An Introduction to PIMCO’s Diversified Income Strategy

Nebraska Investment Council

December 2021

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Biographical information

Michael Chandra, CFA, CAIA
Mr. Chandra is an executive vice president, head of the U.S. public client practice and account manager in the Newport Beach office, focusing on institutional client service. Prior to joining PIMCO in 2008, he was an equity research analyst for Robert W. Baird & Company covering the diversified industrial and heavy machinery sectors. He has 17 years of investment experience and holds an MBA from the University of Chicago Graduate School of Business as well as an undergraduate degree from Washington University in St. Louis.

Brian Leach, CFA
Mr. Leach is an executive vice president in the Newport Beach office. He is a credit strategist and serves as head of PIMCO’s Americas credit product strategy team. Prior to joining PIMCO in 2013, he worked at Northern Lights Capital Group, a private equity firm focused on the money management industry. Previously he worked at BlackRock, where he evaluated and managed portfolios of private investment funds. He has 12 years of investment experience and holds an MBA in analytic finance and economics from the University of Chicago Booth School of Business and an undergraduate degree from Princeton University.

Sonali Pier
Ms. Pier is a managing director and portfolio manager in the Newport Beach office, focusing on high yield and multi-sector credit opportunities. She is a member of the diversified income, high yield, and crossover teams, and she has served as a rotating member on the firm’s Investment Committee and Americas portfolio committee. Morningstar named her winner of the 2021 U.S. Morningstar Award for Investing Excellence in the Rising Talent category. Prior to joining PIMCO in 2013, she was a senior credit trader at J.P. Morgan, trading cash, recovery, and credit default swaps across various sectors. She has 18 years of investment experience and holds an undergraduate degree in economics from Princeton University.
Why PIMCO in Multi-Sector Credit?

Strong track record of risk-adjusted returns and breadth of resources across the credit platform

**Key Differentiating Factors**

1. **Broad Resources and Integrated Investment Team**
2. **Seasoned Portfolio Management Team with Experience Navigating Cycles**
3. **Deep Experience in Flexible Credit / Fixed Income Strategies**
4. **Robust Analytics and Credit Research Resources**
5. **Presence Across Risk Spectrum**

**Implications for Client Experience**

- Cohesive approach encourages collaboration and risk factor diversification, while avoiding drawbacks of “sleeved” sector allocations
- Lead PMs have average tenure of 15+ years at PIMCO
- Strong track record of risk-adjusted returns across Investment Grade, High Yield and Emerging Markets
- PIMCO’s team includes 80+ credit research analysts and 60+ analytics analysts covering all aspects of the credit spectrum
- Bolsters asset selection process to identify risk/reward across capital structures and resilient risk profiles

As of 30 September 2021. SOURCE: PIMCO
Refer to Appendix for additional investment strategy and risk information.
Deep presence across the capital and liquidity spectrum

- 270+ portfolio management resources, including 130+ portfolio managers/analysts dedicated to credit
- Nearly $600bn AUM credit platform structured to benefit from scale
- Globally integrated credit research covering the full credit quality spectrum, including distressed
- Size helps us to drive value across new issues, reverse inquiry and through restructurings
- Risk and analytics frameworks are utilized across the liquidity spectrum

An integrated credit platform that spans the liquidity spectrum across key credit verticals

As of 30 September 2021
Source: PIMCO
AUM includes $542bn dedicated public credit assets and $37.9bn dedicated alternative credit assets. Alternative Credit AUM may include both reported and previous quarter data due to data availability limitations.
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, modelling and managing such investments (which may evolve over time).
Refer to Appendix for additional investment strategy and risk information.
Multi-Sector Credit investment team

Large and experienced team across portfolio management, corporate research, portfolio analytics and risk management

GLOBAL INVESTMENT COMMITTEE | REGIONAL INVESTMENT COMMITTEES | GLOBAL ADVISORY BOARD

PORTFOLIO MANAGEMENT TEAM

Dan J. Ivascyn
Group CIO, Managing Director
Co-lead Portfolio Manager
29 yr investment experience

Alfred T. Murata, J.D., Ph.D.
Managing Director
Co-lead Portfolio Manager
21 yr investment experience

Eve Tournier
Managing Director
Co-lead Portfolio Manager
23 yr investment experience

Sonali Pier
Managing Director
Lead Portfolio Manager
18 yr investment experience
Winner of Morningstar's 2021 U.S. Award for Investing Excellence in the Rising Talent Category

Global public corporate credit | Credit research analysis | Distressed & private credit | Emerging markets | Securitized/Asset backed | Municipals
---|---|---|---|---|---
38 PMs/Traders | 80+ analysts | 15 PMs | 26 PMs | 60 PMs | 13 PMs
19yrs average experience | 15yrs average experience | 15yrs average experience | 17yrs average experience | 18yrs average experience | 11yrs average experience

Rates | Cash management | Global economists | Portfolio analytics | Risk management
---|---|---|---|---
23 PMs | 14 PMs/Traders | 4 economists | 62 analysts | 14 risk managers
15yrs average experience | 19yrs average experience | 16yrs average experience | 18yrs average experience | 15yrs average experience

As of 30 September 2021. Source: PIMCO
Morningstar U.S. Awards for Investing Excellence 2021, Rising Talent Award presented to Sonali Pier as an up-and-coming manager in Morningstar's coverage universe. ©2021 Morningstar, Inc.
Refer to Appendix for additional awards and information.
Integrated approach to portfolio management

Credit Research Analysts
- Establish fundamental view on individual credits and provide independent rating
- Proactively evaluate credit issuers on a forward looking basis
- Stress test balance sheets and income statements

Credit Analytics
- Collaborate with PMs on portfolio construction
- Provide quantitative analysis across term structure, currencies, and instrument types

Lead Portfolio Managers
Responsible for:
- Overall portfolio risk and performance
- Sector allocations and individual security selection
- All buys, sells and position sizes

Specialty Desks
- Express investment view in most efficient and attractive manner
- Highlight attractive opportunities within their respective industries
- Maintain broker relationships to ensure best execution

Risk Management
- Continuously monitor portfolios to confirm risk exposures are consistent with intended profile
- Stress test portfolio for different scenarios to seek adequate parameters

For illustrative purposes only
SOURCE: PIMCO
Refer to Appendix for additional investment strategy information
Diversified Income Composite Performance

History of strong performance across multiple cycles

Performance as of 30 September 2021. YTD as of 31 October 2021. Past performance is not a guarantee or a reliable indicator of future results. Periods longer than one year are annualized.

Source: PIMCO

Benchmark: Equally weighted blend of the following three indices: Bloomberg Global Aggregate Credit Ex EM Index (USD hedged), BofA Merrill Lynch High Yield BB-B Rated Constrained Developed Market Only Index (USD hedged), JPMorgan EMBI Global.

Refer to Appendix for additional performance and fee, composite, index, and risk information.
PIMCO’s time-tested approach to multi-sector credit investing has produced attractive risk-adjusted returns

As of 31 October 2021. Past performance is not a guarantee or a reliable indicator of future results

2 Volatility is calculated using the standard deviation of monthly returns.

Source: ABS is represented by the Bloomberg Global Aggregate Asset Backed Index, CMBS is represented by the Bloomberg Global Aggregate CMBS Index, Bank Loans are represented by the CSFB Leveraged Loan Index, Investment Grade is represented by the Bloomberg Global Aggregate Credit Index, High Yield is represented by the BofA Merrill Lynch BB-B Rated Developed Markets High Yield Index, EM Sovereigns are represented by the JPMorgan EMBIG Diversified Composite, and EM Corporates are represented by the JPMorgan CEMBI Broad Composite

Refer to Appendix for additional performance and fee, composite, chart, index and risk information
Historical sector positioning

Flexibility to adjust based on PIMCO views, opportunities and market environment

As of 31 October 2021. SOURCE: PIMCO.

Excl. liabilities, unsettled trades with prorated percentage based on the portfolio allocations to: EM, corp, HY, Munis, Treasuries, Tips, Mtgs etc.

The above information is based on a representative account. An investor should refer to the GIPS Composite Report for the PIMCO Diversified Income Composite included in the Appendix.

Refer to Appendix for additional portfolio structure, representative account and risk information.

As of 31 October 2021. SOURCE: PIMCO.
PIMCO Diversified Income Representative Account

**Portfolio positioning**

As of 31 October 2021. SOURCE: PIMCO.

*Others includes covered bonds, international, supranational, agencies/swaps, government guaranteed, cash equivalents, converts/EOY/PFD, currency forwards, USD treasuries, and ARMs.

**Yield to Worst (YTW) is the estimated lowest potential yield that can be received on a bond without the issuer actually defaulting. The YTW is calculated by making worst-case scenario assumptions by calculating the returns that would be received if provisions, including prepayment, call, or sinking fund, are used by the bond’s issuer. PIMCO calculates a portfolio’s Estimated YTW by averaging the YTW of each security held in the portfolio on a market-weighted basis. PIMCO pulls each security's YTW from PIMCO's Portfolio Analytics database. In general, the calculation will incorporate the yield based on the notional value of all derivative instruments held by a portfolio. The measure does not reflect the deduction of fees and expenses and is not necessarily indicative of the portfolio’s worst possible performance.

The positioning and attribution is based on a representative account. An investor should refer to the GIPS Composite Report for the PIMCO Diversified Income Composite included in the Appendix.

As of 31 October 2021. SOURCE: PIMCO.

**Past performance is not a guarantee or a reliable indicator of future results.**

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**Allocations by Region (% market value)**

- U.S. 57%
- Eurozone 10%
- EM 19%
- Europe non-EMU 2%
- U.K. 5%
- Other 7%

**Allocations by Sector (% market value)**

- Investment Grade Credit 23%
- High Yield 28%
- EM Sovereigns 17%
- EM non-Sovereign 9%
- Securitized 7%
- Govts/Cash Equivalents 12%
- Bank Loans 4%

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**Estimated Yield to Worst (bps)**

- IG
- EM
- HY
- Non-Agency MBS
- ABS/CMBS
- Agency MBS
- Munis
- Treasuries and Others*
# Current Investment Themes

## Risk Posture

<table>
<thead>
<tr>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Strong cyclical rebound</td>
</tr>
<tr>
<td>✓ Spreads’ retracement</td>
</tr>
<tr>
<td>✓ Inflation concerns</td>
</tr>
</tbody>
</table>

## Positioning: A balance between Caution and High Conviction

### What we like

- **Financials**
  - Strong balance sheet fundamentals
  - Up-in-quality high yield
    - Cash generative non-cyclical industries, e.g. cable/media
    - Rising star opportunities amid positive rating momentum
  - COVID impacted issuers, selectively
    - COVID-impacted sectors where we see strong balance sheet resilience
- **Asia Credit**
  - Attractive valuations post idiosyncratic volatility
- **Non-Agency mortgages**
  - Diversification and downside resilience

### What we don’t like

- **Vulnerable high yield**
  - Commodity-related sectors
  - Cyclicals and highly-levered companies
- **Highly indebted, illiquid and tourism-dependent EM sovereigns**
  - Weaker Emerging Market sovereigns, particularly those lagging behind on vaccinations
  - Tight trading investment grade with limited upside

### What we’re watching

- **Macro & markets:**
  - Evolution of COVID infection curves
  - Central banks’ posture
  - Inflation signals
  - Speed of lockdown measures being lifted and potential for further reintroductions
  - Valuations

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**What’s happening and outlook**

- Strong global recovery in 2021 amid peak fiscal and monetary support, fewer restrictions, and accelerating vaccinations
- Asset prices have rebounded quickly since the COVID drawdown, with valuations close to fair across most sectors. That said bottom-up and relative value opportunities remain
- Markets remain focused on inflation risks, energy prices and supply bottlenecks, leading to potential volatility
- In this uncertain environment, we seek to maintain portfolio flexibility and liquidity to be able to respond to events as they unfold

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As of September 2021. Source: PIMCO.
Why PIMCO in Multi-Sector Credit for Nebraska Investment Council?

• Longstanding partnership and ability to **deliver full value of PIMCO’s resources** to NIC, including analytical tools, macroeconomic and market insights, and access to senior leadership.

• PIMCO can provide **combined risk reporting across portfolios**, including **integrated analyses and monitoring overlap** between the existing Core Plus portfolio and this multi-sector credit portfolio.

• PIMCO can offer **full customization** of the multi-sector portfolio at the outset of the mandate, and **revisit and redesign over time** based on evolving tactical or strategic views.

• Given NIC’s significant existing relationship, PIMCO is pleased to offer both a **relationship discount** for the multi-sector credit portfolio as well as a more **advantageous size-based fee schedule**.

As of 31 October 2021. Source: PIMCO.
Refer to Appendix for additional investment strategy and risk information.
Appendix
Diversified Income (DI) has shown its resiliency in periods of market stress

As of 30 September 2021

Past performance is not a guarantee or a reliable indicator of future results
Performance shown is total returns for the Diversified Income composite net of fees.
Source: PIMCO, High Yield represented by the ICE BofAML BB-B Developed Market HY Index, Equities represented by the S&P 500, and Bank Loans represented by the JPM BB/B Leveraged Loan Index, Emerging Markets represented by JPM EMBIG Index
Refer to Appendix for additional performance and fee, chart, composite, index and risk information.
Multi-Sector Credit investment process

Designed to integrate PIMCO’s macroeconomic views with best bottom up ideas

**TOP-DOWN**

- Macroeconomic Themes
  - Secular Forum
  - Cyclical Forum
  - Investment Committee

**BOTTOM-UP**

- Multi-Sector Credit PM Team
  - Sector and regional specialty desks

**Portfolio construction**
- Model portfolio consistency
- Portfolio guidelines
- Valuations
- Instrument selection
- Credit selection
- Risk controls
- Liquidity

For illustrative purposes only. Refer to Appendix for additional investment strategy and risk information.
Global credit research team

Analysts cover the full credit quality spectrum to provide fundamental views

- Analysts cover issuers across the rating spectrum and capital structure
- Independently rate ~4,000 corporate issuers and ~1/3rd of internal ratings differ from agencies
- 80+ credit research analysts, including 14 distressed analysts
- 40+ industries covered, 14 years average investment experience

Christian Stracke
Head of Global Credit Research

John Devir
Head of Americas Credit Research (52 analysts)

Philippe Bodereau
Head of European Credit Research (16 analysts)

Annisa Lee
Head of Asia Credit Research (8 analysts)

Credit Analysts by Geography

Credit Analysts by Coverage Area

As of 30 September 2021
Source: PIMCO
Solutions orientation/Customizability:

Multi-sector credit strategies can be customized to help take advantage of opportunities wherever and whenever they occur.

Multi-sector credit strategies can be customized to achieve desired investment objectives according to:

- Return / volatility optimization
- Defined opportunity set
- ESG factors
- Ratings constraints
- Geographic preferences
- Duration targets
- Derivatives usage
- Liquidity needs
- Other customized factors

Recent customized mandates

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESG</td>
<td>60% IG ESG, 20% HY ESG, 20% EM ESG</td>
</tr>
<tr>
<td>Agency MBS:</td>
<td>25% IG, 25% HY, 25% EM, 25% MBS</td>
</tr>
<tr>
<td>Crossover</td>
<td>50% IG, 50% HY</td>
</tr>
<tr>
<td>EM Local:</td>
<td>50% HY, 25% EM, 25% EM Local</td>
</tr>
<tr>
<td>Core bonds:</td>
<td>50% IG, 10% EM, 25% U.S. Govt, 15% Non-U.S. Govt</td>
</tr>
<tr>
<td>High Quality:</td>
<td>70% IG 1-5 yr, 10% HY BB, 20% EM BB- and above</td>
</tr>
<tr>
<td>Bank Loans:</td>
<td>1/3 HY, 1/3 EM, 1/3 Bank Loans</td>
</tr>
<tr>
<td>Low Duration:</td>
<td>10% IG 1-5yr, 35% HY 1-5yr, 15% CMBS, 35% EM 1-5yr, 5% CLO</td>
</tr>
</tbody>
</table>

PIMCO has a long track record of partnering with clients to help them achieve their objectives.

- $34bn in Multi-sector Credit AUM
- Managed to roughly 30 different benchmarks

SOURCE: PIMCO
For illustrative purposes only
30 September 2021
Refer to Appendix for investment strategy, portfolio structure, strategy availability and risk information
PERFORMANCE AND FEES

Past performance is not a guarantee or a reliable indicator of future results. Gross returns do not reflect the deduction of investment advisory fees (for Pacific Investment Management Company LLC described in Part 2 of its Form ADV) in the case of both separate investment accounts and mutual funds; but they do reflect commissions, other expenses (except custody), and reinvestment of earnings. Such fees that a client may incur in the management of their investment advisory account may reduce the client's return. For example, over a five-year period, annual advisory fees of 0.425% would reduce compounding at 10% annually from 61.05% before fees to 57.96% after fees. The “net of fees” performance figures reflect reinvestment of earnings and dividends and the deduction of investment advisory fees and brokerage commissions but, typically, do not reflect the deduction of custodial fees. All periods longer than one year are annualized. Separate account clients may elect to include PIMCO sector funds in their portfolio; sector funds may be subject to additional terms and fees. For a copy of net of fees performance, unless included otherwise, please contact your PIMCO representative.

CHART

Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results.

COMPOSITE

Composite performance is preliminary until the 12th business day of the month.

ESG

PIMCO is committed to the integration of Environmental, Social and Governance (“ESG”) factors into our broad research process and engaging with issuers on sustainability factors and our climate change investment analysis. At PIMCO, we define ESG integration as the consistent consideration of material ESG factors into our investment research process, which may include, but are not limited to, climate change risks, diversity, inclusion and social equality, regulatory risks, human capital management, and others. Further information is available in PIMCO’s Environmental, Social and Governance (ESG) Investment Policy Statement.

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 for a 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.

MORNINGSTAR AWARD

Morningstar Rising Talent Award, 2021. Morningstar presents the Rising Talent Award to an up-and-coming manager in Morningstar’s coverage universe. The manager must have less than seven years’ tenure managing portfolios and yet has delivered exceptional results to investors over that span of time. Morningstar’s manager research analysts conduct in-depth qualitative analyses in order to select nominees and, subsequently, vote to determine the award winner. To qualify for the award, the manager’s strategy must earn a Morningstar Analyst Rating of Gold, Silver or Bronze, for at least one vehicle and/or share class, or be featured in Morningstar Prospects, a publication highlighting investments that Morningstar analysts are following closely but have not yet received full coverage.

OUTLOOK

Statements concerning financial market trends are based on current market conditions, or are appropriate for all investors which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions, 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.

PORTFOLIO STRUCTURE

Portfolio structure is subject to change without notice and may not be representative of current or future allocations.

REPRESENTATIVE ACCOUNT

The accounts were chosen because they are considered to be the largest and most representative examples of the underlying strategies. No guarantee is being made that the structure or actual account holdings of any account will be the same or that similar returns will be achieved. PIMCO may or may not own the securities referenced and, if such securities are owned, no representation is being made that such securities will continue to be held.
Appendix

RISK
Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. 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. 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. 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. Mortgage and asset-backed securities may be sensitive to changes in interest rates, subject to early repayment risk, and while generally backed by a government, government-agency or private guarantor there is no assurance that the guarantor will meet its obligations. 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. Diversification does not ensure against loss. Investors should consult their investment professional prior to making an investment decision.

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INDEX DESCRIPTIONS

The Bloomberg Barclays Global Aggregate Credit Component ex Emerging Markets (USD Hedged) provides a broad-based measure of the global developed markets investment-grade fixed income markets. The BofA Merrill Lynch Global High Yield, BB-B Rated Constrained Developed Markets Index (USD Hedged) tracks the performance of below investment grade bonds of corporate issuers domiciled in developed market countries rated BB1 through B3, based on an average of Moody’s, S&P and Fitch. Qualifying bonds are capitalization-weighted provided the total allocation to an individual issuer (defined by Bloomberg ticker) does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face value of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. The index is rebalanced on the last calendar day of the month. The JPMorgan EMBI Global (USD Hedged) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities, Brady bonds, loans, Eurobonds and local market instruments.

The Bloomberg Barclays Global Aggregate Credit Index is the credit component of the Bloomberg Barclays Aggregate Index. The Bloomberg Barclays Aggregate Index is a subset of the Global Aggregate Index, and contains investment grade credit securities from the U.S. Aggregate, Pan-European Aggregate, Asian-Pacific Aggregate, euro-dollar, 144A and euro-Yen indices. The Bloomberg Barclays Global Aggregate Index covers the most liquid portion of the global investment grade fixed-rate bond-market, including government, credit and collateralized securities. The credit component for all securities in the index is $300 million. The index is denominated in U.S. dollars.

The Bloomberg Barclays Global Aggregate Securitized CMBS Index is the CMBS component of the Bloomberg Barclays Global Aggregate Index.

The Bloomberg Barclays Global Aggregate Securitized ABS Index is the ABS component of the Bloomberg Barclays Global Aggregate Index.

Bloomberg Barclays Global Credit Hedged USD contains investment grade and high yield credit securities from the Multiverse represented in U.S. dollars on a hedged basis, (Multiverse is the merger of two groups: the Global Aggregate and the Global High Yield).

The Credit Suisse Leveraged Loan Index is a monthly rebalanced index, with an inception date of 31 December 1991. It is designed to mirror the investable universe of the USD-denominated leveraged loan market. This index includes loan facilities rated “B” or lower, i.e. the highest Moody’s/S&P ratings are Baa1/BB+ or Ba1/BBB+, with the tenor being at least one year. Issuers from developed countries are included; issuers from developing countries are excluded. This index is composed of all fully funded term loan facilities trading in the syndicated loan market, the price of each loan facility is sourced from a pricing vendor widely used by buy-side participants in the leveraged loan markets. All prices are evaluated by the pricing vendor, meaning that they are compiled by the pricing vendor from dealers.

The JP Morgan Emerging Market Corporate Bond Index is a market capitalization weighted index consisting of USD-denominated emerging market corporate bonds.

The BofA Merrill Lynch Global High Yield BB-B Rated 2% Constrained Index tracks the performance of below investment grade bonds of below investment grade bonds of corporate issuers domiciled in countries having an investment grade foreign currency long term debt rating (based on a composite of Moody’s, S&P, and Fitch). The index includes bonds denominated in US dollars, Canadian dollars, sterling, euro (or euro legacy currency), but excludes all multicurrency denominated bonds. Bonds must be rated below investment grade but at least B3 based on a composite of Moody’s, S&P, and Fitch. Qualifying bonds are capitalization-weighted provided the total allocation to an individual issuer (defined by Bloomberg ticker) does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face value of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. The index is re-balanced on the last calendar day of the month. The inception date of the index is 31 December 31 1997.
Appendix

The JPMorgan Emerging Markets Bond Index Global is an unmanaged index which tracks the total return of U.S.-dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady Bonds, loans, Eurobonds, and local market instruments.

The Bloomberg Barclays US CMBS Investment Grade Index measures the market of US Agency and

It is not possible to invest directly in an unmanaged index.
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The PIMCO Diversified Income Composite includes all discretionary, USD-based Diversified Income portfolios with a 100% USD hedged benchmark and a neutral sector allocation of 1/3 Global Investment Grade Credit, 1/3 Global High Yield, 1/3 Emerging Markets. PIMCO's Diversified Income portfolios employ 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. Futures, options, and swaps may be used to gain, hedge or restructure exposure to interest rates, volatility, spreads, foreign markets or currencies within the parameters allowed by individual portfolio guidelines.

Risks of this strategy include, but are not limited to, interest rate, duration, currency, credit, economic and political, and derivative instruments risk. Investing in derivatives could result in losses that exceed the amount invested. Investing in high-yield, lower-rated, securities will generally involve greater risk than higher-rated securities, including greater levels of credit, call, and liquidity risk. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political changes, which may be enhanced when investing in emerging markets.

For comparison purposes, the composite is measured against an equally weighted blend, rebalanced monthly, of the following three indices: JPMorgan Emerging Markets Bond Index (EMBI) Global, ICE BofAML BB-B Rated Developed Markets High Yield Constrained Index and Bloomberg Barclays Global Aggregate Credit ex-Emerging Markets Index (all USD Hedged). The JPMorgan EMBI Global is an unmanaged index which tracks the total return of U.S.-dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. The ICE BofAML BB-B Rated Developed Markets High Yield Constrained Index contains all securities in the ICE BofAML Global High Yield Index from developed markets countries, but caps issuer exposure at 2%. The Bloomberg Barclays Global Aggregate Credit ex-Emerging Markets Index provides a broad-based measure of the global investment-grade fixed income markets, excluding emerging markets securities. The benchmark presented prior to December 2015 was an equally weighted blend, rebalanced monthly, of the three following indices: Bloomberg Barclays Global Aggregate Credit, ICE BofAML Global High Yield BB-B Rated Constrained, and JPMorgan EMBI Global (all USD Hedged).

Valuations are computed and performance is reported in U.S. dollars. Returns are presented gross and net of management fees and include the reinvestment of all income. Net returns reflect the deduction of actual management fees and, in some instances, custodial and administrative fees. Actual fees incurred by client accounts may vary. When applicable, composite performance is net of any actual withholding tax paid and not reclaimable. Index returns are gross of withholding tax.

Composite dispersion presented is the equal-weighted standard deviation of annual returns for all portfolios in the composite for the full year. Dispersion is not statistically meaningful for periods shorter than a year or for years in which five or fewer portfolios were included for the full year. The three-year annualized ex-post standard deviation measures the variability of the composite returns and the benchmark returns over the preceding 36-month period. A complete list of composite descriptions, list of pooled fund descriptions for limited distribution pooled funds, and list of broad distribution pooled funds are available upon request, as well as policies for valuing investments, calculating performance, and preparing GIPS Reports.

This strategy has historically made use of derivatives as substitutes for physical securities. Derivatives may be a more attractive substitute for the underlying physical securities in terms of price, liquidity, or other factors. Derivatives are used as a liquid means of adjusting duration and targeting specific areas of yield curve exposure, with potentially lower transaction costs compared to physical securities.

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