32           | -0.00      |
| China                                 | 0.02           | -1.25      | 0.16           | -0.99      | 0.28           | -0.00      |
| Indonesia                             | 0.00           | 0.44       | 0.00           | 0.32       | 0.01           | -0.00      |
| India                                 | -0.01          | 0.66       | 0.04           | 0.61       | 0.00           | 0.00       |
| Malaysia                              | -0.06          | -0.01      | -0.05          | 0.01       | 0.01           | 0.00       |
| Thailand                              | 0.01           | 0.00       | -0.06          | -0.22      | 0.01           | -0.00      |
| <b>EM - Latin America</b>             | 0.00           | 1.01       | 0.00           | 0.92       | 0.01           | -0.00      |
| Brazil                                | 0.00           | 0.49       | 0.00           | 0.28       | 0.00           | 0.00       |
| Colombia                              | 0.00           | 0.00       | 0.00           | 0.00       | 0.00           | -0.00      |
| Mexico                                | 0.00           | 0.52       | 0.00           | 0.63       | 0.01           | 0.00       |
| Peru                                  | 0.00           | 0.00       | 0.00           | 0.00       | 0.00           | 0.00       |
| <b>EM - CEEMEA</b>                    | 0.00           | 0.38       | 0.00           | 0.48       | 0.00           | 0.00       |
| Hungary                               | -0.00          | 0.12       | 0.00           | 0.00       | 0.00           | 0.00       |
| Hungary                               | 0.00           | 0.00       | 0.00           | 0.00       | 0.00           | 0.00       |
| Romania                               | 0.00           | 0.00       | 0.00           | 0.00       | 0.00           | 0.00       |
| South Africa                          | 0.00           | 0.27       | 0.00           | 0.48       | 0.00           | 0.00       |
| <b>Liabilities</b>                    | 0.00           | 0.00       | 0.00           | 0.00       | 0.00           | 0.00       |
| <b>Total</b>                          | <b>5.29</b>    | <b>100</b> | <b>4.93</b>    | <b>100</b> | <b>5.80</b>    | <b>100</b> |

Benchmark: 50% Bloomberg Global Aggregate Index hedged into AUD / 50% Bloomberg AusBond Composite 0+ Yr Index

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Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be interpreted as investment advice, as an offer or solicitation, nor as the purchase or sale of any financial instrument. Forecasts and estimates have certain inherent limitations, and unlike an actual performance record, do not reflect actual trading, liquidity constraints, fees, and/or other costs. In addition, references to future results should not be construed as an estimate or promise of results that a client portfolio may achieve.

The Fund's benchmark index is a blend of 50% Bloomberg Global Aggregate Index hedged into AUD and 50% Bloomberg AusBond Composite 0+ Yr Index, and is designed to provide a broadly diversified exposure to both global and Australian bond markets. The Bloomberg Global Aggregate Index hedged into AUD is an unmanaged market index representative of the total return performance of major world bond markets on a AUD hedged basis. The Bloomberg AusBond Composite 0+ Yr Index is an unmanaged market index representative of the total return performance of AUD-denominated bonds. It is not possible to invest in an unmanaged index.

# Important Disclosures

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Portfolio allocations and other information in the charts in this Quarterly Investment Report are based on the fund's net assets.

All \$ amounts referenced are in USD and source citations are PIMCO unless stated otherwise.

The following defined terms are used throughout the report. **Emerging market short duration instruments** includes an emerging market security or other instrument economically tied to an emerging market country by country of risk with an effective duration less than one year and rated investment grade or higher or if unrated, determined to be similar quality by PIMCO. **Net other short duration instruments** includes securities and other instruments (except instruments tied to emerging markets by country of risk) with an effective duration less than one year and rated investment grade or higher or, if unrated, determined by PIMCO to be of comparable quality, commingled liquidity funds, uninvested cash, interest receivables, net unsettled trades, broker money and derivatives offset. With respect to certain categories of short duration securities, the Adviser reserves the discretion to require a minimum credit rating higher than investment grade for inclusion in this category. **Short duration derivatives and derivatives offsets** include: 1) derivatives with an effective duration less than one year and where the country of risk is not an emerging market country (for example, Eurodollar futures) and 2) offsets associated with investments in futures, swaps and other derivatives. Such offsets may be taken at the notional value of the derivative position which in certain instances may exceed the actual amount owed on such positions.

**The performance figures presented reflect the performance for the institutional class unless otherwise noted.**

PIMCO uses an internal model for calculating effective duration, which may result in a different value for the duration of an index compared to the duration calculated by the index provider or another third party.

# Important Disclosures

Acronyms and definitions of investment terms used throughout the report:

**Alpha** is a measure of performance on a risk-adjusted basis calculated by comparing the volatility (price risk) of a portfolio vs. its risk-adjusted performance to a benchmark index; the excess return relative to the benchmark is alpha.

**Average coupon** is the average of the coupon payments of the underlying bonds within the portfolio.

**Average effective maturity** is a weighted average of all the maturities of the bonds in a portfolio, computed by weighting each bond's effective maturity by the market value of the security.

**"Bend-but-not-break"** refers to credits that PIMCO would not expect to default in a credit-stressed environment.

**Beta** is a measure of price sensitivity to market movements. Market beta is 1.

**Breakeven inflation rate** (or expectation) is a market-based measure of expected inflation or the difference between the yield of a nominal and an inflation-linked bond of the same maturity.

**Carry** is the rate of interest earned by holding the respective securities.

The terms **"cheap" and "rich"** as used herein generally refer to a security or asset class that is deemed to be substantially under- or overpriced compared to both its historical average as well as to the investment manager's future expectations. There is no guarantee of future results or that a security's valuation will ensure a profit or protect against a loss.

**CPI** is the Consumer Price Index.

The **credit quality** of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody's, and Fitch respectively.

**Dividend yield** is represented by the weighted average coupon divided by the weighted average price.

**Duration** is the measure of a bond's price sensitivity to interest rates and is expressed in years.

**Effective duration** is the duration for a bond with an embedded option when the value is calculated to include the expected change in cash flow caused by the option as interest rates change.

**Forward curve** is a function graph that defines the prices at which a contract for future delivery or payment can be concluded today.

**Fallen angel** is a bond that was initially given an investment grade rating but has since been reduced to below investment grade status.

**GFC** is the Global Financial Crisis.

**Information ratio** is a ratio of portfolio returns above the returns of a benchmark to the volatility of those returns.

**Like-duration Securities** are calculated by the index provider by comparing the index return to a hypothetical matched position in the security.

**LNG** is Liquefied Natural Gas.

The **Option Adjusted Spread (OAS)** measures the spread over a variety of possible interest rate paths. A security's OAS is the average return an investor will earn over Treasury returns, taking all possible future interest rate scenarios into account. The OAS is the net spread over the swap curve that will on average be earned if the security is held to maturity.

**Rising star** is the term given to a bond that was rated high yield but has since been upgraded to investment grade.

**"Risk assets"** are any financial security or instrument that are likely to fluctuate in price.

**Risk premia** is the return in excess of the risk-free rate of return an investment is expected to yield.

**Roll yield** is the yield that a futures investor captures as their long position in a futures contract converges to the spot price.

**"Safe haven"** is an investment that is expected to retain or increase in value during times of market turbulence.

**"Safe Spread"** is defined as sectors that we believe are most likely to withstand the vicissitudes of a wide range of possible economic scenarios. All investments contain risk and may lose value.

The **SEC yield** is an annualized yield based on the most recent 30 day period. The subsidized yield includes contractual expense reimbursements and it would be lower without those reimbursements. The

**Unsubsidized 30 day SEC Yield** excludes contractual expense reimbursements.

**Tracking error** measures the dispersion or volatility of excess returns relative to a benchmark.

To relate the price sensitivity of ILBs to changes in nominal yields, yield beta is applied to nominal changes to arrive at a price sensitivity of ILBs to changes in nominal rates. A **yield beta** of 0.90 implies that if nominal yields move 100 basis points, real yields will move 90 basis points. ILBs with long maturity may respond differently to changes in nominal rates than shorter maturity ILBs.

The distribution yield for monthly paying Funds is calculated by annualizing actual dividends distributed for the monthly period ended on the date shown and dividing by the net asset value on the last business day for the same period. The distribution yield for quarterly paying Funds is calculated by taking the average of the prior four quarterly distribution yields. The quarterly distribution yields are calculated by annualizing actual dividends distributed for the quarterly period ended on the most recent quarterly distribution date and dividing by the net asset value for the same date. The yield does not include long- or short-term capital gains distributions.

Asset-Backed Security (ABS); Bank of England (BOE); Bank of Japan (BOJ); Breakeven Inflation (BEI); Collateralized Debt Obligation (CDO); Collateralized Loan Obligation (CLO); Commercial Mortgage-Backed Security (CMBS); Developed Markets (DM); Emerging Markets (EM); Federal Reserve Board (The Fed); Europe Central Bank (ECB); Federal Open Market Committee (FOMC); Foreign Exchange (FX); Gross Domestic Product (GDP); Gulf Cooperation Council (GCC); High Yield (HY); Inflation-Linked Bond (ILS); Investment Grade (IG); Leveraged-buyout (LBO); Loan-to-Value (LTV); Master Limited Partnership (MLP); Mortgage-Backed Security (MBS); Market Weighted Spread (MWS); Real Estate Investment Trust (REIT); Residential Mortgage-Backed Security (RMBS); Treasury Inflation-Protected Security (TIPS); Year-over-Year (YoY)