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PIMCO Capital Securities Fund

Quarterly Investment Report | 4Q23

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.

A company of Allianz

Executive summary

Portfolio Performance

The portfolio generated a positive return during the fourth quarter as sentiment in the global bank capital market continued to improve, leading to tighter spreads and lower yields. Exposure to Additional Tier 1 bonds, and in particular to select Dutch, UK, French and Spanish issuers, contributed to performance.

CONTRIBUTORS

- Exposure to Additional Tier 1 bonds, and in particular to select Dutch, UK, French and Spanish issuers, contributed to performance as strong new issue demand and improved market sentiment led to lower yields.
- Exposure to senior financial bonds, and in particular to select Italian and UK issuers, contributed to performance as interest rates and spreads rallied.
- Exposure to Tier 2 bonds contributed to performance as credit ratings from select Italian and German banks were upgraded.

DETRACTORS

- There were no material detractors for this Fund.

Performance periods ended 31 Dec '23	3 mos.	FYTD	1 yr.	3 yrs.	5 yrs.	SI
Net of fees (%)	8.11	9.37	7.20	-0.67	3.38	3.53
Benchmark*	1.06	2.15	3.89	1.71	1.40	1.62

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

PIMCO favors investments in Additional Tier 1 ("AT1") bonds from large systemic banks which benefit from high capital levels and years of balance sheet de-risking. The Fund is well diversified across both geographies and capital structure, with exposure to senior bank debt providing a more defensive source of spread.

The Fund favors AT1s from systemic banks and national champions with ample capital buffers, robust equity cushions and a diversified revenue stream. At the same time, the Fund remains cautious on smaller issuers and those with more limited scope for organic capital generation. Geographically, the Fund is well diversified and favors countries such as the UK, Netherlands and France where banks have the highest levels of capital. In senior and Tier 2 debt, the exposure remains mostly centered on UK banks, as well as select idiosyncratic opportunities in peripheral and core European banks.

*Bloomberg AusBond Bank Bills Index

Class:	WHOLESALE
Inception date:	11 Aug '15
Fund assets (in millions):	AUD81.26

Summary information	31 Dec '23
Effective duration (yrs)	3.79
Benchmark duration (yrs)	0.12
Effective maturity (yrs)	4.75
Average coupon	5.48%

Regional exposure (currency in Dur yrs)	Portfolio (yrs)	Benchmark (yrs)
United States	2.48	0.00
Japan	0.00	0.00
Eurozone	1.01	0.00
United Kingdom	0.22	0.00
Europe non-EMU	0.00	0.00
Australia	0.03	0.12
Canada	0.06	0.00
Other Industrialized Countries	0.00	0.00
Emerging markets	0.00	0.00
Total	**3.79**	**0.12**

Quality Exposure (MV %)	31 Dec '23
AAA	29.68
AA	1.72
A	6.54
BBB	41.43
Sub Investment Grade	20.63
Average Credit Quality	**A-**

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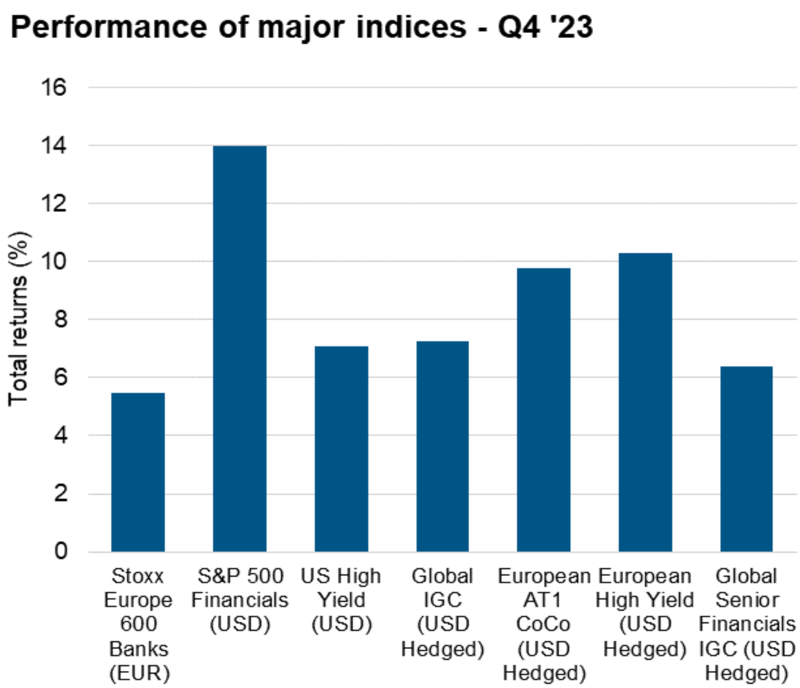
Quarter in Review

Spreads in subordinated and senior financial debt tightened during the quarter

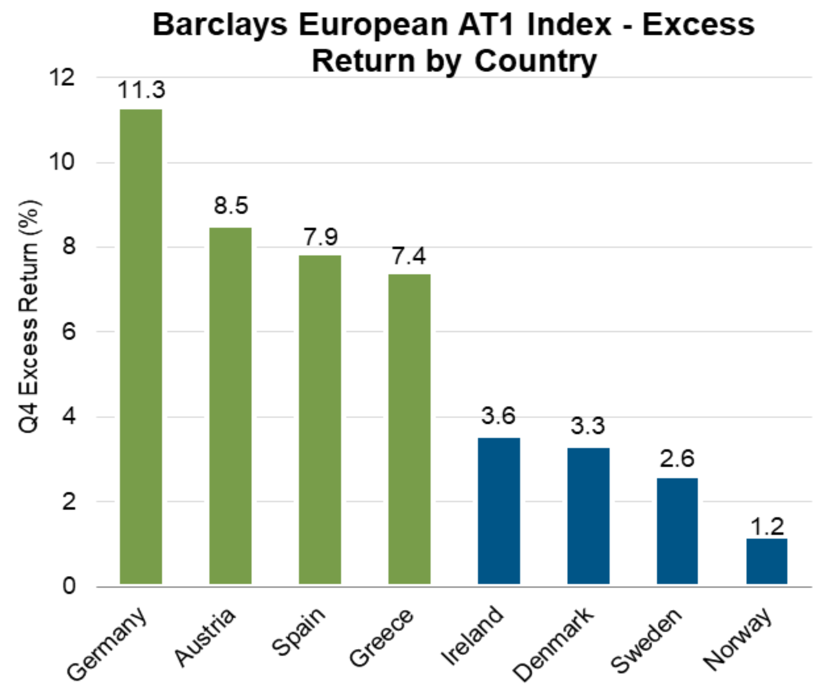
The global bank capital market, and in particular the more subordinated parts of banks' capital structure recovered strongly over the quarter. This rebound was driven by a combination of tighter credit spreads as well as lower government bond yields, as commentary from the Federal Reserve appeared to suggest a shift to a more dovish stance and US inflation data came in below expectations. In addition, sentiment in the bank capital market improved following the successful resumption of AT1 supply from UBS as well as other large banks.

Overall, the European AT1 market returned +9.8% in the fourth quarter (USD hedged) and although there was significant volatility over the course of 2023, the Bloomberg European Banks CoCo Index (USD Hedged) ended the year positively, with a total return of 7.2%, the highest since 2020.



In the fourth quarter, the European AT1 market returned +9.8% while Global Senior Financials returned +6.4% (USD hedged). Both AT1s and senior bonds benefitted from a recovery in risk appetite as spreads continued to tighten, after they had widened significantly in March. Furthermore, rates rallied as commentary from the Federal Reserve appeared to suggest a shift to a more dovish stance.

Source: Bloomberg. Euro Stoxx Banking EUR (EURO STOXX Banks Index); European AT1 CoCo USD Hedged (Bloomberg European Tier 1 CoCo Index); US High Yield (The BofA Merrill Lynch U.S. High Yield Constrained Index); European High Yield USD Hedged (Merrill Lynch European Currency High Yield Constrained Index); Global IGC USD Hedged (Bloomberg Global Agg Credit Index); Global Senior Financials IGC USD Hedged (Bloomberg Global Agg Corp Senior Financial Institutions).



On an excess return basis, AT1s from Germany and Austria outperformed as select banks within these countries outperformed after underperforming prior in the year. Peripheral banks also outperformed, as they continued to report increases in net interest margins and net interest income. Nordic banks underperformed over the quarter, as is typically the case in a risk-on environment.

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Market Summary

The portfolio generated a positive return during the fourth quarter as sentiment in the global bank capital market continued to improve following the crisis of confidence which took place in March.

Exposure to AT1s

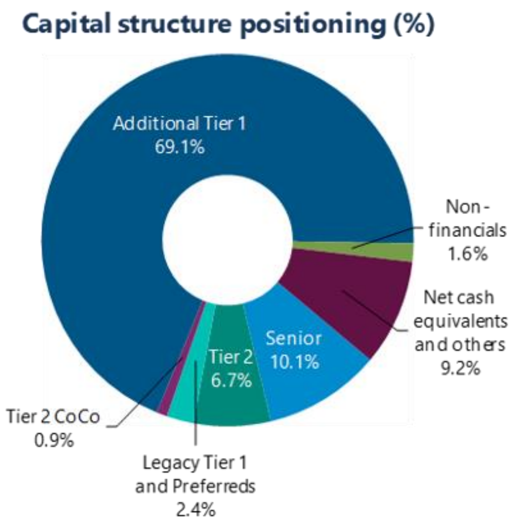
Our exposure to AT1 bonds was the main contributor to performance, and in particular, to select Dutch, UK, French and Spanish issuers. Both interest rates rallied and spreads tightened over the quarter as sentiment in the bank capital market improved following the successful resumption of AT1 supply from UBS as well as other large banks.

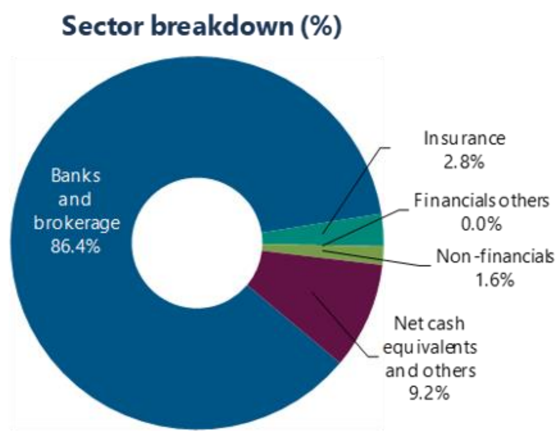
Exposure to senior financial bonds

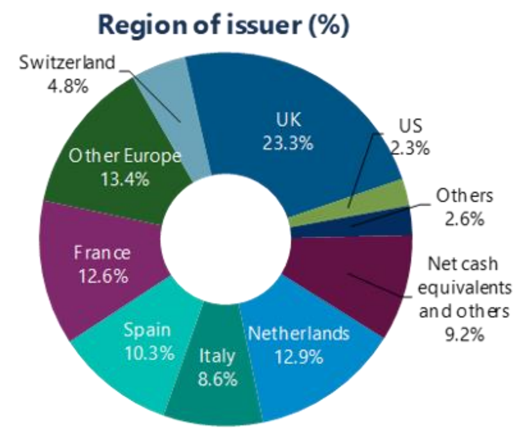
Exposure to senior financial bonds, and in particular to select Italian and UK issuers, contributed to performance as spreads tightened and interest rates rallied following the Federal Reserve's commentary, which appeared to suggest a shift to a more dovish stance.

Exposure to Tier 2s

Exposure to Tier 2 bonds contributed to performance as credit ratings from select Italian and German banks were upgraded over the quarter.







'Additional Tier 1' also includes positions in Core Capital Deferred Shares (CCDS) and Member Certificates.

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Navigating the Descent: Four economic themes

Peak inflation and rising unemployment consistent with rate cuts

Soft landings are possible, but risks remain

Markets already price a substantial cutting cycle

Global divergence in monetary policy

As of 31 December 2023. Source: PIMCO

Portfolio Outlook

Bank capital provides attractive yield

While Capital Securities remain exposed to the elevated uncertainty and market volatility, sector fundamentals continue to show resiliency and valuations look attractive compared to other parts of the fixed income universe, particularly given AT1 yields remain elevated versus history. The Fund offers an attractive combination of yield (yield to maturity at 7.7% and yield to next call at 7.6%, USD hedged) and duration (3.8 years) while maintaining an average investment grade rating. The core of the strategy remains centered on national champions in each country, all of them benefiting from strong capital positions, as highlighted by their solid performance across various central bank stress tests.

Key strategies

Solid fundamentals

Despite the volatility in March surrounding US regional banks and Credit Suisse, the broader banking sector is entering this period of economic uncertainty with strong initial conditions in credit fundamentals. Banks' asset quality has weathered the pandemic well and capital buffers are at or close to record highs. While elevated inflation, higher interest rates and tighter financial conditions will inevitably have an impact on the broader economy, banks are well positioned given their strong fundamentals following over a decade of restructuring, de-risking and de-leveraging and remain more insulated from inflationary pressures relative to other sectors in corporate credit.

Attractive valuations

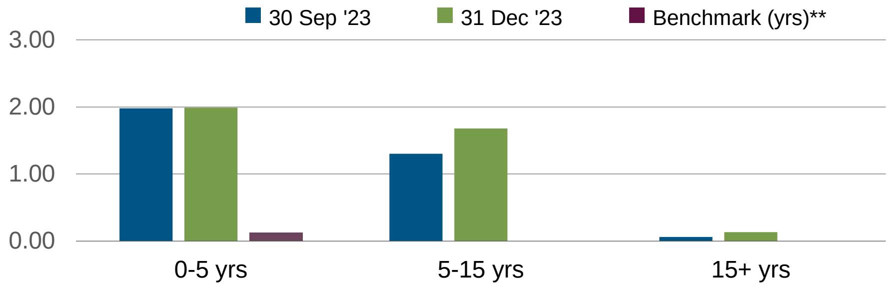
Valuations look attractive compared to other parts of the fixed income universe, particularly given AT1 yields remain elevated versus history. Market stress related to events over the course of March propagated primarily to the most junior part of banks' capital structures, as the wipe-out of CS' AT1s cast the market into price discovery mode. However, the subsequent months have seen a strong recovery in prices, particularly in November and December, with AT1s now trading at the 39th percentile of daily spread data since inception of the index in 2014. More senior parts of the capital structure also sold off earlier in the year, despite not being subject to the write-down/conversion mechanism of AT1s. Senior Financials are currently trading at the 71st percentile of daily spread data since the inception of the AT1 index in 2014, thus providing attractive spreads compared to historical levels.

Benefitting from rising rates

Most banks are uniquely positioned to continue to benefit from higher rates, particularly in Europe. Banks in Europe are by far the biggest beneficiaries within the developed market banking system. Financial results published in the third quarter of 2023 continued to indicate that the benefits of abandoning negative rates have become visible on banks' P&Ls. As a matter of fact, higher rates led to stronger Net Interest Income (NII), as banks' assets have partially and progressively repriced. While we expect that further upside may be capped by a repricing of liabilities, some of the reporting banks are still anticipating additional increases in NII in the coming quarters as assets continue to reprice at a faster pace than deposits.

Portfolio characteristics

Key rate duration exposure



	Portfolio (yrs)		Benchmark (yrs)**
	30 Sep '23	31 Dec '23	31 Dec '23
0-5 yrs	1.98	1.99	0.12
5-15 yrs	1.30	1.68	0.00
15+ yrs	0.06	0.13	0.00
Total	**3.34**	**3.80**	**0.12**

Interest rate exposure

	Portfolio (yrs)		Benchmark (yrs)**
	30 Sep '23	31 Dec '23	31 Dec '23
Effective duration	3.34	3.79	0.12
Spread duration			
Mortgage spread duration	0.00	0.00	0.00
Corporate spread duration	7.03	5.93	0.12
Emerging markets spread duration	0.00	0.00	0.00
Swap spread duration	-0.61	-0.80	0.00
Covered bond spread duration	0.00	0.00	0.00
Sovereign related spread duration	0.00	0.00	0.00

**Benchmark duration is calculated by PIMCO
Benchmark: Bloomberg AusBond Bank Bills Index

Country and currency exposure

Country exposure by country of settlement

	30 Sep '23		31 Dec '23		Benchmark	
	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)
United States	1.99	0.33	2.48	0.23	0.00	0.00
Japan	0.00	0.01	0.00	0.01	0.00	0.00
Eurozone	0.98	0.09	1.01	0.03	0.00	0.00
Austria	0.06	0.00	0.05	0.00	0.00	0.00
Belgium	0.06	0.00	0.06	0.00	0.00	0.00
European Union	-0.23	0.00	-0.29	0.00	0.00	0.00
Euro Currency	0.00	0.09	0.00	0.03	0.00	0.00
France	-0.13	0.00	-0.11	0.00	0.00	0.00
Germany	0.02	0.00	0.15	0.00	0.00	0.00
Ireland	0.07	0.00	0.06	0.00	0.00	0.00
Italy	0.14	0.00	0.16	0.00	0.00	0.00
Netherlands	0.81	0.00	0.70	0.00	0.00	0.00
Slovenia	0.02	0.00	0.01	0.00	0.00	0.00
Spain	0.17	0.00	0.20	0.00	0.00	0.00
United Kingdom	0.22	0.00	0.22	0.01	0.00	0.00
Europe non-EMU	-0.00	-0.01	-0.00	-0.01	0.00	0.00
Sweden	-0.00	-0.01	-0.00	-0.01	0.00	0.00
Dollar Block	0.14	99.57	0.09	99.74	0.12	100.00
Australia	0.09	99.62	0.03	99.73	0.12	100.00
Canada	0.05	-0.05	0.06	0.01	0.00	0.00
Other Industrialized Countries	-0.00	-0.00	-0.00	-0.00	0.00	0.00
Hong Kong	0.00	0.01	0.00	0.01	0.00	0.00
Singapore	-0.00	-0.02	-0.00	-0.02	0.00	0.00
EM - Asia	0.00	0.00	0.00	0.00	0.00	0.00
Liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Total	**3.34**	**100**	**3.79**	**100**	**0.12**	**100**

Benchmark: Bloomberg AusBond Bank Bills Index

Important Disclosures

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Differences in the Fund's performance versus the index and related attribution information with respect to particular categories of securities or individual positions may be attributable, in part, to differences in the pricing methodologies used by the Fund and the index.

Investments made by a Fund and the results achieved by a Fund are not expected to be the same as those made by any other PIMCO-advised Fund, including those with a similar name, investment objective or policies. A new or smaller Fund's performance may not represent how the Fund is expected to or may perform in the long-term. New Funds have limited operating histories for investors to evaluate and new and smaller Funds may not attract sufficient assets to achieve investment and trading efficiencies. A Fund may be forced to sell a comparatively large portion of its portfolio to meet significant shareholder redemptions for cash, or hold a comparatively large portion of its portfolio in cash due to significant share purchases for cash, in each case when the Fund otherwise would not seek to do so, which may adversely affect performance.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

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 Bloomberg AusBond Bank Bills Index is an unmanaged index representative of the total return performance of Australian money market securities. It is not possible to invest in an unmanaged index.

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.

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Important Disclosures

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)