PIMCO

Global Investors Series plc.

*October 2019*

# Market and Performance Review

October ended on a jubilant note as the Brexit deadline was extended and there was a truce of sorts on the trade war – central bank support also continued to play a key role in fueling optimism. Core government yields rose, particularly in Europe, and risk assets were mostly in the black.

In the UK, a hard Brexit was avoided and the deadline was extended until January 31st 2020. The MPs subsequently voted in favour of Johnson's fourth bid to hold a general election on December 12th.

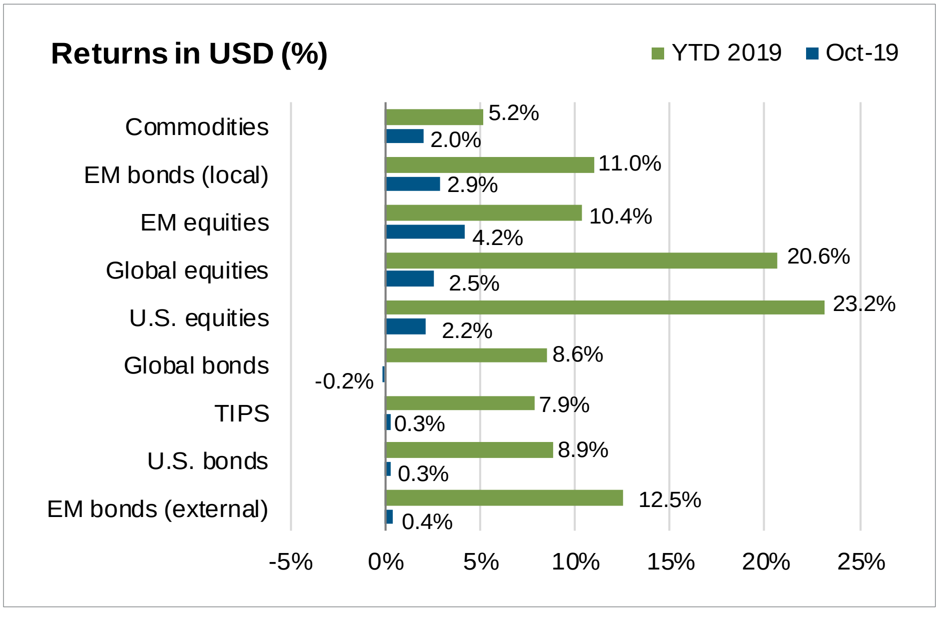
Turning to the trade war between China and the US, we saw a reprieve in further escalation with the agreement on "phase 1" of a trade truce, which would involve China buying $40-50 bn of agricultural goods from the US and avoid the scheduled hike in tariffs from 25% to 30% on $250 bn of goods.

The U.S. Federal Reserve cut rates for the third time this year by another 25 bps to 1.5 – 1.75%. The move was all but priced in by markets and speaks to muted inflation and continued central bank support. In Europe, Mr. Draghi left the policy rate unchanged in his last meeting as ECB President.

## MOST RISK ASSETS ADVANCED IN OCTOBER

In general, October was a positive month for markets as there was some progress on U.S.-China trade negotiations, the Brexit deadline was extended and central banks actions were again supportive. Investors sought equities, commodities, and emerging market bonds denominated in local currency. In contrast, returns in bond markets were slightly positive forthe month.

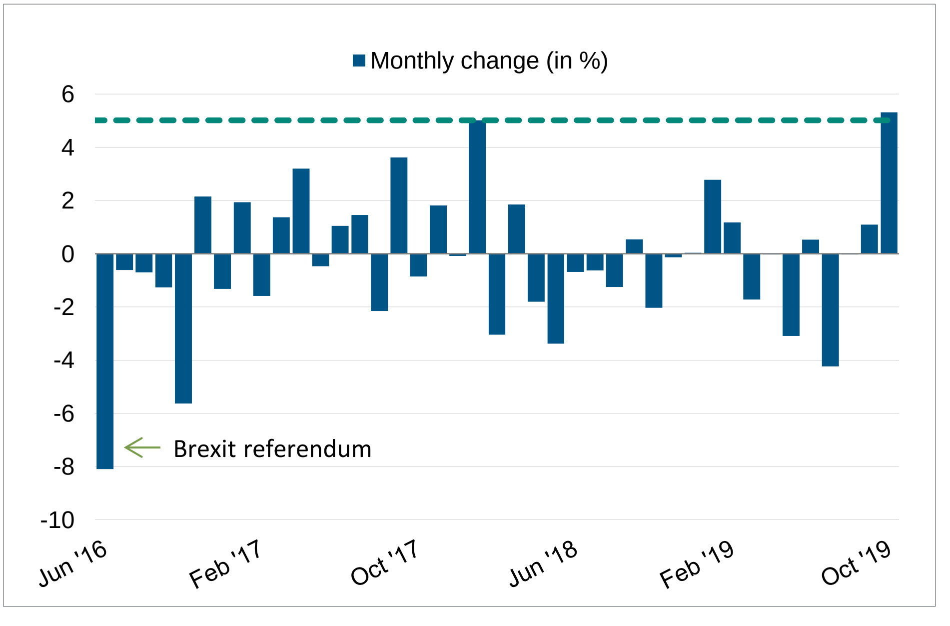
**Safe haven assets barely moved while risk assets gained**




Source: Bloomberg, PIMCO as of 31 October 2019. EM equities represented by MSCI EM Index; Global Equities represented by MSCI World Index; US equities represented by S&P 500; EM bonds (local) represented by JPM GBI-EM Global Div Unhedged; EM bonds (external) represented by JPM EMBI Global; US bonds represented by Bloomberg Barclays U.S. Aggregate Index; TIPS represented by Bloomberg Barclays US TIPS Index; Global bonds represented by Bloomberg Barclays Global Aggregate USD Hedged; Commodities represented by Bloomberg Commodity TR Index. Returns in USD (%).

The British pound rallied (+5.3%) during the month as a hard Brexit on October 31st was avoided. This marked the largest monthly gain since the Brexit referendum. The EU approved an extension until January 31st 2020 but the EU will allow the UK to leave the bloc earlier if the government can ratify its withdrawal agreement before the deadline.

**British pound benefited from Brexit extension**

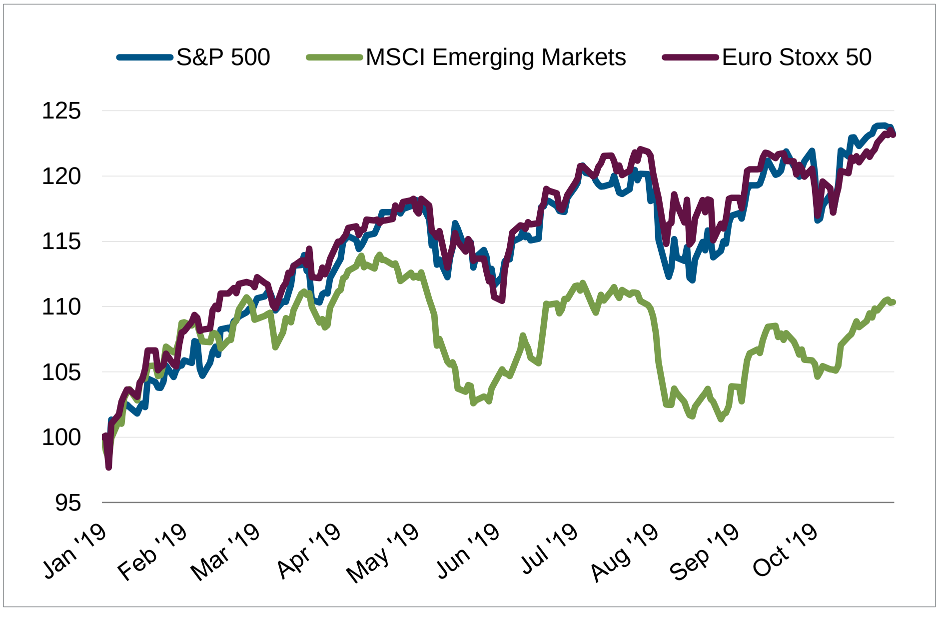



Source: Bloomberg as of 31 October 2019

## EQUITIES MOVED HIGHER AND BOND YIELDS INCREASED IN OCTOBER

**Global equity markets ended the month higher…**

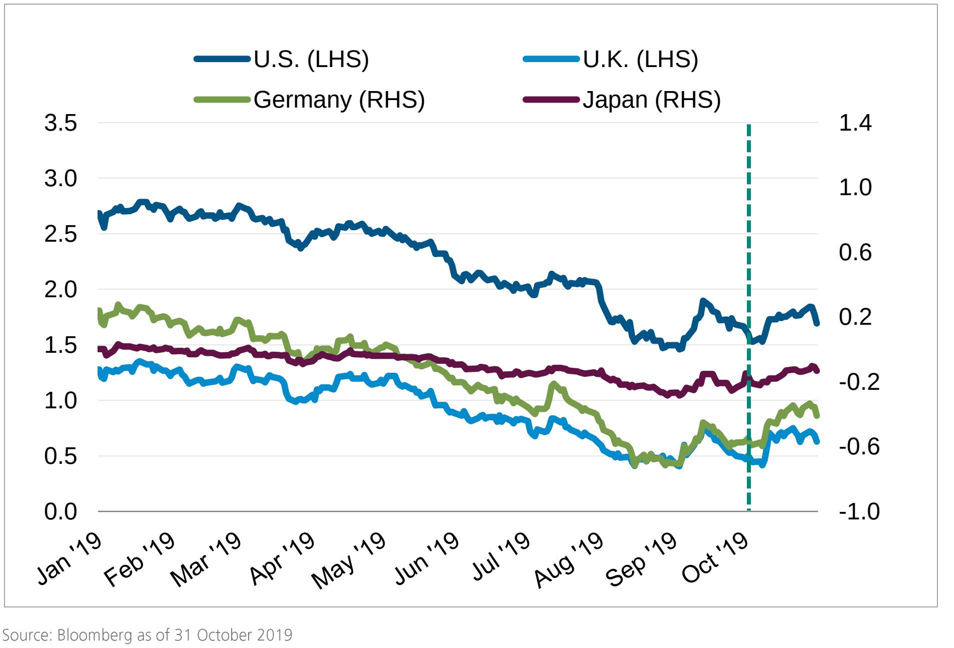
European, emerging markets, and U.S. equities overcame a short period of weakness in the beginning of the month and closed higher. Gains in equity markets were driven by continued central bank support and by progress in the U.S.-China trade dispute. Despite the S&P 500 reaching a high towards month-end, emerging market equities lead the month with a return of +4.2% followed by European and U.S. equities.




Source: Bloomberg as of 31 October 2019

**…while 10-year yields on global sovereign bonds rose in October**

Core government bond yields rose in October further reversing the developments of an exceptionally strong summer. German bund yields rose by 16 bps to -0.41%. UK gilts also increased by 14 bps to 0.63% mainly driven by concerns about Brexit at the beginning of the month. The 10-year yield in the U.S. rose only slightly while the curve steepened during the month.



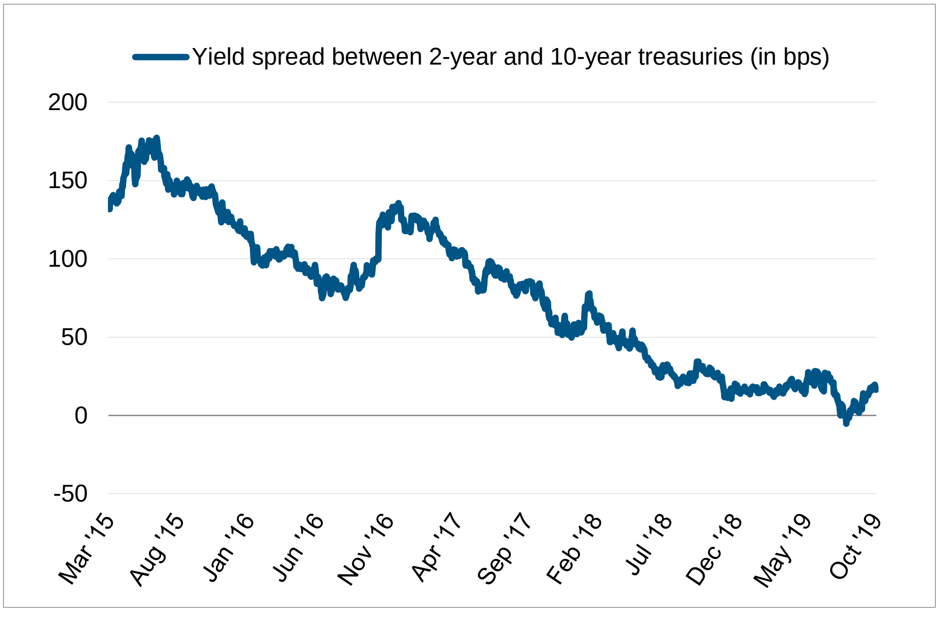

Source: Bloomberg as of 31 October 2019

## U.S. TREASURY YIELD SPREADS WIDENED AND PALLADIUM CONTINUED ITS RALLY

**U.S. yield curve steepened in October**

Spreads between 2-year notes and 10-year U.S. treasuries widened over the month. The spread reached 16 bps, moving away from the zero-threshold, which is often considered an indicator for a recession when undershot.

Reasons, among others, were the benevolent Fed monetary policy in terms of lowering interest rates and further deescalating steps in the U.S.-China trade war.

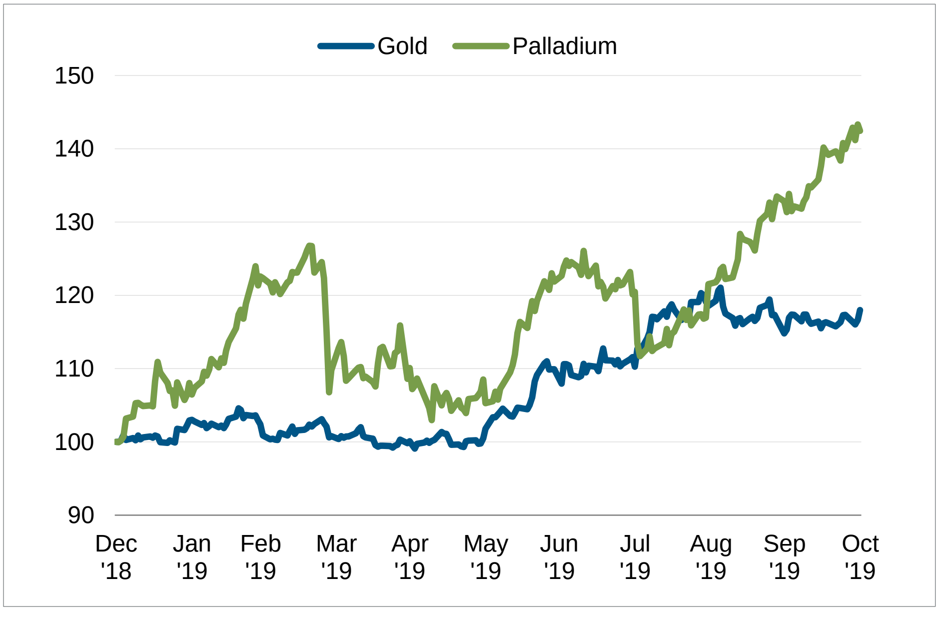



Source: Bloomberg as of 31 October 2019

**Palladium with a strong performance among metals**

As it has over the course of 2019, palladium continued its strong positive performance in October. During 2018, palladium was also considered one of the strongest performing commodities.

The metal, which is mainly used in catalytic convertors in petrol engines, overtook gold last year for the first time.




Source: Bloomberg as of 31 October 2019

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## PIMCO GIS DYNAMIC BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.66 | 3.39 | 3.23 | 3.37 | 2.34 | 2.65 | 2.96 |
| Benchmark | 0.17 | 1.99 | 2.39 | 1.72 | 1.15 | 0.69 | 0.66 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Dynamic Bond Fund, Institutional, Accumulation, USD. Fund incepted on: 15 December 2008.

Benchmark: 1 Month USD LIBOR Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Long exposure to US duration, primarily at the belly of the curve
- Long exposure to investment grade corporate credit
- Long exposure to non-Agency MBS

### DETRACTORS

- Short exposure to the euro
- Short exposure to the Australian dollar
- Short exposure to the Taiwanese and Singapore dollars

## POSITIONING AND OUTLOOK

- **Interest Rate Strategies** – We remain cautious on overall duration while maintaining long exposure to US duration and short duration positions in the UK and Europe. We continue to favor US duration given better relative valuations and its defensive value in case of a risk-off market scenario. We hold a short to UK rates as we do not expect a no-deal Brexit. We also maintained modest local rate exposure to Mexican rates and modest long exposure to Peruvian rates.
- **Treasury Inflation-Protected Securities (TIPS)** – We maintain our long in US breakeven inflation (+0.7 TIPS DWE) to take advantage of the strength of US labor markets and the U.S. economy's potential for higher inflation. We hold a short to UK breakeven inflation (-0.2 TIPS DWE) as we expect inflation to come back down to the 2% target over the course of the year.
- **Mortgages** – We are currently long non-Agency MBS as an attractive source of yield relative to other fixed income sectors. We expect demand for high quality spread assets to keep the sector fairly well supported and will continue to benefit from limited new supply and improved mortgage credit fundamentals from the sustained recovery in the U.S. housing market. We maintain long exposure to Agency MBS given the attractive yield pick-up versus Treasuries and more defensive positioning versus investment grade credit.
- **Corporate Bonds** – We continue to be cautious on traditional corporate credit risk, as we find credit valuations unattractive at current spread levels. We look to diversify the portfolio by investing in non-cyclical sectors that have the potential to generate an attractive yield. We remain long select IG credits with an emphasis on financials. We maintain selective exposure to high yield credit as we remain cautious on spread risk in other parts of the portfolio.
- **Emerging Markets** – We remain tactical with modest holdings in EM external and quasi-sovereign securities to boost portfolio diversification and provide higher yields with limited potential for long term financial loss.
- **Currency** – We are modestly long high-carry commodity currencies that are sufficiently priced for global trade risks (COP, PEN,ARS, BRL) and maintain our short to a basket of low-carry Asian currencies to hedge China/commodity risk (SGD, TWD). We are long USD versus a short DM currencies basket (AUD, CAD, JPY, EUR).

## PIMCO GIS GLOBAL LIBOR PLUS BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.71 | 4.15 | 4.15 | 2.77 | - | - | 3.28 |
| Benchmark | 0.17 | 1.99 | 2.39 | 1.72 | - | - | 1.47 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Global Libor Plus Fund, Institutional, Accumulation, USD. Fund incepted on: 29 January 2016.

Benchmark: 1 Month USD LIBOR Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Exposure to investment grade and high yield credit
- Long exposure to U.S duration
- Short exposure to Italian and U.K duration
- Holdings of securitized assets

### DETRACTORS

- Short exposure to the euro

## POSITIONING AND OUTLOOK

- **Positioning summary** – The Fund is maintaining a more cautious stance on both interest rate risk and credit risk given their generally tight valuations. The primary focus is on capital preservation and generating incremental return through yield and relative value opportunities.
- **Corporate Bonds** – We are cautious about the corporate sector and we focus on opportunities in specific credits that benefit from US growth and a resilient housing sector. We find attractive opportunities in UK bank capital given the high quality basis with a low rate of nonperforming loans and supportive central bank and government.
- **Mortgages** – We see value in securitized debt, including Agency MBS and select non-Agency MBS. Agency MBS are high quality assets providing a yield pick-up and with attractive valuations. We are also long non-Agency MBS as an attractive source of yield relative to other fixed income sectors and continue to benefit from limited new supply and improved mortgage credit fundamentals from the sustained recovery in the US housing market.
- **Interest Rate Strategies** – We hold portfolio duration towards the lower end of the structural range with a focus on US duration given better relative valuations and its defensive value in case of a risk-off market scenario. Our positioning is concentrated in intermediate maturities. We also hold a modest position in intermediate US TIPS given attractive valuations. Additionally, the fund maintains a short to European duration through Italy given the potential for medium term volatility due to political uncertainty and a short to UK duration given tight valuations.
- **Currency** – We hold a modest long exposure to a select basket of high-carry EM currencies and a short exposure to a basket of low-carry Asian currencies. We are long USD versus a short to a basket of developed market currencies. We recently initiated a long position to GBP.

## PIMCO GIS DYNAMIC MULTI-ASSET FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 1.32 | 6.30 | 3.24 | 2.73 | - | - | 3.82 |
| Benchmark | -0.04 | -0.32 | -0.38 | -0.37 | - | - | -0.37 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Dynamic Multi Asset Fund, Institutional, Accumulation, EUR. Fund incepted on: 25 February 2016.

Benchmark: 1 Month Euribor Rate Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Long U.S. equities exposure, in particular to Healthcare and Tech via a basket of stocks
- Long exposure to Japanese equities
- Long Chinese equity exposure, in particular to consumer discretionary companies via a basket of stocks

### DETRACTORS

- Short exposure to European equities in particular to Euro Insurers
- Long U.S., Canadian and Australian duration exposure

## POSITIONING AND OUTLOOK

Given the backdrop of the global economy entering a period of vulnerability and with valuations remaining on the rich side, the portfolio retains modest overall levels of risk along with a preference for higher quality assets. Uncertainty remains elevated and retaining liquidity and flexibility is a focus in order to be able to adjust up or down risk dependent on how the economy and underlying earnings evolve.

- **Equities** – Secularly, we expect the U.S. and China to dominate as their competition leads to innovation and active policy support. Tech, Healthcare and Biotech stocks are likely to benefit given these are at the core of the competition. We aim to build baskets of stocks most exposed to these themes and selected by systematic quality filters. Japanese equities also score highly on these metrics and offer attractive upside in the case of reaccelerating global growth. We retain hedges in the European equity market which ranks lower on the quality spectrum, in particular European insurers as low interest rates pressure the sector.

- **Credit** – Our exposure to corporate credit remains low given valuations. Furthermore, leverage has been creeping up and average credit quality and underwriting standards declining. We continue to favor non-agency mortgage-backed securities as they remain a relatively stable alternative to corporate credit.

- **Interest Rates** – Duration has been reduced but we retain meaningful exposure in markets most likely to rally in adverse environments such as the U.S., Canadian and Australian. We continue to be tactical in our exposure to European rates and are now long Italian BTPs and short German Bunds.

- **Currency** – We are using currency exposure as a highly liquid source of attractive carry. Exposure is focused on higher yielding emerging market currencies funded predominantly by the EUR.

## PIMCO GIS GLOBAL CORE ASSET ALLOCATION FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 1.52 | 11.43 | 8.87 | 6.89 | 4.54 | 4.44 | 5.75 |
| Benchmark | 1.57 | 15.18 | 12.16 | 8.50 | 6.00 | 7.16 | 8.67 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Global Core Asset Allocation Fund, Institutional, Accumulation, USD. Fund incepted on: 15 April 2009.

Benchmark: 60% MSCI All Country World Index/40% Bloomberg Barclays Global Aggregate USD Hedged. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Overweight securitized debt
- Overweight U.S. duration
- Underweight European duration

### DETRACTORS

- Underweight exposure to select non-USD developed currencies
- Underweight to investment grade credit spread
- Overweight Canadian duration

## POSITIONING AND OUTLOOK

- **Equities** – We expect volatility and slowing profit growth to continue to restrain investor appetite for equities in 2019. Therefore, we an emphasis on liquidity and high quality, defensive sectors. We favor large caps over small caps, U.S. equities over European equities, and have increased our weighting in high dividend yielding equities, which we believe should benefit from lower sovereign bond yields.
- **Credit** – Given our late-cycle view, we expect corporate credit will underperform over the coming year. Within corporate credit, we prefer shorter-dated bonds from high quality issuers, especially in defensive and noncyclical sectors, which is in keeping with our quality and liquidity theme. The high yield underweight reflects in particular the glut of low quality leveraged loan issuance. We continue to favor non-agency mortgage-backed securities (MBS) as they remain a relatively stable alternative to corporate credit. We are also selectively receiving rates in select EM external credits where valuations look compelling, and that we believe will benefit from global developed market central banks pivoting to a more dovish rate path.
- **Interest Rates** – We prefer high quality duration as we move toward the later part of the cycle, as we still believe that fixed income offers an attractive diversifier for risk in portfolios, particularly given the dovish pivot of global central banks. However, we are selective in our exposures. Recognizing the significant moves lower recently, we still find U.S. rates the most attractive in developed markets.
- **Currency** – We have a nuanced view on currencies, and expect more significant alpha opportunities to emerge outside of the major currencies. The dovish pivot by developed market central banks argues for an overweight to those EM currencies that are both attractively valued and higher yielding. We have paired this risk with an underweight to export-heavy Asian FX currencies that are closely linked to China.

Prior to 13 September 2019, the PIMCO GIS Global Core Asset Allocation Fund was named the PIMCO GIS Global Multi-Asset Fund.

## PIMCO GIS EURO BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | -0.95 | 7.65 | 8.14 | 3.35 | 3.45 | 5.43 | 4.72 |
| Benchmark | -0.91 | 7.48 | 8.50 | 2.48 | 2.91 | 4.19 | 4.49 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Euro Bond Fund, Institutional, Accumulation, EUR. Fund incepted on: 31 December 1998.

Benchmark: FTSE Euro Broad Investment-Grade Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Underweight French duration as yields rose
- Short exposure to the US dollar
- Exposure to Agency and Non-agency MBS

### DETRACTORS

- Overweight German duration as yields rose
- Underweight to investment-grade corporate credit
- Exposure to UK duration as yields rose

## POSITIONING AND OUTLOOK

- **Eurozone Duration** – We are focusing EUR duration exposure on the long end of the curve, where positive carry opportunities remain attractive, we maintain an underweight to the belly of the curve given negative carry in that space.

  We are underweight France as we feel French government bonds offer a poor risk/reward pay-off and favour instead overweight exposure to Spain given strengthening fundamentals and dovish ECB which should support fundamentals. We have tactically reduced our underweight to Italy and we are now market weight Italian duration given more market friendly new government and supportive ECB for peripheral spread in the short term.

- **Other Duration** – We hold modest exposure to US duration where yields offer an attractive pick-up versus other DM rates. We focus this exposure on the belly of the curve. The fund also holds diversifying duration exposure in Denmark via its exposure to Covered Bonds.

- **Credit** – Maintain low overall MWS (credit risk) target, reflective of the expectation that we will avoid generic cash corporate credit. We remain opportunistic, favoring UK banks given strong capital, a more liquid balance sheet and attractive valuations. Importantly, UK banks remain resilient against a potential downturn post-Brexit.

- **Securitized** – We view securitized credit favorably, in particular non-Agency MBS, given their attractive yields and our outlook for price appreciation in the US housing market. We also hold exposure to Danish callable mortgages which is an attractive source of "safe spread".

- **Currency** – The fund holds exposure to the Japanese yen based on attractive valuation and a diversifier in a flight to safety environment expect to maintain a modest long exposure in select high carry emerging market (EM) currencies, this position has low scaling reflecting both attractive valuations and the significant uncertainty in the outlook across countries.

*"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.

## PIMCO GIS GLOBAL BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.03 | 8.37 | 9.29 | 4.28 | 4.44 | 5.71 | 5.77 |
| Benchmark | -0.17 | 8.57 | 10.67 | 3.93 | 3.93 | 4.13 | 5.02 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Global Bond Fund, Institutional, Accumulation, USD. Fund incepted on: 12 March 1998.

Benchmark: Bloomberg Barclays Global Aggregate (USD Hedged) Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Long exposure to GBP
- Underweight to German duration
- Long exposure to a basket of high-carry EM FX

### DETRACTORS

- Short exposure to Euro
- Overweight European periphery as yields rose
- Underweight to Investment grade corporate credit

## POSITIONING AND OUTLOOK

- **US Duration & Curve** – The Fund holds an overweight to US duration, focused on the intermediate portion of the curve as US rates offer an attractive pick-up versus other DM rates and are likely to remain range bound. We also see less value in the long end given the flatness of the curve.
- **TIPS** – The Fund maintains TIPS exposure as we continue to believe TIPS holdings reflect a defensive posture that could prove beneficial should US inflation surprises contribute to increases in rates.
- **Eurozone Duration** – Underweight total EUR duration given unattractive low yields and negative carry in some part of the curve. We hold an overweight position to Italian on a tactical basis given ECB dovishness. We are underweight France as we feel French government bonds offer a poor risk/reward pay-off and prefer to hold an overweight exposure to Spain on a relative value basis.
- **Other Duration** – The Fund is underweight duration in Japan, a hedge against global rates recalibrating higher. The Fund holds an overweight to duration in Sweden and Denmark, as an attractive alternative to EUR rates.
- **Emerging Markets** – We maintain a cautiously constructive outlook on EM, expressing our EM views via FX given the more attractive liquidity profile.
- **Credit** – Maintain low overall MWS (credit risk) target, reflective of the expectation that we will avoid generic cash corporate credit. We remain opportunistic, favoring UK banks given strong capital, more liquid balance sheets, and attractive valuations. Importantly, UK banks remain resilient against a potential downturn post-Brexit.
- **Securitized** – Non-Agency MBS remains our preferred spread sector. PIMCO views non-Agency mortgage-backed securities favorably due to their attractive yields, risk profile and our outlook for price appreciation in the US housing market. The Fund also holds exposure to Danish callable mortgages and Swedish covered bonds which offer an attractive source of "safe spread"*.
- **Currency** – We hold exposure to the Japanese Yen as a duration proxy and diversifier in case of flight to safety environment. We also hold a long position to GBP, funding the trade versus EUR and USD given valuations and our expectations of an orderly Brexit outcome. We expect to maintain a modest long exposure in select high carry emerging market (EM) currencies, but with low scaling reflecting both attractive valuations and the significant uncertainty in the outlook across countries.

*"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.

## PIMCO GIS GLOBAL BOND ESG FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.09 | 8.54 | 9.38 | - | - | - | 4.49 |
| Benchmark | -0.17 | 8.57 | 10.67 | - | - | - | 4.68 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Global Bond ESG Fund, Institutional, Accumulation, USD. Fund incepted on: 12 January 2017.

Benchmark: Bloomberg Barclays Global Aggregate (USD Hedged) Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Long exposure to GBP
- Select exposure to IG and subordinated financials
- Long exposure to a basket of high carry EM currencies

### DETRACTORS

- Short exposure to the Euro
- Overweight European periphery as yields rose

## POSITIONING AND OUTLOOK

- **US Duration & Curve** – The Fund holds an overweight to US duration, focused on the intermediate portion of the curve as US rates offer an attractive pick-up versus other DM rates and are likely to remain range bound. We also see less value in the long end given the flatness of the curve.
- **TIPS** – The Fund maintains TIPS exposure as we continue to believe TIPS holdings reflect a defensive posture that could prove beneficial should US inflation surprises contribute to increases in rates.
- **Eurozone Duration** – Underweight total EUR duration given unattractive low yields and negative carry in some part of the curve. We hold an overweight position to Italian on a tactical basis given ECB dovishness. We are underweight France as we feel French government bonds offer a poor risk/reward pay-off and prefer to hold an overweight exposure to Spain on a relative value basis.
- **Other Duration** – The Fund is underweight duration in Japan, a hedge against global rates recalibrating higher. The Fund holds an overweight to duration in Sweden and Denmark, as an attractive alternative to EUR rates.
- **Emerging Markets** – We maintain a cautiously constructive outlook on EM, expressing our EM views via FX given the more attractive liquidity profile.
- **Credit** – Maintain low overall MWS (credit risk) target, reflective of the expectation that we will avoid generic cash corporate credit. We remain opportunistic, favoring UK banks given strong capital, more liquid balance sheets, and attractive valuations. Importantly, UK banks remain resilient against a potential downturn post-Brexit.
- **Securitized** – Non-Agency MBS remains our preferred spread sector. PIMCO views non-Agency mortgage-backed securities favorably due to their attractive yields, risk profile and our outlook for price appreciation in the US housing market. The Fund also holds exposure to Danish callable mortgages and Swedish covered bonds which offer an attractive source of "safe spread"*.
- **Currency** – We hold exposure to the Japanese Yen as a duration proxy and diversifier in case of flight to safety environment. We also hold a long position to GBP, funding the trade versus EUR and USD given valuations and our expectations of an orderly Brexit outcome. We expect to maintain a modest long exposure in select high carry emerging market (EM) currencies, but with low scaling reflecting both attractive valuations and the significant uncertainty in the outlook across countries. .

**"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.*

## PIMCO GIS GLOBAL BOND EX-US FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | -0.38 | 7.68 | 8.22 | 4.50 | 4.75 | 6.17 | 5.38 |
| Benchmark | -0.58 | 8.15 | 9.88 | 4.32 | 4.57 | 4.36 | 4.40 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Global Bond Ex-US Fund, Institutional, Accumulation, USD. Fund incepted on: 31 March 2003.

Benchmark: Bloomberg Barclays Global Aggregate ex-USD (USD Hedged) Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Long exposure to GBP
- Underweight to German duration as yields rose
- Long exposure to a basket of high-carry EM currencies

### DETRACTORS

- Overweight European periphery as yields rose
- Short exposure to the Euro

## POSITIONING AND OUTLOOK

- **US Duration & Curve** – The Fund holds modest exposure to US duration, focused on the intermediate portion of the curve as US rates offer an attractive pick-up versus other DM rates and are likely to remain range bound. We also see less value in the long end given the flatness of the curve.
- **TIPS** – The Fund maintains TIPS exposure as we continue to believe TIPS holdings reflect a defensive posture that could prove beneficial should US inflation surprises contribute to increases in rates.
- **Eurozone Duration** – Underweight total EUR duration given unattractive low yields and negative carry in some part of the curve. We hold an overweight position to Italian on a tactical basis given ECB dovishness. We are underweight France as we feel French government bonds offer a poor risk/reward pay-off and prefer to hold an overweight exposure to Spain on a relative value basis.
- **Other Duration** – The Fund is underweight duration in Japan, a hedge against global rates recalibrating higher. The Fund holds an overweight to duration in Sweden and Denmark, as an attractive alternative to EUR rates.
- **Emerging Markets** – We maintain a cautiously constructive outlook on EM, expressing our EM views via FX given the more attractive liquidity profile.
- **Credit** – Maintain low overall MWS (credit risk) target, reflective of the expectation that we will avoid generic cash corporate credit. We remain opportunistic, favoring UK banks given strong capital, more liquid balance sheets, and attractive valuations. Importantly, UK banks remain resilient against a potential downturn post-Brexit.
- **Securitized** – Non-Agency MBS remains our preferred spread sector. PIMCO views non-Agency mortgage-backed securities favorably due to their attractive yields, risk profile and our outlook for price appreciation in the US housing market. The Fund also holds exposure to Danish callable mortgages and Swedish covered bonds which offer an attractive source of "safe spread"*.
- **Currency** – We hold exposure to the Japanese Yen as a duration proxy and diversifier in case of flight to safety environment. We also hold a long position to GBP, funding the trade versus EUR and USD given valuations and our expectations of an orderly Brexit outcome. We expect to maintain a modest long exposure in select high carry emerging market (EM) currencies, but with low scaling reflecting both attractive valuations and the significant uncertainty in the outlook across countries.

*"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.

## PIMCO GIS TOTAL RETURN BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.51 | 9.45 | 11.09 | 3.76 | 3.47 | 3.87 | 5.46 |
| Benchmark | 0.30 | 8.85 | 11.51 | 3.29 | 3.24 | 3.73 | 4.92 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Total Return Bond Fund, Institutional, Accumulation, USD. Fund incepted on: 31 January 1998.

Benchmark: Bloomberg Barclays U.S. Aggregate Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Short duration exposure to select developed markets, particularly the U.K.
- Modest exposure to the British pound
- Selection within corporate credit, particularly a preference for financials

### DETRACTORS

- Country selection in the eurozone, particularly a preference for Italy
- Modest short exposure to a basket of Asian currencies

## POSITIONING AND OUTLOOK

- **Interest Rate Strategies** – We are overweight headline duration but favor U.S. duration against rate exposure in other developed regions, including in the U.K. and Japan. We prefer the intermediate portion of the curve (generally 5yr-10yr), anchored by the new neutral thesis and the weight of lower global yields. We expect rates in the US to be relatively range bound as underlying trend growth in the U.S. remains low and positioning in Japan serves as a cheap hedge against global rates moving higher. To the extent rates rise, we would expect international rates to move more than the US. Conversely, a "risk-off" scenario would likely entail a bigger rally in high quality U.S. assets.
- **Mortgages** – We remain overweight to Agency MBS with a preference for 3-4% coupons, though have moderated the position due to some near-term technical headwinds as yields have fallen. These provide attractive, high-quality, and diversifying sources of carry. We also maintain positions in non-Agency mortgages given attractive loss-adjusted yields, favorable technicals and continued long-term fundamental improvement in the housing sector. Mortgage credit can be a diversifier to traditional corporate credit in the later stages of an expansion.
- **Corporate Bonds** – We remain underweight investment grade corporate bonds. We have more diversified credit exposures in sectors beyond IG corporates and are more focused on security selection over generic beta exposure. We believe valuations warrant a more defensive stance (higher quality, lower maturity). We continue to favor financials as well as mortgage credit. We would look to add opportunistically to corporates amid market dislocations as we do not see any imminent downturn in the business cycle.
- **Currency** – We remain tactical with currency positioning, particularly given less conviction in the overall direction of the dollar. We will continue to seek overshoots and undershoots that provide attractive risk-reward opportunities.
- **Treasury Inflation-Protected Securities (TIPS)** – We continue to have a favorable view of TIPS and maintain our exposure as a hedge against upside surprises in inflation given low breakeven rates and our expectations for inflation to drift towards target. TIPS are compelling as an alpha source, as well as a hedge against upside surprises in inflation, which could occur given the Fed's bias toward allowing inflation overshoots.

*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.*

## PIMCO GIS CAPITAL SECURITIES FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 1.74 | 14.59 | 13.11 | 7.05 | 6.04 | - | 6.98 |
| Benchmark | 0.18 | 2.13 | 2.54 | 1.89 | 1.30 | - | 1.09 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Capital Securities Fund, Institutional, Accumulation, USD. Fund incepted on: 31 July 2013.

Benchmark: 3 Month USD LIBOR Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Long exposure to Additional Tier 1 bonds, particularly in UK, Spain and Italy, as spreads tightened amid an improved Brexit outlook, a more benign political backdrop and constructive risk sentiment
- Exposure to UK and Swiss senior bank debt which rallied alongside positive Brexit developments and continued strength in operating results respectively
- Exposure to Legacy Tier 1 instruments, particularly from select UK issuers

### DETRACTORS

- Select credit hedges via buy protection Credit Default Swaps, as spreads tightened over the month

## POSITIONING AND OUTLOOK

- PIMCO favours investments in Additional Tier 1 (AT1) and Tier 2 CoCos (Contingent Convertible bonds) which benefit from ongoing capital build up, better asset quality and positive regulatory developments.
- Geographically we remain positive on the UK, where the financial regulator remains very conservative on capital standards, banks asset quality is resilient and Brexit uncertainty prevents banks from releveraging. In the periphery, we focus on Spanish subordinated debt of national champions, while in Italy we prefer to take exposure to senior debt. At the moment, we also find value in the senior part of the capital structure of US banks that have large market capitalizations, strong equity market access and earnings power.
- We expect technicals AT1 bonds to be supportive going forward, given the growing investor base and limited supply as a result of the fact that European banks have issued most of their regulatory capital with the focus now shifting to refinancing. Investors also proved to be able to differentiate between banks, preventing a contagion effect from the recent idiosyncratic shocks.
- European AT1s continue to be amongst the highest yielding asset class within credit markets and senior debt provides attractive spread per unit of risk. Subordination premia remain high and valuations across the capital structure are dislocated, offering exciting relative value opportunities.
- The core of the strategy remains centred around National champions in each country, all of them benefiting from very strong capital positions, as highlighted by their solid performance across various stress tests. The portfolio has a high quality bias in selecting the banks we invest in, and the bar to invest in riskier situations in Europe has increased further.

## PIMCO GIS DIVERSIFIED INCOME FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.62 | 13.06 | 13.31 | 6.22 | 5.61 | 6.94 | 6.83 |
| Benchmark | 0.31 | 12.13 | 12.06 | 5.21 | 4.97 | 6.52 | 6.35 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Diversified Income Fund, Institutional, Accumulation, USD. Fund incepted on: 30 June 2005.

Developed Markets High Yield Constrained Index, USD Hedged; and JPMorgan EMBI Global, USD Hedged. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Macro strategies, in particular underweight positioning along the EUR and USD curves as rates increased over the month, as well as a tactical long exposure to Sterling which rallied given the improved Brexit outlook
- Positioning in high yield industrials, in particular an underweight to energy, which underperformed alongside higher defaults among smaller issuers
- Security selection in high yield healthcare, as a select overweight rallied on the back of reduced litigation risk
- Tactical exposure to mortgage credit, as positive market technicals and fundamentals drove solid performance

### DETRACTORS

- Underweight to generic investment grade industrials which outperformed over the month
- Overweight to high yield media which underperformed over the month

## POSITIONING AND OUTLOOK

- **Financials** – Although we have been reducing exposure, we continue to find attractive relative value opportunities in the sector, particularly in select European and US senior bonds.
- **Securitized** – Focus on non-agency mortgages given strength of the US housing market which benefits from US growth, full employment and higher inflation. We also emphasize Agency MBS exposure given their diversification benefits and downside resilience.
- **High Yield/Bank Loans** – We see relative value in select names, with a preference for senior secured bonds and high quality bank loans, which provide attractive carry while ranking high up in the capital structure.
- **Currency** – The Fund maintains limited FX exposure, with select long exposure to the PLN.
- **Duration** – Moderate underweight duration, with a focus on the belly of the curve given carry opportunities and concerns about the long-end's valuations.
- **Investment Grade Corporates** – We see long-term relative value in higher quality, shorter maturity, "bend-but-not-break" investment grade corporate credits which have hard assets and generate steady cash flows. The Fund is overweight select telecom issuers given the low cyclicality and de leveraging potential.
- **Emerging Markets** – Cautiously constructive on EM, as tensions between uncertainties over global growth and the dovish response from the Federal Reserve suggest that the asset class will undergo bouts of volatility separating the strong from the weak. Hence we emphasize a selective approach focusing on countries with strong fundamentals and ability to repay.

## PIMCO GIS EURO CREDIT FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | -0.47 | 6.73 | 6.13 | 3.05 | 3.24 | 4.76 | 4.60 |
| Benchmark | -0.48 | 6.66 | 6.48 | 2.32 | 2.54 | 4.22 | 4.34 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Euro Credit Fund, Institutional, Accumulation, EUR. Fund incepted on: 31 January 2008.

Benchmark: Bloomberg Barclays Euro-Aggregate Credit Index. Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Underweight exposure to European duration, as rates increased over the month
- Security selection in the banking sector, in particular an overweight to UK banks which outperformed on the back of an improved Brexit outlook
- An overweight to REITS, which outperformed, and in particular exposure to an attractive new issue from a select French issuer which rallied over the month

### DETRACTORS

- Underweight exposure to the insurance sector, which outperformed alongside longer dater credits given continued spread curve flattening in Europe
- Underweight exposure to utilities, which outperformed

## POSITIONING AND OUTLOOK

**Outlook on credit:** Euro investment grade credit is supported by technical tailwinds. With further ECB easing and CSPP 2.0, demand for credit is expected to remain strong, especially in light of the record amount of negatively yielding debt in Europe. Leverage remains broadly stable and default rates are expected to remain low given strong liquidity profiles, open capital markets, healthy revenues and stable margins. That said, PMI prints and revenue guidance are showing a cooling in growth momentum, particularly in cyclical sectors. Overall spread levels are tight in the historical context. A CSPP 2.0 implies there is potential for moderate spread compression but near zero all in yields pose a headwind.

**Current Portfolio themes:**

- **Financials** – Overweight banks as they continue to de-lever and the asset quality is expected to remain strong. Valuations remain compelling vis-à-vis non financials, in particular for UK banks which offer a Brexit discount.
- **Real Estate/REITS** – Favor the largest European REITS and the real estate sector which benefit from low interest rates and improvements in the unemployment rate in Europe. The sector also offers strong asset coverage and attractive covenants, as well as compelling valuations when compares to other sectors.
- **Securitized/CLOs** – We see relative value in AAA-rated CLO tranches which provide attractive carry and downside protection. Favor Danish Covered Bonds as a source of safe carry, as well as Agency MBS.
- **Duration** – Duration exposure is neutral versus benchmark, with select exposure to Danish covered bonds.

## PIMCO GIS GLOBAL HIGH YIELD BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.39 | 12.67 | 9.77 | 6.21 | 5.44 | 7.48 | 6.91 |
| Benchmark | 0.30 | 12.47 | 9.93 | 6.32 | 5.60 | 7.83 | 7.19 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Global High Yield Bond Fund, Institutional, Accumulation, USD. Fund incepted on: 30 June 2005.

Benchmark: ICE BofAML BB-B Rated Developed Markets High Yield Constrained Index Hedged into USD. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- An underweight to energy, which underperformed amid rising default rates and idiosyncratic risk in the sector
- Security selection within the metals and mining sector, as select overweight issuers outperformed over the month
- Security selection within the banking sector, as select European AT1s outperformed amid constructive risk sentiment

### DETRACTORS

- Security selection within the energy sector, and E&P in particular, as an overweight issuer underperformed as a result of weak quarterly earnings
- Security selection within the automotive sector, as an underweight issuer outperformed over the month

## POSITIONING AND OUTLOOK

- PIMCO expects coupon returns to drive performance in the high yield market. Fundamentals remain supportive as leverage for the broader market is stable and proceeds from bond issuance are primarily being used for refinancing activity. Although idiosyncratic risks are rising, we do not anticipate a significant increase in headline default rates and expect these to be around 2-3% over the next 12 months. Meanwhile, technicals are constructive given still-limited new issue supply, rising stars, and the resumption of inflows back into the asset class year-to-date.
- Valuations are currently fair and spreads have been largely range bound. Investors are being appropriately compensated for credit risk given that current spread levels are implying higher default rates than those forecasted by both PIMCO and independent rating agencies, but we believe decompression trends, rising idiosyncratic risks and the resulting underperformance of weaker/lower rated segments of the market will persist
- We are maintaining our conservative positioning and continue to favor defensive, non-cyclical sectors with stable cash flows such as Healthcare and sectors tied to a relatively robust US consumer such as Consumer Products, Gaming, and Building Material companies which benefit from pent up demand in the repair and remodeling segment.
- We remain underweight to Wirelines which face ongoing secular headwinds due to a decline for legacy voice services and increasing competition, to Retail given low barriers to entry and declines in brick and mortar sales and to the Metals and Mining sector given our cautious outlook on demand for steel and coal from China going forward. On valuation grounds we remain underweight Home Builders which we favor fundamentally but which trade largely in line with investment grade issuers. Finally, we are also underweight energy and continue to reduce exposure to the sector in light of the aforementioned rising idiosyncratic risks, which are affecting smaller energy companies in particular.

## PIMCO GIS GLOBAL INVESTMENT GRADE CREDIT FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.53 | 11.90 | 12.68 | 5.38 | 5.05 | 6.04 | 6.25 |
| Benchmark | 0.27 | 11.51 | 12.72 | 4.85 | 4.47 | 5.11 | 5.34 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Global Investment Grade Credit Fund, Institutional, Accumulation, USD. Fund incepted on: 18 April 2008.

Benchmark: Bloomberg Barclays Global Aggregate Credit Index (USD Hedged). Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- An underweight to developed markets duration, and in particular the longer dated portion of the curve, as rates moderately rose over the month
- An overweight to emerging market external debt and exposure to emerging market FX, which benefitted from improving sentiment and a weakening dollar
- Exposure to the banking sector, and subordinated bank debt in particular, which outperformed amid constructive risk sentiment and investors searching for yield

### DETRACTORS

- An underweight to the healthcare and pharmaceutical sectors, which outperformed the broader credit market over the month
- An underweight to the utility sector, which outperformed alongside longer dated bonds

## POSITIONING AND OUTLOOK

- We continue to be selective in credit and have moved up in quality and de-risked as credit markets are closer to fair value. We are now focusing on relative value opportunities between sectors and companies to drive returns. In particular we are reducing credit over-weights in higher-beta/lower rated names, upgrading quality and increasing liquidity of our holdings.
- The probability of a U.S. recession over the secular horizon remains high as the economy is farther along in the cycle and more vulnerable to speed bumps and heightened geopolitical risk. We are late cycle, but not end cycle and as long as there is no recession, corporate credit should continue performing well over the cyclical horizon.
- With a record of close to US$13.5 trillion of bonds that are negative yielding, investors continue to look at global investment grade credit markets as a source of income.
- Overall, we are more selective on generic credit and instead we look to apply the best bottom-up ideas to emphasize short-dated and default-remote 'bend-but-don't-break', corporate positions. We favor industries tied to the U.S. consumer, including cable, gaming and building materials, which should remain supported by solid consumer fundamentals, high barriers to entry, and rising confidence. We are particularly constructive on the US housing sector, supported by significant pent up demand and inventories near 25 year lows. We also continue to like banks and financials, given improving fundamentals. Finally, we favor issuers in the wireless sector and in particular tower operators which benefit from increased mobile data consumption, contracted revenues with strong free cash flow generation and strong asset coverage.
- Conversely, we maintain a more cautious approach in cyclical sectors that are less defensive and more exposed to trade tariff risk, including retail, raw materials, chemicals and technology. PIMCO continues to be underweight the utility sector, particularly in Europe, given unattractive valuations, regulatory risk and potential for rating agencies downgrades. We are also underweight the pharmaceutical sector, given litigation risks, policy headwinds and continued pricing/re-contracting pressure in generic pharmaceuticals. Lastly we continue to avoid companies facing re-leveraging risk as modest longer-term organic growth profiles in industries like the food & beverage sector drive issuers to focus more on growth through M&A activities.

## PIMCO GIS MORTGAGE OPPORTUNITIES FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.82 | 4.65 | 4.55 | - | - | - | 3.58 |
| Benchmark | 0.18 | 2.13 | 2.54 | - | - | - | 1.97 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Mortgage Opportunities Fund, Institutional, Accumulation, USD. Fund incepted on: 25 January 2017.

Benchmark: 3 Month USD LIBOR Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Exposure to non-Agency RMBS
- U.S. duration positioning
- Select structured Agency MBS positions

### DETRACTORS

- No notable detractors

## POSITIONING AND OUTLOOK

- **Agency MBS** –October marked the thirteenth month of the Fed's exit from the mortgage market. The reinvestment cap is set at $20bn, and the Fed has cumulatively unwound $340B of MBS. After the Fed's exit, Agency MBS has returned to historically cheap valuations. MBS spreads have widened from their Federal Reserve-driven tights of the last few years and is one of the few areas that hasn't seen the same extent of spread tightening we've seen in other fixed income assets classes. Without the Fed's involvement we expect the MBS basis to be more volatile, but we expect an increased amount of relative value opportunities between coupons, issuers, and collateral types, in such an environment.
- **Structured Agency MBS** – We maintain exposure to interest-only (IO), inverse floating rate, and inverse IO (IIO) securities in order to take advantage of attractive prepayment and collateral characteristics.
- **Securitized Credit** – PIMCO remains constructive on senior U.S. securitized credit. Non-Agency MBS stand out as attractive, as housing is well insulated from the key risks facing global markets. We believe CMBS remains a good defensive trade while providing diversification versus investment grade corporate credit, and we prefer senior CLOs and select ABS among high quality spread assets.
- **Duration** – We maintained our duration exposure during the month. We continue to view duration exposure as a valuable source of diversification and will adjust positions as interest rate levels fluctuate.

## PIMCO GIS EMERGING LOCAL BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 3.14 | 12.76 | 16.96 | 4.11 | 0.26 | 2.11 | 2.74 |
| Benchmark | 2.90 | 10.98 | 15.59 | 4.34 | 0.82 | 2.67 | 3.23 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Emerging Local Bond Fund, Institutional, Accumulation, USD. Fund incepted on: 11 December 2007.

Benchmark: JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged). Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Curve positioning in Colombia as the yield curve bear steepened on expectations of a GDP growth acceleration. An O/W to the COP also contributed as the currency appreciated against the USD.
- O/W to Brazilian duration as local rates shifted lower following Congress' final approval of the pension reform, and inflation rate falling below the Central Bank's floor. An O/W to BRL also contributed as the currency appreciated against the USD.
- O/W to Mexican duration as local rates shifted lower after inflation fell to the Central bank's target for the first time since 2016. An O/W to MXN also contributed as the currency appreciated against the USD.

### DETRACTORS

- Curve positioning in Indonesia as the yield curve bull steepened after inflation weakened and the Central Bank cut its key interest rate for a fourth straight month in a row
- Curve positioning in Turkey as the yield curve bull steepened after the Central Bank delivered yet another rate cut that exceeded expectations

## POSITIONING AND OUTLOOK

- On the cyclical outlook (next 6 – 12 months), we **remain constructive on EM** but we make a clear distinction between "balance-sheet"-type of assets that are largely driven by sovereign debt levels and dynamics, and "income statement"-type of assets that are more sensitive to nominal growth considerations.
- Our **bias remains toward more defensive "balance sheet" assets**, most notably EM external credit and more recently EM local duration, relative to growth-sensitive assets like EM currencies (foreign exchange or FX) and EM equities.
- We believe **EM local duration offers the best risk-adjusted return potential** in an environment where a soft landing and recession are plausible outcomes. Economic slack is keeping **inflationary pressures in check**, allowing many **EM central banks to ease monetary policy** countercyclically.
- On average, **EM currencies are near their cheapest levels in two decades** and appear well priced for a global growth slowdown. In the current context of weakening growth, broad USD overvaluation, and DM central bank policy easing, we estimate **EM currencies can deliver good carry at a minimum, and potentially much more if the dollar finally turns weaker**. The trade-weighted dollar is rich and increasingly vulnerable to soft-landing or an alleviation of global trade uncertainty.
- In terms of positioning, the fund is positioned across the following investment themes:
  - <u>Local duration:</u> Maintain duration overweight to lower-yielding countries where **steep curves offer good real carry and an attractive convexity profile**: *Peru, Israel, Hungary*. Diversify duration overweight by taking exposure in select **higher-yielding countries with large negative output gaps** where currencies are already very cheap (reflected in much improved external balances): *Mexico, Brazil, Russia.* Maintain exposure to **hand-picked frontier-market opportunities** with **favorable fundamentals backdrop**: *Dominican Republic.* Focus on **technical opportunities** like liability management, potential index inclusions, IMF umbrella: *IDR CLNs, Kazakh and Ukrainian quasi-sovereigns.* Underweight duration and currency in **countries with unorthodox policy mix**: *Romania*
  - <u>Local currencies:</u> In the context of weakening global growth and **cheap valuations** keep a low-scale overweight to a basket of **high carrying** EM currencies: RUB, IDR, MXN, BRL. Fund the FX overweights with a combination of *USD and EUR short positions*, and underweight to **low-yielding EM currencies**: *CLP, UYU*

## PIMCO GIS EMERGING MARKETS BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.67 | 13.04 | 14.16 | 5.41 | 4.66 | 6.28 | 9.31 |
| Benchmark | 0.37 | 12.50 | 13.69 | 4.48 | 4.83 | 6.54 | 8.46 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Emerging Markets Bond Fund, Institutional, Accumulation, USD. Fund incepted on: 31 July 2001.

Benchmark: JPMorgan Emerging Markets Bond Index (EMBI) Global. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Overweight to select Mexican quasi-sovereign issuers from the oil & gas industry, which outperformed the index due to idiosyncratic developments
- Underweight Lebanese sovereign debt, which underperformed the index as the country was engulfed in a wave of protests and underperformed the index
- Underweight to the Philippines as the country underperformed the index given already tight spread levels

### DETRACTORS

- Portfolio underweight to EM spread duration as EM spreads tightened in October on the back of improving investor sentiment towards EM
- Overweight to South Africa as the country underperformed the index amidst persistently low and disappointing growth numbers

## POSITIONING AND OUTLOOK

- On the cyclical outlook (next 6 – 12 months), we **remain constructive on EM** but we make a clear distinction between "balance-sheet"-type of assets that are largely driven by sovereign debt levels and dynamics, and "income statement"-type of assets that are more sensitive to nominal growth considerations.
- Our **bias remains toward more defensive "balance sheet" assets**, most notably EM external credit and more recently EM local duration, relative to growth-sensitive assets like EM currencies (foreign exchange or FX) and EM equities.
- Our preference for EM external debt is **predicated on strong balance sheets** both on the sovereign and the corporate side. On the EM sovereign side, we see **very healthy debt/GDP ratios** across most of the EM countries universe, while on the EM corporate side we are witnessing a strong level of deleveraging. These trends are likely to continue given that strong balance sheets allow EM issuers access external capital and, as such, incentives to keep the balance sheets healthy remain high.
- We think EM external debt is **fairly valued** with not much potential for significant capital appreciation. That said, it also remains a high carrying asset class and our current strategy is focused towards harvesting most of that potential. From a relative valuation point of view, we think EM external debt – being an investment grade asset class - is **an attractive alternative to other fixed income asset classes**, with similar yield levels but significantly lower credit quality.
- Finally, from a technical standpoint, we think EM external debt is **likely to benefit from the ultra-low yield environment** as the asset class remains the natural destination for crossover investors looking to diversify their portfolios.
- In terms of positioning, the fund is positioned across the following investment themes:
  - Overweight **High Yield vs. Investment Grade** names on view that current macro environment favors carry
  - Prefer BB-rated names that are **distanced from left-tail events**: *Brazil, South Africa, Guatemala, Dominican Republic*
  - Focus on countries with **IMF programs and credible reforms** (*Egypt, Ukraine, Mongolia*) vs underweight *Angola and Kenya*
  - Take advantage of **off-benchmark opportunities** offering yield pick-up: *EUR-denominated paper from Serbia and Romania*
  - **Reform divergence** and impact on quasi-sovereign/sovereign balance sheet: *Mexico vs. Brazil*
  - Offset overall exposure by underweights in countries with **little room for further spread compression**: *Philippines, Malaysia*
  - Limit exposure to countries **at risk of sanctions and/or trade war escalation**: *Russia sovereign, China*
  - Tactical UW in GCC countries **on geopolitical tensions/Iran conflict escalation risk**: *Saudi Arabia, Qatar, Bahrain*
  - Void/significant underweight to **fundamentally weak credits**: *Lebanon, Zambia, Mozambique*

## PIMCO GIS EMERGING MARKETS CORPORATE BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 1.13 | 11.28 | 11.64 | 6.40 | 3.97 | - | 5.45 |
| Benchmark | 0.82 | 12.14 | 12.81 | 5.44 | 5.34 | - | 6.66 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Emerging Markets Corporate Bond Fund, Institutional, Accumulation, USD. Fund incepted on: 12 November 2009.

Benchmark: JPMorgan Corporate Emerging Markets Bond Index Diversified (CEMBI). Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Overweight to Argentina corporates, which outperformed the index as new cabinet members indicated willingness to support the oil & gas sector in attracting foreign direct investments
- Overweight to U.S. duration as U.S. rates generally fell in October
- Overweight and security selection in Israel, which outperformed the index on the back of idiosyncratic developments within companies in the pharmaceutical sector

### DETRACTORS

- Portfolio underweight to EM corporate spread duration as improving investor sentiment saw EM corporate spreads tighten in October
- Overweight to South African corporates, which underperformed on the back of persistently low and disappointing GDP growth by the sovereign

## POSITIONING AND OUTLOOK

- On the cyclical outlook (next 6 – 12 months), we **remain constructive on EM** but we make a clear distinction between "balance-sheet"-type of assets that are largely driven by sovereign debt levels and dynamics, and "income statement"-type of assets that are more sensitive to nominal growth considerations.
- Our **bias remains toward more defensive "balance sheet" assets**, most notably EM external sovereign and corporate credit and more recently EM local duration, relative to growth-sensitive assets like EM currencies (foreign exchange or FX) and EM equities.
- Our preference for EM external debt is **predicated on strong balance sheets** both on the sovereign and the corporate side. On the EM corporates side, we see a **strong trend of deleveraging**, led by issuers in Latin America and Emerging Europe. With EM corporate **net leverage at its lowest** since 2012, we expect **default rates to be low** in 2019 given the comfortable liability profiles of EM corporates. Against this backdrop, the latest events in Argentina serve as a reminder to investors that emerging markets represent a **very diverse opportunity set**.
- We think EM corporate debt is **fairly valued** with not much potential for significant capital appreciation. That said, it also remains a high carrying asset class and our current strategy is focused towards harvesting most of that potential. From a relative valuation point of view, we think EM corporate debt is **an attractive alternative to other fixed income asset classes**, with similar yield levels but significantly lower credit quality.
- Finally, from a technical standpoint, we think EM external debt is **likely to benefit from the ultra-low yield environment** as the asset class remains the natural destination for crossover investors looking to diversify their portfolios
- We position the fund **away from directional beta trades** and focus on exploiting a diverse set of idiosyncratic alpha sources :
  - The fund has switched to a **modest overweight to U.S. duration** but keeps **underweighting EM corporate spread duration**
  - From a bottom-up perspective, we prefer **credits with little exposure to domestic factors**, but which are "weighed down" by their sovereign risk and thus trade on a discount vs. fair value (select South African miners, Brazilian industrials). Also, we leverage PIMCO's extensive research capabilities to capture **alpha opportunities in dislocated markets** (select Turkish banks). In Financials, we **underweight subordinated debt** given lack of premium offered for increased risks moving lower in the capital structure. In Oil & Gas, we overweight companies which are **ramping up production while reducing their cost base** (Brazilian, Colombian, Ghanaian oil producers). We balance these exposures by underweighting corporates in **countries where we hold negative views** (Mexico, China/Hong Kong).

## PIMCO GIS STOCKSPLUS FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 2.27 | 24.07 | 14.26 | 14.68 | 10.53 | 14.07 | 6.48 |
| Benchmark | 2.13 | 22.56 | 13.63 | 14.22 | 10.10 | 12.99 | 5.84 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS StocksPLUS Fund™, Institutional, Accumulation, USD. Fund incepted on: 31 December 1998.

Benchmark: S&P 500 Index (Net of dividend withholding tax). Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- U.S. interest rate strategies contributed as rates fell
- Long exposure to Investment Grade corporate credit contributed as credit spreads tightened

### DETRACTORS

- No notable detractors over the month

## POSITIONING AND OUTLOOK

Equity Index Portfolio Characteristics

| S&P 500 Index | |
|---|---|
| Number of stocks | 505 |
| Dividend Yield | 2.0 |
| Weighted avg market cap (USD Bn) | $235.08 |
| Trailing P/E ratio | 20.6 |
| Forward P/E ratio | 18.7 |

| Top 5 sector weights | (MV%) |
|---|---|
| Information Technology | 22.3 |
| Health Care | 14.0 |
| Financials | 13.0 |
| Communication Services | 10.4 |
| Consumer Discretionary | 10.0 |

***Note:** GIS StocksPLUS Fund passively replicates the S&P500 through the use of futures and swaps. Excess returns are generated by actively managing a high quality, short-duration bond alpha portfolio. As such, the statistics above pertain to the Fund's S&P 500 index exposure and the attribution commentary below pertains to how the bond alpha strategy performed.*

- **Equities** – Over our more near-term 12-month horizon, we see a "window of weakness" with expectations for slower global GDP growth as trade tensions and political uncertainty act as a drag on global trade, manufacturing activity, and business investment. Longer term, our baseline expects a global recession at some stage during the secular horizon, and while we think it would likely be a shallow recession given the absence of major private sector economic imbalances, the lack of remaining conventional monetary policy tools may also lead to a more sluggish recovery following the next downturn. In this late-cycle economic environment, slowing growth should result in lower returns and increased volatility for equities going forward relative to returns over the past 10 years.
- **Bond Alpha Strategy –** Within the bond alpha strategy, the portfolio is cautiously positioned with respect to interest rate risk and credit risk. As U.S. interest rates are likely to be range bound in the near-term, we are emphasizing long exposures in the intermediate portion of the U.S. curve against long-end exposure. We continue to hold TIPS vs Treasuries as inflation expectations embedded in the markets are below the Fed's symmetric target. We also continue to favor non-Agency MBS which should continue to benefit from strength in the U.S. housing market and the resiliency of U.S. consumers. Given our cautious view on generic corporate credit, we are focused on bottom-up opportunities, and remain nimble with above average levels of liquidity. In terms of currency positioning, we are generally neutral on the overall direction of the U.S. dollar and remain focused on cross-currency opportunities.

## PIMCO GIS EURO INCOME BOND FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.13 | 5.87 | 4.64 | 3.49 | 3.37 | - | 5.05 |
| Benchmark | -0.49 | 4.09 | 4.74 | 1.53 | 1.82 | - | 3.53 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Euro Income Bond Fund, Institutional, Accumulation, EUR. Fund incepted on: 28 February 2011.

Benchmark: Bloomberg Barclays Euro Aggregate 1-10 Year Bond Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

*Note: contributor and detractors are in absolute terms*

### CONTRIBUTORS

- Long exposure to investment grade credit
- Select holdings of emerging market external debt
- Holdings of securitized assets

### DETRACTORS

- Long exposure to European duration

## POSITIONING AND OUTLOOK

- **Duration** – The Fund is maintaining a more cautious stance on interest rate risk. Our exposure to European duration is concentrated on the belly of the curve where carry is most attractive. We have maintained our exposure to US duration as it offers downside protection. We also hold a modest long exposure to Danish duration through mortgages as a way to diversify our duration exposure with high quality assets.
- **Investment Grade** – We continue to favor banks and financials, given improving fundamentals and potential benefits from moderately higher interest rates and deregulation. Within European credit, we are focused on companies which are de-leveraging and have strong asset bases. We are also targeting select dollar-denominated credits, which offer attractive yields hedged back to EUR.
- **High Yield** – We have adjusted our exposure lower as we are cautious about growth globally and attempt to protect against downside risk.
- **Securitized** – We view securitized credit favorably, in particular Agency MBS as the sector provides "safe spread*" along with downside protection in the event of a flight to quality. We also favour senior European ABS and CLO, as an attractive source of high quality spread.
- **Emerging Markets** – We retain a small exposure to a basket of selected mostly sovereign and quasi sovereign credits that benefit from strong liquidity, limited financing needs and an ability to reduce cash costs to preserve liquidity.
- **Currency** – The fund holds a long exposure to PLN based on valuations.

**"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.*

## PIMCO GIS INCOME FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.59 | 7.26 | 8.17 | 5.15 | 4.97 | - | 6.40 |
| Benchmark | 0.30 | 8.85 | 11.51 | 3.29 | 3.24 | - | 2.75 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Income Fund, Institutional, Accumulation, USD. Fund incepted on: 30 November 2012.

Benchmark: Bloomberg Barclays U.S. Aggregate Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

*Note: contributor and detractors are in absolute terms*

### CONTRIBUTORS

- Short exposure to Japanese and UK duration as yields rose
- Broad exposure to IG credit as spreads tightened
- Exposure to a securitized assets, primarily Non-Agency MBS

### DETRACTORS

- Select Exposure to HY credit

## POSITIONING AND OUTLOOK

- **Interest Rate Strategies** –The Fund continues to see value in US rates through holding US Agency MBS but remains cautious and is emphasizing curve positioning. We remain concentrated in the intermediate portion of the yield curve where we see the most attractive opportunities. Additionally, we hold a short position to Japanese duration, as it provides a hedge to global rates recalibrating higher. We also hold a short to U.K. rates based on our view of a more organized Brexit outcome than markets are anticipating.
- **Mortgages** – PIMCO views non-Agency mortgage-backed securities favorably due to their attractive yields and risk profile. We hold Agency MBS and senior tranches of CMBS positions as the sector provides "safe spread*" along with risk profile in the event of a flight to quality. We remain focused on maintaining flexibility and having a high level of liquidity in the portfolio – we do this by taking exposure to the CMBS market via CMBX. We also favour Agency MBS currently given our view that spreads are cheap.
- **ABS** – PIMCO views Asset-Backed Securities (ABS) as an attractive source of high quality spread. We prefer securities that benefit from government support and favorable long-term supply-demand technicals, such as student loans.
- **IG Corporates** – The Fund remains focused on investing in high quality, loss-remote sectors such as investment grade credit. In IG corporates, the Fund is opportunistically seeking names that offer attractive risk-adjusted returns, including financials and bank debt.
- **High Yield** – The Fund remains selective in HY corporate credit risk as strong recent performance in the sector has driven spreads to relatively tight levels. The Fund has been cautious in the high yield sector and has been moving up in the capital structure and moving to shorter dated credits, which should provide the portfolio with greater downside protection.
- **Emerging Markets** – The Fund plans to retain exposure to corporate and quasi-sovereign bonds in select countries with strong initial conditions and high quality balance sheets such as Mexico and Russia. We also hold modest exposure to local EM rates, primarily in Mexico, as diversifying sources of duration.
- **Currency** – Currency positions will continue to be small as currencies may be more volatile than other asset classes. We remain tactical in our currency position which is overall limited, holding a long US dollar position versus DM currencies as a way of expressing our views on relative growth and the path of rates. We are also tactically long a basket of EM currencies for additional diversification.
- **Strategic Liquidity** – The Fund holds a strategic liquidity allocation (cash, Treasuries and Agency MBS) in order to maintain a high level of overall portfolio liquidity and provide additional flexibility to potentially deploy capital opportunistically.

*"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.

## PIMCO GIS GLOBAL LOW DURATION REAL RETURN FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.19 | 4.25 | 4.15 | 2.16 | 1.35 | - | 1.36 |
| Benchmark | 0.02 | 3.99 | 4.26 | 2.28 | 1.69 | - | 1.49 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Global Low Duration Real Return Fund, Institutional, Accumulation, USD. Fund incepted on: 18 February 2014.

Benchmark: Bloomberg Barclays World Govt ILB 1-5yr Index (USD Hedged). Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- U.S. curve positioning
- Underweight European duration
- Underweight U.K. breakevens

### DETRACTORS

- No significant detractors for the month

## POSITIONING AND OUTLOOK

- **Cyclical Inflation Outlook**

In the U.S. we expect the increased tariff rate on goods imported from China to modestly support core goods prices in the near term with core inflation peaking around 2.5%YoY in early 2020 and the Fed to look through the impact of tariffs on inflation as growth and market risks remain a larger concern. In the U.K. we expect core inflation to remain around the BoE’s 2.0% target as strong wage growth supports core services inflation while the import price effect from the 2016 GBP depreciation continues to fade. However, outlook for inflation is highly dependent on the future Brexit outcome. In the Eurozone, inflation is likely to remain well below the ECB target as global growth remains weak, slack remains in the economy and firms absorb labor cost pressures in their margins.

- **Secular Inflation Outlook**

Over the next three to five years, we expect lackluster economic growth on average and persistently low inflation in the advanced economies. Labor market slack has been largely eroded in what will soon become the longest-ever economic expansion, supporting a further moderate acceleration of wage gains. However, the gradual diffusion of new technologies is likely to promote slightly faster productivity advances, which along with low inflation expectations should help to keep consumer price inflation in check and should broadly offset the damping impact of a slowing and aging labor force on potential output growth. With inflation likely to remain below target almost everywhere, we expect the major central banks to keep policy rates at or below New Neutral levels and a return to the zero lower bound and renewed asset purchases look likely in the next recession. One upside surprise possibility for inflation could come through monetary-fiscal cooperation but that implies a loss of central bank independence.

- **Inflation-Linked Bonds**

We believe that an allocation to global inflation-linked bonds may make sense for two reasons. First, in general, a well-diversified portfolio should hedge against the full range of long-term risks, including inflation risks. For example, even if the base case is not for runaway inflation, it may still be prudent to hedge against an inflation surprise as neither stocks nor bonds would do well in this scenario. Second, while our base case secular outlook sees inflation rising towards central bank targets, our risk case over the next five years is tilted towards higher inflation – as opposed to the last five years, when the risk case for lower inflation or even deflation.

We see many inflation-linked bonds, such as US TIPS, as attractively priced US inflation hedges in the current environment, probably because many market participants are still stuck in the past when they were more justifiably worried about deflation or “low-flation”. In our view, US bond markets are still pricing in insufficient risk premium for future inflation risks.

## PIMCO GIS GLOBAL REAL RETURN FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | -1.51 | 9.36 | 9.36 | 3.70 | 4.31 | 4.92 | 5.08 |
| Benchmark | -1.64 | 9.39 | 9.91 | 3.71 | 4.61 | 4.68 | 4.95 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Global Real Return Fund, Institutional, Accumulation, USD. Fund incepted on: 30 September 2003.

Benchmark: Bloomberg Barclays World Government Inflation-Linked Bond USD Hedged Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- U.S. curve positioning
- Underweight European duration
- Underweight U.K. breakevens

### DETRACTORS

- Short Sterling

## POSITIONING AND OUTLOOK

- **Cyclical Inflation Outlook**

In the U.S. we expect the increased tariff rate on goods imported from China to modestly support core goods prices in the near term with core inflation peaking around 2.5%YoY in early 2020 and the Fed to look through the impact of tariffs on inflation as growth and market risks remain a larger concern. In the U.K. we expect core inflation to remain around the BoE's 2.0% target as strong wage growth supports core services inflation while the import price effect from the 2016 GBP depreciation continues to fade. However, outlook for inflation is highly dependent on the future Brexit outcome. In the Eurozone, inflation is likely to remain well below the ECB target as global growth remains weak, slack remains in the economy and firms absorb labor cost pressures in their margins.

- **Secular Inflation Outlook**

Over the next three to five years, we expect lackluster economic growth on average and persistently low inflation in the advanced economies. Labor market slack has been largely eroded in what will soon become the longest-ever economic expansion, supporting a further moderate acceleration of wage gains. However, the gradual diffusion of new technologies is likely to promote slightly faster productivity advances, which along with low inflation expectations should help to keep consumer price inflation in check and should broadly offset the damping impact of a slowing and aging labor force on potential output growth. With inflation likely to remain below target almost everywhere, we expect the major central banks to keep policy rates at or below New Neutral levels and a return to the zero lower bound and renewed asset purchases look likely in the next recession. One upside surprise possibility for inflation could come through monetary-fiscal cooperation but that implies a loss of central bank independence.

- **Inflation-Linked Bonds**

We believe that an allocation to global inflation-linked bonds may make sense for two reasons. First, in general, a well-diversified portfolio should hedge against the full range of long-term risks, including inflation risks. For example, even if the base case is not for runaway inflation, it may still be prudent to hedge against an inflation surprise as neither stocks nor bonds would do well in this scenario. Second, while our base case secular outlook sees inflation rising towards central bank targets, our risk case over the next five years is tilted towards higher inflation – as opposed to the last five years, when the risk case for lower inflation or even deflation.

We see many inflation-linked bonds, such as US TIPS, as attractively priced US inflation hedges in the current environment, probably because many market participants are still stuck in the past when they were more justifiably worried about deflation or "low-flation". In our view, US bond markets are still pricing in insufficient risk premium for future inflation risks.

## PIMCO GIS EURO SHORT-TERM FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.00 | 0.25 | 0.00 | -0.49 | -0.20 | 0.78 | 1.38 |
| Benchmark | -0.04 | -0.32 | -0.38 | -0.37 | -0.29 | 0.10 | 0.95 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Euro Short Term Fund, Institutional, Accumulation, EUR. Fund incepted on: 31 January 2006.

Benchmark: 1 Month Euribor Rate Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

*Note: contributor and detractors are in absolute terms*

### CONTRIBUTORS

- Holdings of investment grade corporates
- Exposure to securitized assets

### DETRACTORS

- Long exposure to core European duration
- Long exposure to JPY

## POSITIONING AND OUTLOOK

- **Interest Rate Strategies** – We maintain our core Eurozone duration exposure while continuing to watch ECB developments closely.
- **Eurozone Periphery** – We maintain a broadly neutral position in peripheral Europe although spread widening may create select buying opportunities.
- **Credit** – We maintain our modest credit exposure, keeping a cautious approach given that valuations appear rich compared to historical averages. We continue to favour financial credits, focusing on countries with more predictable regulatory and legal frameworks, including the UK. We focus on short-dated high quality paper that offers attractive yields given low expected default risk.
- **Securitized & Covered Bonds** – We continue to believe that a modest allocation to securitized assets and covered bonds makes strong sense. These instruments offer attractive yields and contribute very little interest rate sensitivity. We are focusing on AAA-A rated issues, including U.K. covered bonds.
- **Currency** – Exposure to a select EM basket vs. the U.S. dollar.

## PIMCO GIS LOW AVERAGE DURATION FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.25 | 4.44 | 4.78 | 1.97 | 1.68 | 2.07 | 2.82 |
| Benchmark | 0.33 | 3.37 | 4.54 | 1.66 | 1.33 | 1.19 | 2.11 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS Low Average Duration Fund, Institutional, Accumulation, USD. Fund incepted on: 5 December 2002.

Benchmark: ICE BofAML 1-3 Year U.S. Treasury Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Holdings of investment grade corporate credit
- A long sterling bias versus the euro
- Interest rate strategies in Non-U.S., Non-E.U. developed markets

### DETRACTORS

- U.S. interest rate positioning
- Country selection within European duration strategies
- Exposure to a basket of emerging market currencies

## POSITIONING AND OUTLOOK

- **Interest Rate Strategies** – We are slightly overweight duration overall with a preference for U.S. duration against rate exposure in other developed regions, including the U.K. and Japan. We expect rates in the U.S. to be relatively range bound, but positioning in Japan serves as a cheap hedge against global rates moving higher.
- **Mortgages** – We have exposure to Agency MBS, though we remain selective across the coupon stack. These provide attractive, high-quality, and diversifying sources of carry. We also continue to favor positions in non-Agency mortgages given attractive loss-adjusted yields and continued long-term fundamental improvement in the U.S. housing market.
- **Corporate Bonds** – We maintain modest exposure to high quality corporate credits, as these securities provide a spread over Treasuries. We believe that select names in the financial sector offer potentially attractive risk-adjusted returns, given the changes to the regulatory landscape for banks as well as balance sheet improvements.
- **Emerging Markets** – PIMCO will remain selective in EM allocations and seek to tactically take modest exposures when attractive opportunities arise.
- **Currency** – We remain tactical with currency positioning; we are currently long the Japanese yen.

*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 loss.*

## PIMCO GIS US SHORT-TERM FUND

| Performance (% net of fees) | Oct '19 | YTD | 1-yr | 3-yr | 5-yr | 10-yr | SI |
|---|---|---|---|---|---|---|---|
| Fund | 0.09 | 2.41 | 1.93 | 2.27 | 1.97 | - | 1.92 |
| Benchmark | 0.17 | 1.96 | 2.35 | 1.57 | 0.99 | - | 0.93 |

SOURCE: PIMCO. As of 31 October 2019.

**Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.**

PIMCO GIS US Short-Term Fund, Institutional, Accumulation, USD. Fund incepted on: 30 June 2014.

Benchmark: FTSE 3-Month Treasury Bill Index. Benchmark is shown for performance comparison purposes only.

## MAIN PERFORMANCE DRIVERS

### CONTRIBUTORS

- Holdings of investment grade corporates
- Exposure to German duration
- Exposure to Agency MBS

### DETRACTORS

- Exposure to U.S. duration
- Short exposure to AUD
- Short exposure to euro

## POSITIONING AND OUTLOOK

- **Duration** - The fund remains tactical with its overall duration positioning as the market continues to price in Fed cuts for 2019. We hold high quality floating rate securities as a way to provide potential capital preservation while generating attractive income. We are currently underweight U.S duration as we believe the recent rally in yields has been over done and the market is currently pricing in too many cuts given the economic backdrop in the U.S. We continue to prefer duration exposure in Europe and Canada.
- **Corporate Credit** - We continue to favor high quality corporate credit as a source of yield and diversification, based on our view that US economic growth will remain stable. We maintained corporate credit exposure by buying mostly frontend 0-18 month corporate bonds and currently favor FRNs. Many of these bonds offer attractive yields with limited interest rate risk.
- **Mortgage Credit** - We continue to favor select, high quality securitized credit, such as senior ABS, CMBS, Agency CMOs, and select non-Agency MBS. These securities provide an attractive, diversifying source of yield in the portfolio. High quality (AAA-rated, senior tranche), floating rate ABS provides attractive “safe spread” in the portfolio while helping protect principal as interest rates rise.
- **Currency** - Currency positions are modest in size. Our short exposure to EUR combined with long exposures to USD and JPY continue to tactically adjust based on expectations for country/regional growth and shifts in global monetary policy.