PIMCO

Introduction to Private Credit

Nebraska Investment Council

July 2024

A company of Allianz

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See Appendix for additional disclosures.

Borrower Lens: What Problems Can Private Credit Solve?

1	2	3
Certainty of Execution	***Flexibility***	***Partnership & Confidentiality***
Access to financing that is not subject to fragility of public markets	**Loan structures can be tailored to meet borrower needs and timelines**	**Borrowers can avoid certain public filings and fewer lenders can allow for easier renegotiations**

As of 30 June 2024. Source: PIMCO

For illustrative purposes only. The views and expectations expressed are those of PIMCO. There can be no guarantee that the trends mentioned above will continue. Statements concerning financial market trends are based on current market conditions, which will fluctuate.

Refer to Appendix for additional investment strategy and risk information.

Investor Lens: What Problems Can Private Credit Solve?

1

Enhanced Yield

Potential yield enhancement and high, stable income above public market comparables

2

Defensive

Typically focuses on senior secured loan profiles backed by collateral and covenant protections

3

Diversificationn

Lower volatility and less correlated risk profiles may offer diversification relative to traditional risk factors

As of 30 June 2024. Source: PIMCO

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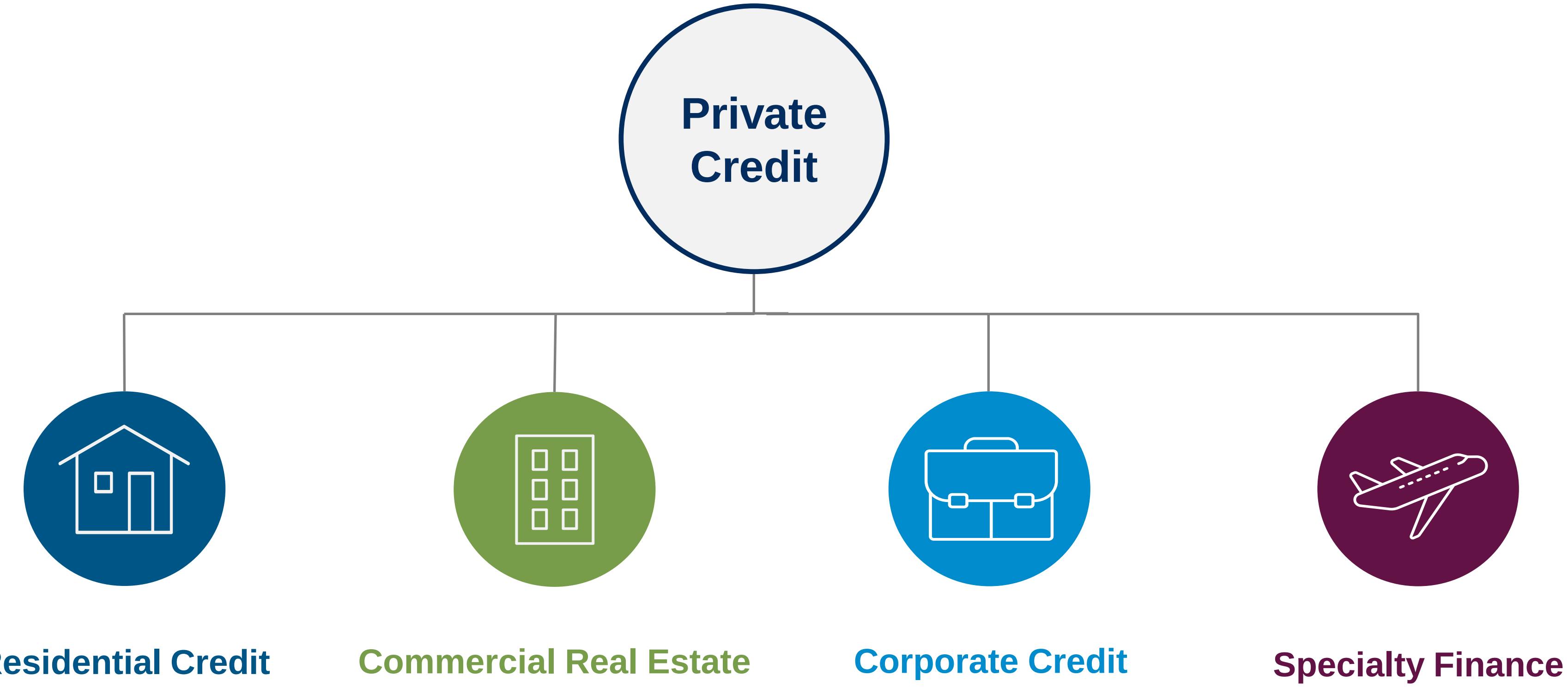
Private Credit = Private Debt = Direct Lending?

The full spectrum of Private Credit includes corporate lending, residential mortgage lending, commercial real estate lending, and various forms of specialty finance



As of 30 June 2024. Source: PIMCO

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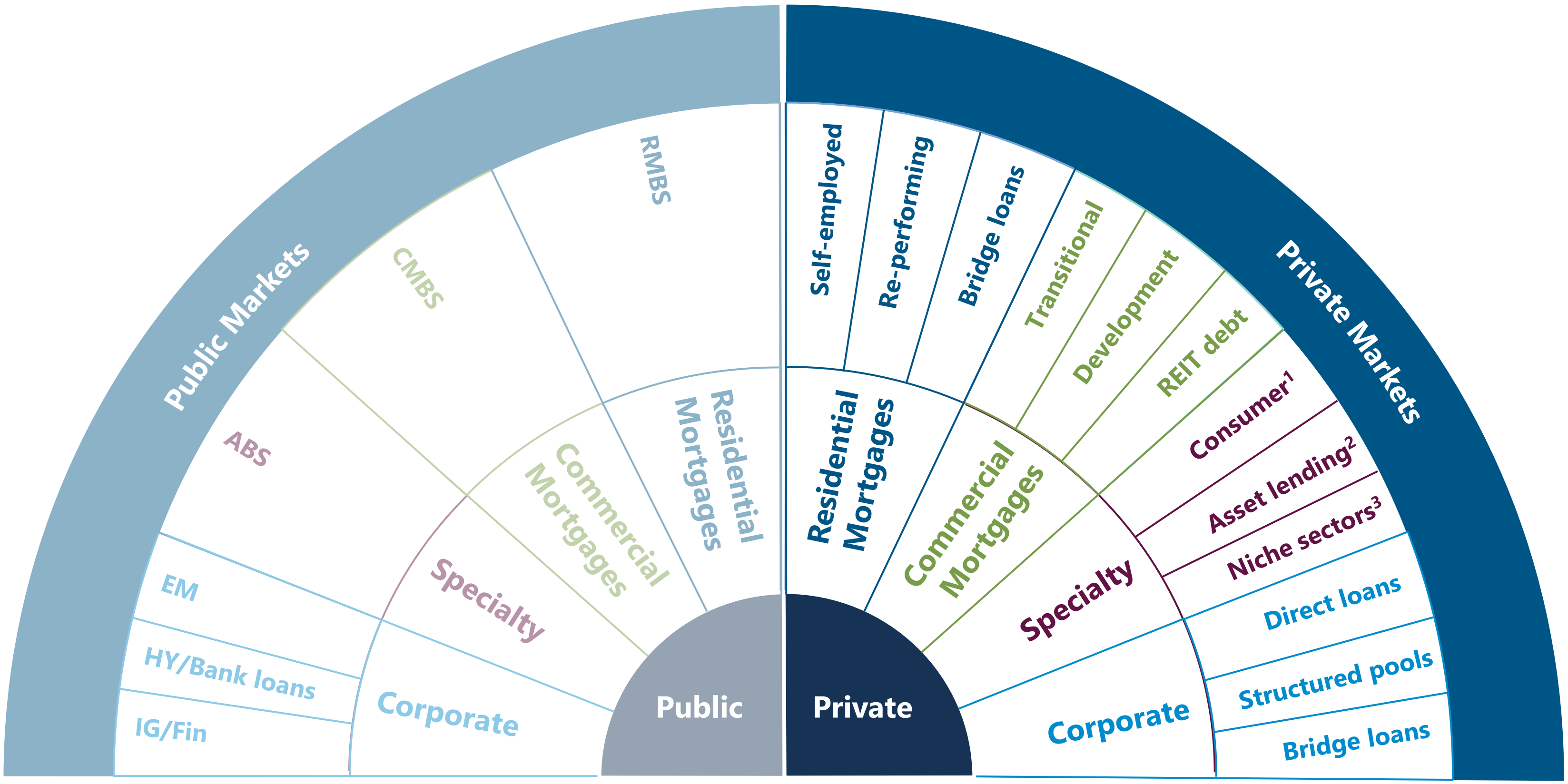
Private credit is a natural extension of public credit markets



As of 30 June 2024. SOURCE: PIMCO. The above is presented for illustrative purposes only, as a general example of the type of credit investments that PIMCO invests in across the liquidity spectrum and sheds light on PIMCO's current capabilities in sourcing, modeling and managing such investments (which may evolve over time).

1 Consumer credit examples include credit card receivables, student loans & marketplace loans

2 Asset lending examples include auto loans, aviation finance & equipment loans

3 Niche sector examples include insurance related loans, SME lending and post settlement litigation finance

Investable Universe

The investable private credit universe spans sectors and investment styles while offering varying degrees of risk-return

Residential Credit	Commercial Real Estate Debt	Corporate Credit	Specialty Finance
Non-Qualified Mortgages	Core	Direct Lending	Consumer Loans
Re-performing Loans	Transitional	Non-Sponsor	Aircraft Leasing
Fix and flip	Development	Mezzanine	Litigation Finance
Distressed	Distressed	Special Sits/ Distressed	Royalties

Multi-Sector Strategies

Source: PIMCO

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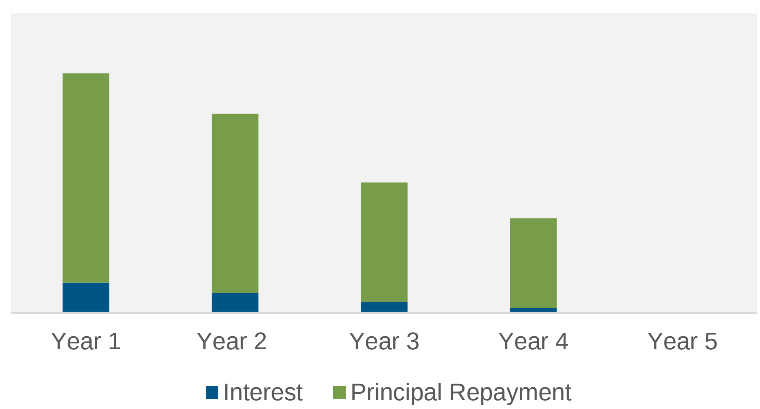
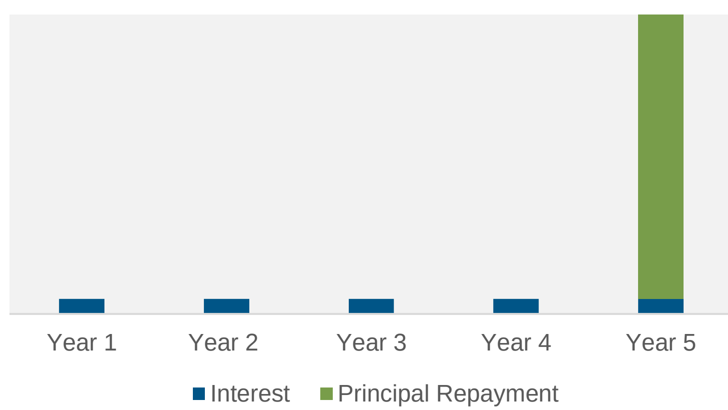
Different forms of private credit can offer various forms of diversification

	Asset-Based Lending	Corporate Direct Lending
Credit Risk	Granular and diverse array of non-corporate borrowers and collateral types	Concentrated PE-backed middle market company
Loss Given Default	Low (ring-fenced assets, low “walk away” incentive)	Moderate (creditor-on-creditor violence, asset freezing)
Correlation to Equities, Bonds and Loans	Low	Moderate to High
Underwriting Assumptions	Loss Adjusted Yield	Assume Zero Loss
Fixed vs. Floating	Mixed – floating and fixed	Floating
Inflation Mitigation	High (risk decreases as collateral values increase)	Mixed (expenses may inflate more than revenues)
Cash Flow Profile	Self-amortizing (de-risk over time)	Balloon payment at maturity (growing risk over time)

Self-Liquidating Cash Flow Profile



Bullet Maturity Cash Flow Profile



As of 31 December 2023, SOURCE: PIMCO.

For illustrative purposes only. The views and expectations expressed are those of PIMCO. **An investment in any PIMCO managed fund entails a high degree of risk and investors could lose all or a portion of their investment.** There is no guarantee that (i) the investment strategies discussed herein will work under all market conditions, (ii) that the market trends discussed will continue, or (iii) that the investment opportunities discussed herein will materialize or produce any level of returns.

Refer to Appendix for additional investment strategy, outlook and risk information.

What has driven the growth in private credit?

Primarily due to tighter regulatory landscape post Global Financial Crisis

More stringent regulations limit the ability and willingness of banks and traditional lenders to hold many forms of credit on their balance sheets

Dodd-Frank

Basel III

CECL

IFRS

Banks have retrenched and private lenders have filled the void

As of 30 June 2024. Source: PIMCO

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Current Market Environment: 2024 Private Credit Playbook

Pressure on Lenders		Pressure on Borrowers
Liquidity pressures and shifting regulatory environment	*Trend*	Liquidity pressures, elevated borrowing costs and declining margins
Traditional capital supply shifting to private markets	*Opportunity*	Filling the financing gap for capital constrained borrowers
Specialty Finance Residential Credit CRE Debt	*Key Sectors Impacted*	Corporate Credit Commercial Real Estate

As of 31 March 2024. SOURCE: PIMCO

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Refer to Appendix for additional outlook, investment strategy and risk information.

Current Market Environment:
Excessive growth in private corporate lending has created risks

Record Market Size

Over 3x larger market opportunity than pre-GFC in 2009

High Leverage Levels

Middle market companies now reflecting higher leverage levels vs. large corporates

Newer Owners of Risk

CLOs and mutual funds are highly sensitive to cycles and rating downgrades due to limited dealer inventory and CLO ownership

Market Indicators	Beginning of GFC	Today
Public Markets (*Larger borrowers)*		
Size of U.S. bank loan and high yield market[1]	$1.3tn	$2.7tn
Size of European bank loan market[1]	€141bn	€286bn
U.S. leveraged loan market leverage multiple[2]	3.8x	4.5x
Private Markets *(Generally middle market and smaller borrowers)*		
Estimated size of private market[3]	$235bn	$1.7tn
U.S. middle market leverage multiples[2]	4.3x	5.4x
Structural Ownership & Liquidity		
CLO ownership of leveraged loan market[4]	52%	69%
U.S. Mutual Fund and ETF ownership of corporate bonds[5]	21%	42%

As of 31 March 2024, unless otherwise noted.
Beginning of GFC is defined as 31 March 2009 and Today is defined as 31 March 2024, unless otherwise noted. Other reference dates may produce materially different results.
Sources: [1] US and European bank loan market size from S&P LCD (GFC as of 31 December 2008), US high yield bond data from BofA. [2] S&P LCD (GFC as of 31 December 2008. U.S. leveraged loan market leverage as of 31 March 2024 and middle market leverage multiples as of 31 March 2024).
[3] Preqin (GFC as of 31 December 2008, Today as of 30 June 2023). Private market size includes the following geographic focuses: North America, Europe, Africa, Americas, Asia, Australia, Middle East & Israel, and multi-regional.
[4] S&P LCD (GFC as of 31 December 2008, Today as of 31 December 2022) [5] Federal Reserve (today as of 30 September 2023).
There can be no guarantee that the trends above will continue. Statements concerning financial market trends are based on current market conditions, which will fluctuate. The views expressed above reflect PIMCO's opinions and are subject to change.
Refer to Appendix for additional outlook and risk information.

Current Market Environment:
Asset-based finance is likely to benefit from bank retrenchment

1 Secular Bank Retrenchment Meets Short-Term Pressure

- Post GFC, tighter bank regulation, higher capital charges, and changes to loan accounting has led banks to **migrate out of various types of lending**
- Banks are acutely focused on balance sheet and capital optimization as a means of **driving ROE**
- **Recent liquidity stresses in banks will likely accelerate** longer-term trends and continued regulatory overhaul

2 Increasing Importance of Asset Light Originators across Lending Verticals

- Void left in the market with **commercial finance companies disappearing and/or becoming banks**
- **Growth of specialty finance companies** providing capital to consumers and commercial segments
- Originators **suffering from funding shortfalls,** further exacerbated by **scarce capital when volatility emerges**

Asset-Based opportunities will span a variety of transaction types

Secondary asset sales	New origination	Buy or build origination platforms

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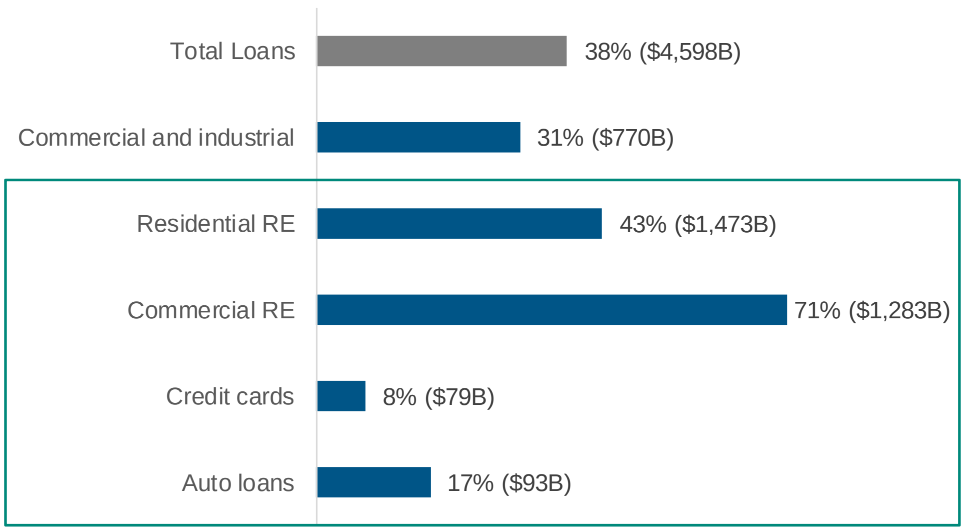
Refer to Appendix for additional investment strategy, outlook and risk information.

Current Market Environment: a regime change in the extension of capital

Imbalances in Private Credit "Dry Powder" coverage present opportunities for allocators

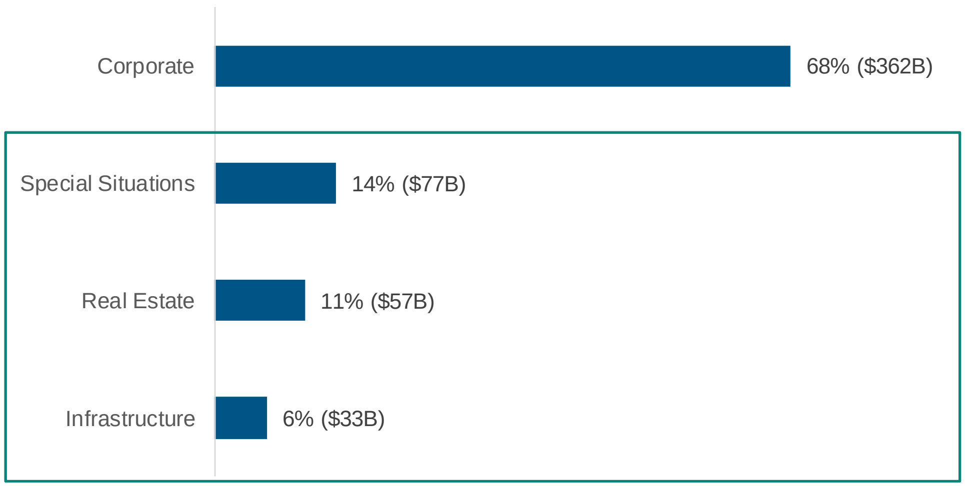
Regional bank balance sheets are dominated by non-corporate risk…

Small and medium-size banks' share ($ value) of all outstanding bank loans, by type[1]



...However, private credit dry powder is concentrated in corporate lending

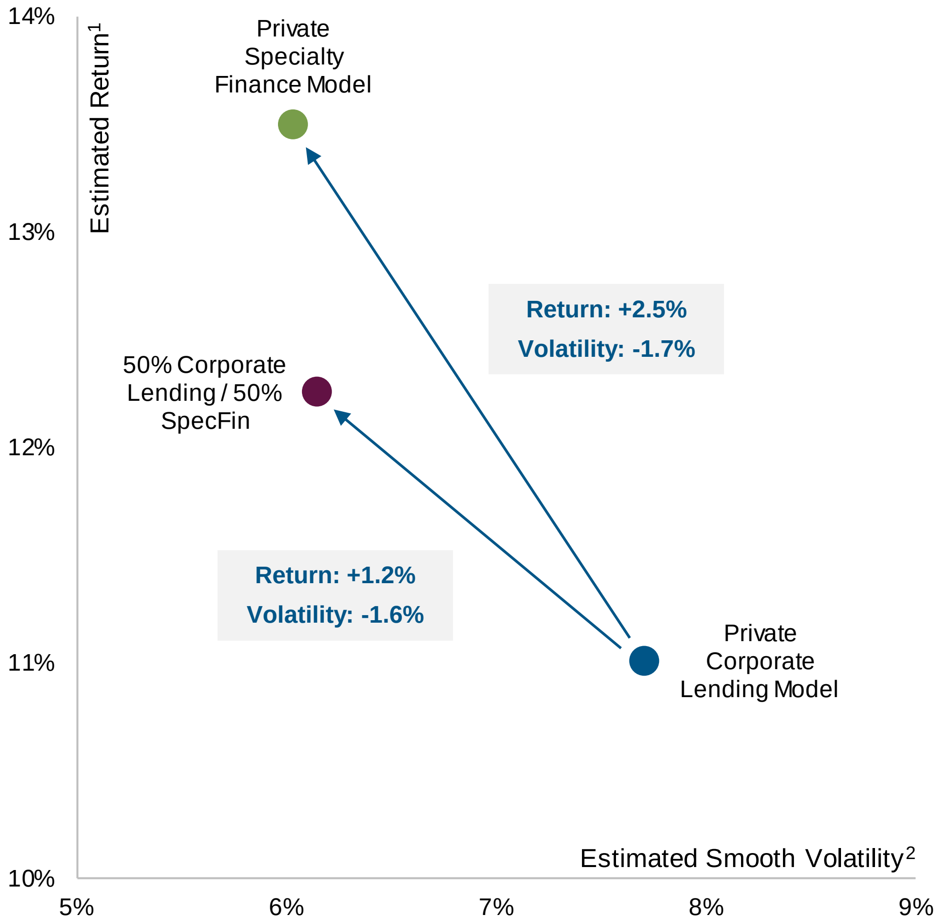
Private credit industry dry powder breakdown[2]
Total dry powder = $529 billion



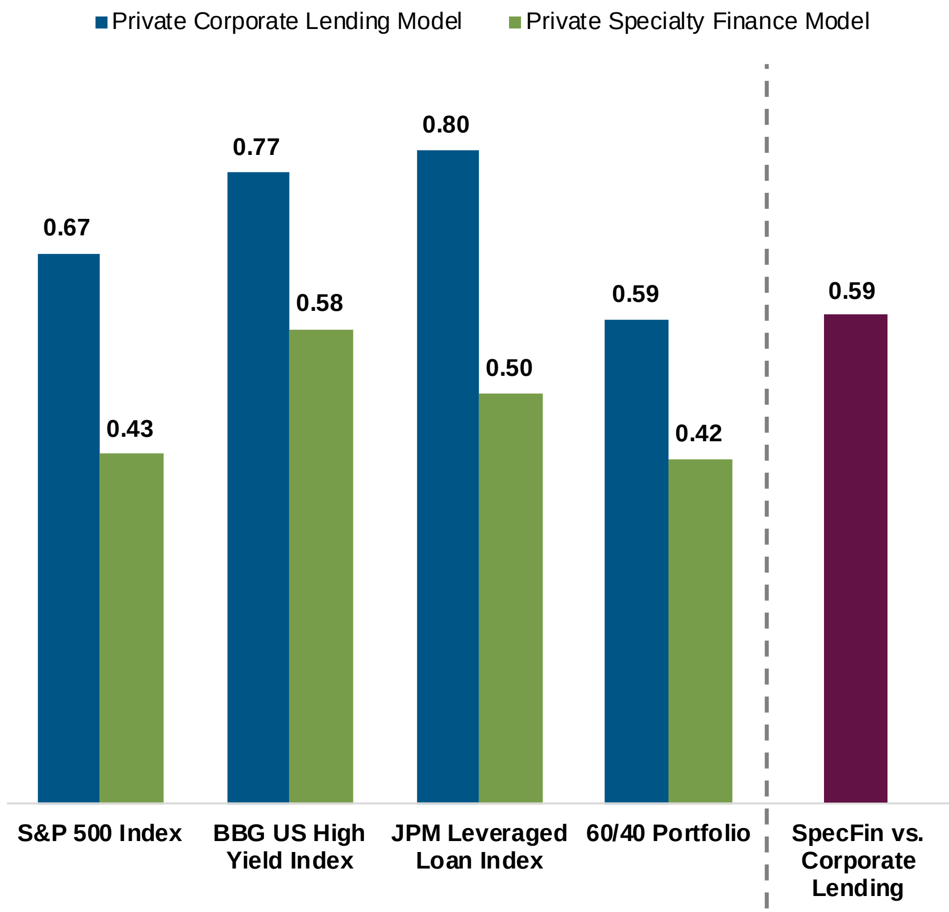
As of 31 December 2023. SOURCE: FDIC, Preqin, PIMCO. **For illustrative purposes only.**
[1] Small and medium-size banks represent community and regional banks with less than $100 billion of assets. Data is as of 30 September 2023.
[2] Dry powder represents capital which has been committed but not yet called into private credit strategies tracked by Preqin. Chart excludes 1% of dry powder in Venture debt.
Refer to Appendix for additional investment strategy, and risk information.

Asset-based lending in the context of an investor portfolio

Estimated Return[1] vs. Estimated Volatility[2]



Correlations vs. Typical Portfolio Strategies



As of 31 March 2024. SOURCE: PIMCO. **Hypothetical performance for illustrative purposes only. Hypothetical performance is not based on actual results, has certain inherent limitations and should not be relied upon as the sole basis for making an investment decision. Investors should carefully review the appendix for additional, important information about hypothetical performance.**

60/40 Portfolio: 60% S&P 500 Index / 40% Bloomberg US Aggregate Index.

[1] Unless otherwise specified, return estimates are an average annual return over a 5-year horizon. For indexes and asset class models, return estimates are based on the product of risk factor exposures and projected risk factor premia which rely on fair value models and qualitative inputs from senior PIMCO investment professionals. Model return estimates shown are net of fees.

[2] See Appendix for additional information regarding volatility estimates.

Model risk factor exposures are based on analysis of historical index data, third party academic research and/or qualitative inputs from senior PIMCO investment professionals.

Refer to Appendix for additional correlation, hypothetical example, investment strategy, index, model, portfolio analysis, return assumption, VaR/CVaR, and risk information.

PIMCO's Client Solutions & Analytics Team

CS&A is PIMCO's client-driven think tank, publishing industry leading research and providing our clients with customized analyses on portfolio management and implementation topics

Portfolio Diagnostics

- Portfolio risk factor analysis
- Scenario analyses/stress tests
- Risk models for alternatives

Portfolio Optimization

- Optimization techniques, Regulatory capital, FX hedging
- Optimization with illiquid assets
- CUSIP-level portfolio construction

Macro Insights

- Stock/bond correlation
- Interest rate scenario analysis
- Inflation hedging
- Business cycle dynamics

Asset Class Insights

- Capital markets assumptions
- Valuation models
- Risk premia

Asset / Liability Management

- Liability-driven investing
- Cash flow-driven investing
- Retirement simulation, optimization, and glide-path analysis

Customized Solutions

- Broad-scope and custom mandates
- Risk mitigation strategies
- Model portfolios for wealth management
- Quantitative indices for annuities and structured products

Client-Driven Thought Leadership

- Capital Efficiency
- Retirement investing
- Active vs. passive investing
- Equity fragility

As of 30 June 2024

Appendix

PERFORMANCE AND FEE
Past performance is not a guarantee or a reliable indicator of future results..

CORRELATION
The correlation of various indexes or securities against one another or against inflation is based upon data over a certain time period. These correlations may vary substantially in the future or over different time periods that can result in greater volatility.

FORECAST
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.

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HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

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[1] THIS MAY INCLUDE THE IMPACT OF TRANSACTION COSTS, LACK OF LIQUIDITY, PRICE VOLATILITY IN THE MARKET AS A WHOLE OR FOR A PARTICULAR INVESTMENT, HOW PARTICULAR INVESTMENTS WITHIN A TRADING PROGRAM INTERACT WITH ONE ANOTHER, OR HOW A TRADING STRATEGY MAY BE ADJUSTED OVER TIME IN RESPONSE TO PERFORMANCE AND RISK METRICS ON A PER-INVESTMENT OR MACRO LEVEL.

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INDEX
It is not possible to invest directly in an unmanaged index.

INVESTMENT STRATEGY
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 long-term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

Appendix

MODEL

Private Corporate Lending Model: Model risk factor exposures are estimated using holdings data in PIMCO systems which align with the corporate lending sector. Leverage assumptions are based on existing PIMCO accounts. We then add adjustments for illiquidity premia and idiosyncratic risk based on the historical distribution of alpha (relative to the PME benchmark for private credit) in the Preqin category;
Private Specialty Finance Model: Model risk factor exposures are estimated using holdings data in PIMCO systems which align with the specialty finance sector. Leverage assumptions are based on existing PIMCO accounts. We then add adjustments for illiquidity premia and idiosyncratic risk based on the historical distribution of alpha (relative to the PME benchmark for private credit) in the Preqin category.

OUTLOOK

Statements concerning financial market trends 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.

RETURN ASSUMPTION

Return assumptions are for illustrative purposes only and are not a prediction or a projection of return. Return assumption is an estimate of what investments may earn on average over a long-term period. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods.

RISK

Investments in **residential/commercial mortgage loans** and **commercial real estate debt** are subject to risks that include prepayment, delinquency, foreclosure, risks of loss, servicing risks and adverse regulatory developments, which risks may be heightened in the case of non-performing loans. Investments in **mortgage and asset-backed securities** are highly complex instruments that may be sensitive to changes in interest rates and subject to early repayment risk. **Structured products** such as collateralized debt obligations are also highly complex instruments, typically involving a high degree of risk; use of these instruments may involve derivative instruments that could lose more than the principal amount invested. **Private credit** involves an investment in non-publically traded securities which are subject to illiquidity risk. Portfolios that invest in private credit may be leveraged and may engage in speculative investment practices that increase the risk of investment loss. Investments in Private Credit may also be subject to **real estate-related risks**, which include new regulatory or legislative developments, the attractiveness and location of properties, the financial condition of tenants, potential liability under environmental and other laws, as well as natural disasters and other factors beyond a manager's control. **Equity** investments may decline in value due to both real and perceived general market, economic and industry conditions, while debt investments are subject to credit, interest rate and other risks. Investing in **banks and related entities** is a highly complex field subject to extensive regulation, and investments in such entities or other operating companies may give rise to control person liability and other risks.

Investing in the **bond market** is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk. **Bank loans** are often less liquid than other types of debt instruments and general market and financial conditions may affect the prepayment of bank loans, as such the prepayments cannot be predicted with accuracy. There is no assurance that the liquidation of any collateral from a secured bank loan would satisfy the borrower's obligation, or that such collateral could be liquidated. **Collateralized Loan Obligations** (CLOs) may involve a high degree of risk and are intended for sale to qualified investors only. Investors may lose some or all of the investment and there may be periods where no cash flow distributions are received. CLOs are exposed to risks such as credit, default, liquidity, management, volatility, interest rate, and credit risk. **Commodities** contain heightened risk including market, political, regulatory, and natural conditions, and may not be appropriate for all investors. Investing in distressed loans and bankrupt companies are speculative and the repayment of default obligations contains significant uncertainties. Investing in **foreign denominated** and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets **High-yield, lower-rated, securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Sovereign securities** are generally backed by the issuing government, obligations of U.S. Government agencies and authorities are supported by varying degrees but are generally not backed by the full faith of the U.S. Government; portfolios that invest in such securities are not guaranteed and will fluctuate in value. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. The current regulatory climate is uncertain and rapidly evolving, and future developments could adversely affect a Fund and/or its investments. In addition, there can be no assurance that PIMCO's strategies with respect to any investment will be capable of implementation or, if implemented, will be successful.

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STRATEGY AVAILABILITY

Strategy availability may be limited to certain investment vehicles; not all investment vehicles may be available to all investors. Please contact your PIMCO representative for more information.

Appendix

VOLATILITY (ESTIMATED)
We employed a block bootstrap methodology to calculate volatilities. We start by computing historical factor returns that underlie each asset class proxy from January 1997 through the present date. We then draw a set of 12 monthly returns within the dataset to come up with an annual return number. This process is repeated 25,000 times to have a return series with 25,000 annualized returns. The standard deviation of these annual returns is used to model the volatility for each factor. We then use the same return series for each factor to compute covariance between factors. Finally, volatility of each asset class proxy is calculated as the sum of variances and covariance of factors that underlie that particular proxy. For each asset class, index, or strategy proxy, we will look at either a point in time estimate or historical average of factor exposures in order to determine the total volatility. Please contact your PIMCO representative for more details on how specific proxy factor exposures are estimated.

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Appendix

IMPORTANT INFORMATION FOR U.S. INVESTORS

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