

Quarterly Investment Report

31 December 2013

## PIMCO Funds: Global Investors Series plc Global Real Return Fund

An umbrella type open-ended investment company with variable capital and with segregated liability between Funds incorporated with limited liability under the laws of Ireland with registered number 276928

A company of **Allianz** (II)

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PIMCO GIS Global Real Return Fund

### **Market Commentary**

- The fourth quarter saw most inflation-linked bond (ILB) markets post negative returns as the Federal Reserve announced the tapering of its quantitative easing program starting in January
- U.S. Treasury Inflation-Protected Securities (TIPS) returned -2.16% in the quarter, taking the full year 2013 return to -9.26%, its worst calendar year performance since inception of the market
- The Barclays World Govt ILB index, a broad measure of the developed ILB markets, posted a total return of-5.51% for 2013 in USD hedged terms

### Fund Recap

- The Fund underperformed its index for the quarter
- The following strategies were positive for the quarter:
  - An underweight to French real yields, where rates rose over the quarter on weaker inflation prints, a lower inflation trajectory from the ECB and lower liquidity into the holiday period
  - A breakeven widening bias in the U.S., expressed via paid USD interest rate swaps (underweight nominal duration), where nominal yields rose on the quarter as markets priced the taper closer on stronger economic data, eventually being confirmed for a January start
- The following strategies were negative or neutral for returns:
  - An overweight to U.S. real duration, where real yields rose over the quarter on tapering concerns
  - A breakeven tightening bias in the U.K., expressed via exposure to nominal duration, where yields rose over the quarter in line with other developed markets

### Market Outlook

- PIMCO expects the global economy to grow at a real rate of 2.5 – 3.0 percent over the year ahead
- U.S. growth will benefit from an improving labor market, higher asset prices and less fiscal drag
- Growth in Europe will remain weak keeping inflation below the European Central Bank's (ECB) 2% target
- Muted global inflation will persist over the cyclical horizon, but PIMCO believes longer-term pressures are building

### Fund Strategy

- We plan to maintain a full exposure to ILBs and inflation protection whilst tactically managing portfolio interest rate, curve, and country and security selection
- Overweight U.S. TIPS where valuations have become attractive following the sell-off in Q2. We are overweight the belly of the curve and underweight the 30yr point to emphasize carry
- Currently underweight U.K. linkers given slowing inflation and the more attractive valuations available in other developed markets
- We expect to tactically pay French inflation given market expectations for higher inflation than we anticipate
- Tactically overweight Italian ILBs that offer higher real yields with significantly reduced political and policy-making background than last year
- PIMCO plans to maintain exposure to rates in countries such as Brazil, which have relatively high nominal and real local interest rates and steep yield curves with the potential to capture roll-down<sup>1</sup>
- Maintain an overall neutral currency stance given the volatility in the market
- <sup>1</sup> Roll-down is a form of return that is realized as a bond approaches maturity, assuming an upward sloping yield curve.

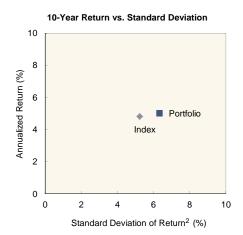
### Summary of Performance Data and Portfolio Statistics

PIMCO GIS Global Real Return Fund

Institutional Class

Performance (%)	Since						
Periods Ended 31/12/2013	Inception	10 yrs	5 yrs	3 yrs	1 yr	6 mos	3 mos
Total Portfolio <sup>1</sup>							
Before Fees	5.59	5.54	7.17	4.48	-5.92	-1.24	-1.71
After Fees-Inst/Accum (Inception 30/09/2003)	5.06	5.01	6.64	3.98	-6.38	-1.49	-1.84
After Fees-Inst/Income (Inception 30/12/2005)	4.52	-	6.64	3.97	-6.37	-1.47	-1.89
Barclays World Government Inflation- Linked Bond USD Hedged Index (%)	-	4.82	4.92	3.49	-5.51	-0.91	-1.43

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Performance data current to the most recent month-end is available by calling +44 (0)20 7408 8955. For United States call +1(866) 746-2606.



Please refer to the next page for Hedged and Additional Share Class Performance.

Summary Information	30/09/2013	31/12/2013
Total Net Assets (USD in millions)	4,710.0	3,561.7
Market Weighted Yield (%) <sup>3</sup>	3.5	4.3
Effective Duration (yrs)	9.8	10.7
Infl-Linked Bond Duration (yrs) <sup>4</sup>	9.8	9.9
Nominal Interest Duration (yrs) <sup>5</sup>	0.0	0.9
Benchmark Duration - Provider* (yrs)	8.6	10.1
Benchmark Duration - PIMCO** (yrs)	10.2	10.1
Effective Maturity (yrs)	11.3	12.6
Average Coupon (%)	1.4	1.5
Tracking Error (10 yrs, %) <sup>7</sup>	2.0	2.0
Information Ratio (10 yrs) <sup>7</sup>	0.2	0.1

See example of tracking error / information ratio in Important Information section of the Appendix.

	% of Marl	ket Value	% of Duration		
Sector Allocation	30/09/2013	31/12/2013	30/09/2013	31/12/2013	
Inflation-Linked Bonds Exposure					
United States	47	47	39	33	
United Kingdom	28	29	46	41	
Europe	6	14	5	7	
Canada	3	3	2	2	
Other	10	13	8	9	
Non Inflation-Linked Exposure					
United States	2	1	-8	-3	
United Kingdom	4	6	3	5	
Europe	2	3	0	1	
Canada	2	0	2	0	
Other	5	5	1	1	
Net Cash Equivalents: <sup>6</sup>	-9	-21	2	4	
Total	100	100	100	100	

<sup>\*</sup>The benchmark duration as provided by Benchmark Provider

<sup>\*\*</sup>Benchmark duration as calculated by PIMCO

Net of Fees Performance	Unified Management Fee	NAV Currency	Inception Date	Since Inception	10 Year	5 Year	3 Year	1 Year	6 Month	3 Month
INSTITUTIONAL (Hedged) Class:										
Global Real Return Fund, Institutional CHF (Hedged), Accumulation	0.49	CHF	16-May-08	3.66	-	6.08	3.47	-6.85	-1.61	-1.92
Barclays World Government Inflation-Linked Bond CHF Hedged Index		-		-	-	4.35	2.99	-5.94	-1.08	-1.48
Global Real Return Fund, Institutional EUR (Hedged), Accumulation	0.49	EUR	30-Sep-03	4.75	4.69	6.74	4.03	-6.67	-1.47	-1.83
Global Real Return Fund, Institutional EUR (Hedged), Income	0.49	EUR	30-Dec-05	4.22	-	6.75	4.04	-6.63	-1.41	-1.78
Global Real Return Fund, Institutional EUR (Hedged), Income II	0.49	EUR	01-Oct-13	-1.85	-	-	-	-	-	-
Barclays World Government Inflation-Linked Bond Euro Hedged Index		-		-	4.31	4.96	3.59	-5.76	-0.99	-1.43
Global Real Return Fund, Institutional GBP (Hedged), Accumulation	0.49	GBP	05-Feb-04	5.77	-	6.83	4.23	-6.39	-1.33	-1.83
Global Real Return Fund, Institutional GBP (Hedged), Income	0.49	GBP	27-Apr-05	5.06	-	6.83	4.23	-6.37	-1.34	-1.78
Barclays World Government Inflation-Linked Bond GBP Hedged Index		-		-	-	5.14	3.76	-5.37	-0.75	-1.32
Global Real Return Fund, Institutional SGD (Hedged), Accumulation	0.49	SGD	29-Feb-08	3.61	_	6.57	3.89	-6.53	-1.52	-1.91
Barclays World Government Inflation-Linked Bond SGD Hedged Index		-		-	-	4.94	3.42	-5.67	-0.97	-1.47
INSTITUTIONAL (Unhedged) Class:										
Global Real Return Fund, Institutional (Unhedged), Income	0.49	USD	02-Apr-13	-5.86	-	-	-	-	2.13	-1.17
Barclays World Government Inflation-Linked Bond USD Unhedged Index		-	•	-	-	-	-	-	2.66	-0.69
Global Real Return Fund, Institutional GBP (Unhedged), Income	0.49	GBP	02-Apr-13	-13.95	_	_	_	_	-6.42	-3.32
Barclays World Government Inflation-Linked Bond GBP Unhedged Index		-	•	-	-	-	-	-	-5.99	-2.90
INVESTOR Class:										
Global Real Return Fund, Investor, Accumulation	0.84	USD	04-Mar-04	4.40		6.27	3.62	-6.71	-1.66	-1.96
Global Real Return Fund, Investor, Income	0.84	USD	24-Feb-09	6.56	_	-	3.61	-6.70		-1.98
Barclays World Government Inflation-Linked Bond USD Hedged Index		-		-	-	4.92	3.49	-5.51	-0.91	-1.43
INVESTOR (Hedged) Class:										
Global Real Return Fund, Investor CHF (Hedged), Income	0.84	CHF	24-Feb-09	5.98		_	3.10	-7.25	-1.80	-2.04
Barclays World Government Inflation-Linked Bond CHF Hedged Index		-		-	-	-	2.99	-5.94	-1.08	
Global Real Return Fund, Investor EUR (Hedged), Accumulation	0.84	EUR	07-Apr-04	4.25	_	6.36	3.68	-6.93	-1.58	-1.83
Global Real Return Fund, Investor EUR (Hedged), Income	0.84	EUR	24-Feb-09	6.60	_	-	3.69	-6.91	-1.59	
Barclays World Government Inflation-Linked Bond Euro Hedged Index		-		-	-	4.96	3.59	-5.76		
Global Real Return Fund, Investor GBP (Hedged), Accumulation	0.84	GBP	02-Feb-07	5.41	_	6.47	3.84	-6.63	-1.56	-1.87
Global Real Return Fund, Investor GBP (Hedged), Income	0.84	GBP	24-Feb-09	6.75	_	-	3.85	-6.65		
Barclays World Government Inflation-Linked Bond GBP Hedged Index	0.04	-	1 1 0 D 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	-	-	5.14	3.76	-5.37	-0.75	
ADMINISTRATIVE Class:										
Global Real Return Fund, Administrative, Accumulation	0.99	USD	17-Dec-04	4.10	_	6.12	3.47	-6.82	-1.74	-1.98
Barclays World Government Inflation-Linked Bond USD Hedged Index	0.00	-	200 01	-	_	4.92	3.49	-5.51	-0.91	-1.43
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# Hedged and Additional Share Class Performance

Net of Fees Performance	Unified Management Fee	NAV Currency	Inception Date	Since Inception	10 Year	5 Year	3 Year	1 Year	6 Month	3 Month
H INSTITUTIONAL Class: Global Real Return Fund, H Institutional, Accumulation Barclays World Government Inflation-Linked Bond USD Hedged Index	0.66	USD -	21-May-04	4.89	-	<b>6.45</b> 4.92	<b>3.81</b> 3.49	<b>-6.53</b> -5.51	<b>-1.57</b> -0.91	<b>-1.92</b> -1.43
Class E: Global Real Return Fund, Class E, Accumulation Global Real Return Fund, Class E, Income Barclays World Government Inflation-Linked Bond USD Hedged Index	1.39 1.39	USD USD	31-Mar-06 28-Oct-05	3.95 3.68	-	<b>5.68 5.68</b> 4.92	3.05 3.05 3.49	<b>-7.22 -7.23 -</b> 5.51	<b>-1.91</b> <b>-1.94</b> -0.91	<b>-2.10 -2.10 -1.43</b>
Class E (Hedged): Global Real Return Fund, Class E EUR (Hedged), Accumulation Barclays World Government Inflation-Linked Bond Euro Hedged Index	1.39	EUR -	31-Mar-06	3.71 -	-	<b>5.76</b> 4.96	<b>3.12</b> 3.59	<b>-7.47</b> -5.76	<b>-1.90</b> -0.99	<b>-2.03</b> -1.43
Global Real Return Fund, Class E GBP (Hedged), Income Barclays World Government Inflation-Linked Bond GBP Hedged Index	1.39	GBP -	15-Jun-09	5.36 -	-	-	<b>3.29</b> 3.76	<b>-7.15</b> -5.37	<b>-1.73</b> -0.75	<b>-1.98</b> -1.32
Class R: Global Real Return Fund, Class R, Accumulation Barclays World Government Inflation-Linked Bond USD Hedged Index	0.76	USD -	30-Nov-12	-6.19 -	-	-	-	<b>-6.61</b> -5.51	<b>-1.58</b> -0.91	<b>-1.89</b> -1.43
Class R (Hedged): Global Real Return Fund, Class R EUR (Hedged), Accumulation Barclays World Government Inflation-Linked Bond Euro Hedged Index	0.76	EUR -	30-Nov-12	-6.56 -	-	- -	-	<b>-7.01</b> -5.76	<b>-1.59</b> -0.99	<b>-1.90</b> -1.43
Global Real Return Fund, Class R GBP (Hedged), Accumulation Global Real Return Fund, Class R GBP (Hedged), Income Barclays World Government Inflation-Linked Bond GBP Hedged Index ANNUALISED PERFORMANCE FOR PERIODS OF AT LEAST ONE YEAR, OTHER	0.76 0.76	GBP GBP	30-Nov-12 30-Nov-12	-6.19 -6.21 -	-	-	-	<b>-6.61</b> <b>-6.62</b> -5.37	<b>-1.48</b> <b>-1.44</b> <b>-</b> 0.75	<b>-1.89</b> <b>-1.77</b> -1.32

The quarter opened with the U.S. Government shutting down – the 17<sup>th</sup> such event in U.S. history – due to Congress's failure to fund the government for fiscal year 2014. During the 16-day shutdown, approximately 800,000 federal employees were furloughed as Congress continued to bicker over the debt ceiling, sequestration, and Obamacare, among other issues. As has become the norm, through an eleventh-hour deal Congress managed to both re-open the government and remove the immediate threat of a debt default. While the deal did not represent a true compromise and simply kicked the can down the road yet again, it was just enough to calm markets. In the end, markets were most happy that the shutdown was deemed short enough to avoid any significant or lasting effects on the economy.

After months of preparation and intense data watching, the Federal Reserve (Fed) announced its intention to begin gradually exiting its bond-buying program. In January 2014 the Fed will reduce – or "taper" – its quantitative easing program from \$85 billion to \$75 billion spread equally across mortgage and Treasury purchases. As expected, in order to anchor the front-end of the yield curve, the Federal Open Market Committee (FOMC) provided even greater assurances that the policy rate would remain near the zero bound until signs of sustainable growth were more broadly evident. Thus far, its 'forward guidance' had consisted of providing an unemployment threshold for potential action, but in December they added that "it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6-1/2 percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal." While the markets had months to prepare for the announcement, equities and other risk assets soared in reaction to the news while bond markets saw yields drift higher.

While the Fed action came a bit earlier than some expected, the majority of ensuing economic data supported their decision.

Indeed, U.S. economic data was surprisingly strong throughout the quarter. Third quarter GDP growth, which was initially reported at 2.9 percent in November, was upwardly revised to 4.1 percent in December. The latest unemployment figure came in at 7.0 percent, down from 7.9 percent in January. The housing market continues to shine as a bright spot in the recovery.

Outside of the U.S., evidence of a policy-induced, synchronized global recovery continued to build. The European Union showed signs of economic stabilization, as a number of eurozone confidence indicators accelerated during the quarter, with a few approaching post-crisis highs. But with headline growth still anemic and inflation trending below target, the European Central Bank (ECB) unexpectedly cut its benchmark interest rate to a record low during the quarter. Markets viewed the rate cut as a bid to prevent deflation expectations from choking off Europe's still-fragile recovery.

Across the Pacific, extraordinary policy measures in Japan appeared to be both on track and having the desired effect on the real economy. The Bank of Japan continued to buy more than 7 trillion yen of government bonds each month. The combination of a weaker yen and ongoing quantitative easing has also pushed inflation higher; at over 1.0 percent, Japanese inflation is running at a five year high and halfway to the stated 2.0 percent goal.

# Treasury Inflation-Protected Securities (TIPS) and Global Inflation-Linked Bonds (ILBs) Posted Generally Negative Returns

**U.S.** – TIPS returned -2.00 percent during the fourth quarter, as represented by the Barclays Capital U.S. TIPS Index.

Real rates rose across most maturities during the quarter, with the exception of short-term rates, which rallied. The 10-year real rate increased by 35 basis points. In general, rates increased as the market began to price in the nearing tapering decision, which was officially announced in December on the back of stronger jobs and GDP growth data. In addition, low inflation prints continue to weigh on concerns for the need for inflation protection. The December short-term real yield rally was primarily the result of rising gasoline prices, which increased short-term inflation expectations.

Inflation accruals were -0.02 percent over the quarter. Higher shelter prices were offset by lower energy prices in August, September and October, which were passed through to TIPS in the fourth quarter.

TIPS underperformed like-duration nominal Treasuries despite generally wider breakeven inflation levels (the difference between nominal and real yields and a measure of market inflation expectations) due to carry differential. The largest move in breakeven inflation levels happened at the front of the curve in response to stronger gasoline prices.

**U.K.** – U.K. ILBs sold off during the quarter with real yields rising primarily at the front end. Shorter-dated maturities suffered on speculation that the government may reduce "green taxes" on utility costs, which would take around 5 percent off energy bills and impact the retail price index (RPI). In addition, yields in general rose across the curve on supply news announcing a 2068 syndication in January combined with four regular auctions over the first quarter of 2014.

**Europe** – The surprise European Central Bank (ECB) rate cut from 0.50 to 0.25 percent did not support linker markets, which reacted negatively to a lower inflation trajectory from the ECB as Draghi stated the region could "experience a prolonged period of low inflation". He outlined tools the ECB could use if inflation fell further from target, but noted these were not discussed at length at the most recent meeting. Supply announcements for next year put additional pressure on the region's markets, with Spain also announcing plans to enter into inflation-linked issuance. Italy was a positive outlier in the eurozone with the most significant driver of yields being the stabilization of the political situation early in the quarter, which lent confidence to the

markets. The sentiment was evident in better buying of Italian issues, which helped the country outperform other European nations.

Australia – The Reserve Bank of Australia (RBA) met at the beginning of November and held the policy rate at 2.50% after cutting it from 2.75 percent in August. However, third quarter GDP came out below expectations, at 2.3 percent versus 2.6 percent, which failed to instill confidence in the ILB market as weaker domestic growth is bearish for inflationary pressure.

Emerging Markets – Concerns about the worsening fiscal situation, a potential credit rating downgrade and high "sticky" inflation all weighed on the Brazilian ILB market. The Brazilian Central Bank (BCB) implemented another rate hike in November, contributing to a yield sell-off. The BCB statements in recent months have reiterated the intention to use rate hikes to bring down inflation. ILBs outperformed nominals as currency weakness generally implies higher inflation pass-through. Furthermore, the BCB signaled that it may slow the pace of rate hikes, which added to the breakeven widening bias.

Market Outlook First Quarter 2014

### **Brighter Global Growth Outlook**

PIMCO has become modestly more optimistic about the outlook for global growth, expecting 2.5-3.0 percent next year. Many of the challenges faced during 2013 have faded, yielding a brighter outlook for global growth. But while headwinds have abated, unwinding monetary policy's supportive grip on financial markets could prove challenging. Persistent sizeable output gaps, high unemployment and below potential demand suggest inflation will remain contained.

In the U.S. we expect growth to accelerate from its recent 1.8 percent pace toward 2.25-2.75 percent. Our slightly upgraded U.S. growth forecast is due to a diminishing drag from fiscal policy, steady improvements in employment and higher asset valuations. While our outlook remains below consensus, we recognize upside potential given the notable improvement in corporate and household balance sheets. On the consumer front, we expect job gains and income growth will add to the recent demand for housing and durable goods. While we expect a small lift to business investment, pent-up demand and cheap financing could prove more supportive than we expect. On the downside, we still face the potential for policy complications out of Washington given the high degree of polarization. A cautious Federal Reserve (Fed) will continue to provide support, slowly tapering its asset purchases and pushing rate hike expectations out via forward guidance. While this approach is likely to provide a firm anchor for the front end, the Fed's inherent 'datadependency' will likely be a source of market volatility.

### **Europe: Weak Growth, Bifurcated Risks**

In Europe, we expect a more tempered pace of growth (0.25-0.75 percent) with risks in both directions. Despite the improvement in financial markets, the prospects for much of the eurozone have changed little – especially with regards to the divergence between Germany and the periphery. Europe appears to be emerging from recession but we expect only weak growth with highly bifurcated risks. Years of recessionary growth

have created pent-up demand that could be released with modest recovery in labor markets or with better bank intermediation. On the downside, high unemployment and tight credit suggest demand will remain subdued. As the intended effects of the European Central Bank (ECB) policies have struggled to feed through to the real economy, bank stress tests will lead to more balance sheet deleveraging and we see little room for a sharp rebound in exports. Our base case expects the ECB to maintain a dovish stance.

### Japan: More Challenges in 2014

In Japan, extraordinary policies continue to support growth of 1.0-1.5 percent. While monetary ease will continue to support the economy, Abenomics will become more challenging in 2014. The 2013 surge in growth was due to fiscal support and the front-loading of consumption ahead of the tax hike. In the year ahead, the government is set to move away from excessive fiscal easing and start to tighten its belt. With this backdrop, either private demand or exports will have to take over. While the higher tax rate could cap consumption, aggressive monetary policy may weaken the yen further and thereby support exports. That said, because self-sustained growth remains years away, we think policymakers will continue to provide support as necessary if the economy weakens.

### **Emerging Markets Cool and Differentiate**

The growth trajectory for emerging markets (EM) will be shaped by developed market growth as well as central bank policies. While collectively we expect 3-4 percent growth, there will be large dispersion across countries given differentiation in trade, commodity dependence and policy frameworks. Through a combination of improving external demand and stabilizing policies China is likely to maintain a 7 percent growth rate in 2014. Other EM will see more modest growth and bouts of financial market volatility may be a point of stress for some. We are fairly constructive on Latin America as the improvement in

U.S. growth and broader economic stabilization globally should be supportive.

# **Investment Strategies: Measuring Risks, Seeking Opportunities**

In Global Real Return strategies we expect to maintain full exposure to inflation-linked bonds (ILBs) and inflation protection while tactically managing portfolio duration, curve and country selection. We are emphasizing quality, liquidity and flexibility to respond quickly to changing valuations.

- U.S. Interest Rate Strategies We find U.S. TIPS attractive relative to other Global ILB markets following their underperformance last year. We are concentrating our positions in the belly of the real yield curve where we see superior opportunities for roll-down¹ and price appreciation, as market expectations for rate increases are unlikely to be met. We remain underweight the long end of the real yield curve as longer maturities may not adequately compensate investors for price volatility and longer-term inflation risk. We plan to tactically respond to anticipated short-term inflation mispricing due to changes in commodity prices and seasonal trends.
- U.K. Interest Rate Strategies we plan to retain our underweight to U.K. ILBs given our view that inflation will likely remain low close to the Bank of England's 2% target. To that end, we are tactically overweight nominal gilts, as we believe inflation expectations will likely tighten on the back of slowing inflation. We favour taking our exposure in the belly of the real yield curve, similar to U.S. TIPS, as this part provides opportunities for roll-down and price appreciation.

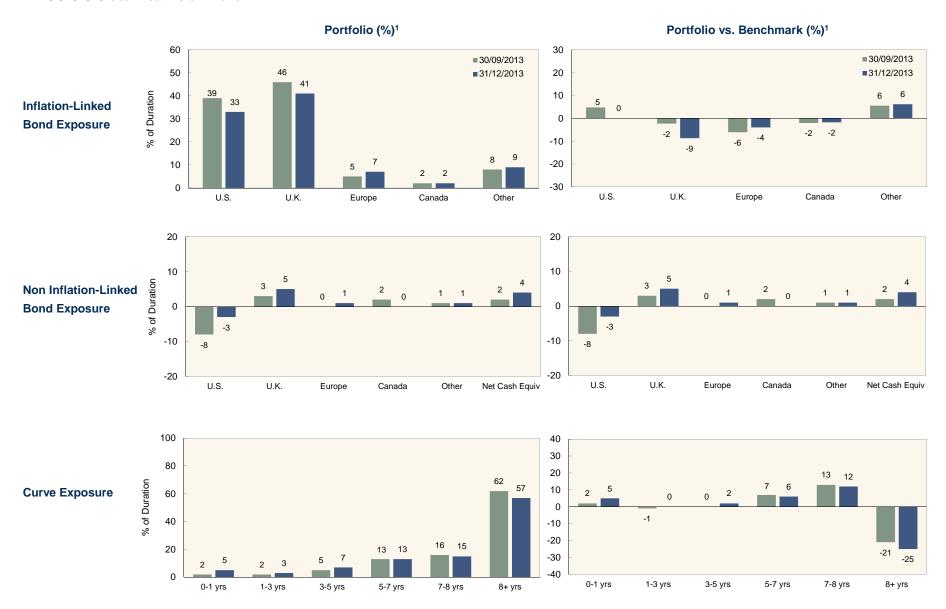
Other Global Strategies –We hold an overweight position in Australian ILBs given the possibility of future rate cuts; we have been reducing New South Wales ILB positions after a rally following the cancellation of regular auctions. We hold allocations to New Zealand and Denmark ILBs, which offer higher real yields and are likely to benefit from being added to the widely followed Barclays ILB indexes. PIMCO is also holding allocations in Italian ILBs that offer higher real yields with significant policy support from downside surprises. We continue to tactically pay French inflation given market expectations for higher inflation prints than what we anticipate.

As the pace of economic growth in the developing world slows, we will become increasingly selective in its emerging markets allocations. We see Brazil as a high quality emerging economy with steep yield curves and high real interest rates offering potential return through carry<sup>2</sup> and roll-down; we favor nominal bonds over ILBs, which are pricing in inflation that is notably higher than the Brazilian Central Bank's target.

<sup>&</sup>lt;sup>1</sup> Roll down is a form of return that is realized as a bond approaches maturity, assuming an upward sloping yield curve.

<sup>&</sup>lt;sup>2</sup> Carry is the rate of interest earned by holding the respective securities.

### Portfolio Characteristics and Benchmark Variance



## Direct Country and Currency Exposure

PIMCO GIS Global Real Return Fund

Country Exposure (by currency of settlement)<sup>1</sup>

		Port 30/09	folio	Exposure (by our		Port 31/12			Benchmark 31/12/2013
		Market Value	Weighted (%	<b>b)</b>		Market Value	Weighted (%	)	
	% of		Cash	Currency	% of		Cash	Currency	% of
(settlement currency)	<b>Duration</b>	<b>Bonds</b>	Equiv.	Exposure <sup>2</sup> (%)	<b>Duration</b>	<b>Bonds</b>	Equiv.	Exposure <sup>2</sup> (%)	<b>Duration</b>
North America	36.6	53.7	11.2	99.3	34.2	50.9	10.4	100.3	36.6
Canada	4.4	4.8	0.0	0.0	1.8	2.7	0.0	0.0	3.7
United States	32.2	48.9	11.2	99.3	32.4	48.2	10.4	100.3	32.9
Europe - EMU	5.1	8.2	1.3	0.4	8.2	16.8	1.5	-0.1	11.0
France	3.6	4.2	0.1	-	4.3	6.3	0.0	-	9.1
Germany	0.8	1.6	0.0	-	2.6	7.3	0.0	-	1.9
Italy	1.1	1.7	0.0	-	1.2	2.2	0.0	-	0.0
Slovenia	0.0	0.0	0.0	-	0.1	0.3	0.0	-	0.0
Spain	0.1	0.7	0.0	-	0.1	0.6	0.0	-	0.0
Other <sup>3</sup>	-0.5	0.0	1.2	-	-0.1	0.1	1.5	-	0.0
United Kingdom	49.7	31.4	4.4	0.2	46.6	35.2	6.0	0.1	49.6
Europe - Non-EMU	4.0	6.4	0.1	0.0	4.4	7.9	0.0	0.0	1.0
Denmark	2.2	2.8	0.1	0.0	2.3	3.1	0.0	0.0	0.0
Sweden	1.8	3.6	0.0	0.0	2.1	4.8	0.0	0.0	1.0
Japan	-1.4	-1.5	0.0	0.0	-1.6	-1.8	0.0	0.0	0.6
Asia Pacific ex-Japan	3.3	3.5	0.0	0.0	5.7	5.4	16.1	0.0	1.2
Australia	1.3	1.2	0.0	0.0	1.7	2.1	0.0	0.0	0.9
New Zealand	2.0	2.3	0.0	0.0	4.0	3.3	16.1	0.0	0.3
Emerging Markets	2.7	7.3	0.5	0.0	2.5	6.6	0.7	-0.3	0.0
Brazil	1.9	6.5	0.0	0.1	1.3	5.0	0.0	-0.1	0.0
Chile	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
India	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mexico	0.1	0.2	0.5	0.0	0.3	0.7	0.7	0.0	0.0
Singapore	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0
South Africa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Thailand	0.7	0.6	0.0	-0.1	0.9	0.9	0.0	-0.2	0.0
Turkey	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Liabilities <sup>4</sup>	0.0	<u>0.0</u>	<u>-26.5</u>	0.0	<u>0.0</u>	<u>0.0</u>	<u>-55.7</u>	<u>0.0</u>	<u>0.0</u>
<b>Total Direct Exposure</b>	100.0	109.0	-9.0	100.0	100.0	121.0	-21.0	100.0	100.0

Small allocations may round to zero.

# Direct Emerging Markets Bond Exposure PIMCO GIS Global Real Return Fund

### **Emerging Markets Exposure (by country of issuer)**

		30/09/2013			31/12/2013	
	% of MV	% of MV	% of	% of MV	% of MV	% of
	Cash Equiv.	<b>Bonds</b>	<b>Duration</b>	Cash Equiv.	<b>Bonds</b>	<b>Duration</b>
Brazil	-0.01	7.14	1.87	-0.01	5.72	1.28
Chile	0.00	0.26	0.00	0.00	0.00	0.00
India	-0.02	0.06	0.00	0.00	0.07	0.00
Mexico	0.48	0.23	0.07	0.65	0.66	0.28
Qatar	0.00	0.00	0.00	0.03	0.09	0.05
Russia	0.00	0.17	0.07	0.00	0.22	0.07
Singapore	0.00	0.00	0.00	0.00	0.00	0.00
South Africa	0.00	0.06	0.04	0.01	80.0	0.04
South Korea	0.00	0.00	0.00	0.00	0.06	0.01
Thailand	0.00	0.64	0.75	0.00	0.81	0.95
Turkey	0.00	0.00	0.00	0.00	0.00	0.00
United Arab Emirates	<u>0.00</u>	0.00	0.00	<u>0.00</u>	<u>0.02</u>	<u>0.01</u>
<b>Total Direct Emerging Markets</b>	0.45	8.56	2.80	0.68	7.73	2.69

Small allocations may round to zero.

### PIMCO Proprietary Portfolio Level Risk Measures

Risk Measures (yrs) <sup>1</sup>	30/09/2013 <sup>2</sup>	31/12/2013	Definitions of Risk Measures:
Interest Rate Exposures:			
Effective Duration Portfolio Infl-Linked Bond Duration Nominal Interest Duration	9.8 9.8 0.0	10.7 9.9 0.9	A portfolio's price sensitivity to changes in interest rates. An accurate predictor of price changes only for small, parallel shifts of the yield curve. For every 1 basis point fall (rise) in interest rates, a portfolio with duration of 1 year will rise (fall) in price by 1 bp.
Benchmark - Infl-Linked Bond Duration - Nominal Interest Duration	8.6 8.6 0.0	10.1 10.1 0.0	The duration contribution of inflation-linked and nominal bonds to the overall duration of the portfolio. The duration contribution of inflation-linked bonds have been adjusted by a yield beta.
Yield Beta	0.90	0.90	Duration is defined as the price sensitivity of a bond to changes in nominal yields. Inflation-linked bonds are sensitive to changes in real yields. To relate the price sensitivity of ILBs to changes in nominal yields, a yield beta is applied to nominal changes to arrive at a price sensitivity of ILBs to changes in nominal rates. A yield beta of 0.90 implies that if nominal yields move 100 basis points, real yields will move 90 basis points. ILBs with long maturity may respond differently to changes in nominal rates than shorter maturity ILBs.
Bull Market Duration Portfolio Benchmark	9.1 8.7	10.3 10.2	A portfolio's effective duration after a 50 bp decline in rates. The extent to which a portfolio's duration exceeds its bull market duration is a gauge of contraction risk.
Bear Market Duration Portfolio Benchmark	10.4 8.5	11.2 10.0	A portfolio's effective duration after a 50 bp rise in rates. The extent to which a portfolio's bear market duration exceeds its duration is a gauge of extension risk.
Sector Exposures*:			
Mortgage Spread Duration Portfolio Benchmark	0.1 0.0	0.1 0.0	The contribution of mortgages to spread duration. For every 1 bp of mortgage spread tightening (widening), a portfolio with mortgage spread duration of 1 year will rise (fall) in price by 1 bp.
Corporate Spread Duration Portfolio Benchmark	0.0 0.0	0.0 0.0	The contribution of corporate bonds to spread duration. For every 1 bp of corporate spread tightening (widening), a portfolio with corporate spread duration of 1 year will rise (fall) in price by 1 bp.
Emerging Markets Spread Duration Portfolio Benchmark	0.3 0.0	0.3 0.0	The contribution of emerging market bonds to spread duration. For every 1 bp of emerging market spread tightening (widening), a portfolio with an emerging market spread duration of 1 year will rise (fall) in price by 1 bp.
Swap Spread Duration Portfolio Benchmark	-0.7 0.0	-0.4 0.0	The contribution of swaps to spread duration. For every 1 bp of swap spread tightening (widening), a portfolio with swap spread duration of 1 year will rise (fall) in price by 1 bp. A negative swap spread duration indicates that the portfolio will benefit from widening swap spreads.

<sup>\*</sup> As measured by spread duration, which represents a portfolio's price sensitivity to changes in spreads, or yield premiums, that affect the value of bonds that trade at a spread to Governments. These include mortgage-backed, corporate and emerging market bonds, as well as swaps.

<sup>&</sup>lt;sup>1</sup> Data in years except for Yield Beta

<sup>&</sup>lt;sup>2</sup> As of 13 December 2013, PIMCO has implemented a new spread duration calculation methodology, which is reflected in the 31/12/2013 data. The reported 30/09/2013 spread duration values are based off PIMCO's previous calculation methodology.

Derivatives <sup>1</sup>				
(% of Duration)	30/09/2013 3	31/12/2013	Characteristics of Derivatives:	Control Measures
Government Futures	5.1 <b>8.1</b>		Used to adjust interest rate exposures and to replicate government bond positions. Frequently offers the opportunity to outperform government securities due to cheapness of futures contracts and active management of the liquid, short duration securities backing the futures.	Bond-equivalent exposure included in portfolio duration. Back long futures positions with high grade, liquid debt securities.
Other Futures	0.0	0.0	Includes municipal, mortgage-backed and interest rate swap futures.	See Government Futures.
Interest Rate Swaps	-8.9		Includes swaps with duration greater than 1 year. Used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions ("receive fixed") increase exposure to long-term interest rates; short positions ("pay fixed") decrease exposure.	Bond-equivalent exposure included in portfolio duration. Back long swaps positions with high grade, liquid debt securities.
Credit Default Swaps*	0.0	0.0	Credit default swaps are used to manage credit exposure without buying or selling securities outright. Written CDS increase credit exposure	Bond-equivalent exposure included in portfolio credit risk measures. Back long exposures with high grade,
Written	0.0		("selling protection"), obligating the portfolio to buy bonds from counterparties in the event of a default. Purchased CDS decrease	liquid debt securities. Continually monitor underlying credit exposure.
Purchased	0.0		exposure ("buying protection"), providing the right to "put" bonds to the counterparty in the event of a default.	
Options	-0.1		Written options generate income in expected rate scenarios and may generate capital losses if unexpected interest rate environments are	Bond-equivalent exposure (weighted by probability of exercise) included in portfolio duration. Back
Written	0.3	2.0	realized. Purchased options are used to manage interest rate and volatility exposures. Both written and purchased options will become worthless at expiration if the underlying instrument does not reach the	underlying exposure with high grade, liquid debt securities.
Purchased	-0.4		strike price of the option.	
Mortgage Derivatives	0.0		Used to manage portfolio duration and/or enhance yield. Includes securities determined by PIMCO to have potentially less stable duration characteristics, such as Interest Only strips (IOs), Principal Only strips (POs), Support Class CMOs and Inverse Floaters. Value will fluctuate as prepayment speeds respond to rising and falling interest rates.	Bond exposure included in portfolio duration, convexity, and prepayment risk measures. Use IO's and PO's in moderation and in an overall portfolio context.
Money Market Derivatives	2.1		Used to manage exposures at the short end of the yield curve and express PIMCO's expectations for future short-term rates. Includes	Bond-equivalent exposure included in portfolio duration. MM derivatives are not backed by other
Futures	2.2		swaps with duration of 1 year or less, and Eurodollar, Euribor and other futures based on short-term interest rates.	assets as they represent short-maturity exposures and have no deliverable at expiration.
Interest Rate Swaps	-0.1	1.1		and have no deliverable at expiration

<sup>\*</sup> Credit default swaps are shown as percentage of market value to reflect potential default risk.

Past performance is no guarantee of future results. Forecasts are based on proprietary research and should not be interpreted as investment advice or as an offer or solicitation for the purchase or sale of any financial instrument.

### Risk Disclosures

### **Summary of Performance Data and Portfolio Statistics**

- 1 All time periods longer than one year are annualised and returns include reinvestment of dividends, income and capital gains, if any. The Fund can invest a portion of its assets in non-U.S. securities, which can entail greater risks due to non-U.S. economic and political developments. This risk may be enhanced when investing in Emerging Markets. Investment in a Fund that invests in high-yield, lower-rated securities, will generally involve greater volatility and risk to principal than investments in higher-rated securities. In an environment where interest rates may trend upward, rising rates will negatively impact the performance of most bond funds, and fixed income securities held by a fund are likely to decrease in value. Bond funds and individual bonds with a longer duration (a measure of the expected life of a security) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested.
- 2 Standard deviation is a statistical measure of dispersion about an average, which for a mutual fund, depicts how widely the returns varied over a certain period of time.
- 3 The market weighted yield is based on PIMCO's best judgment for the securities in the portfolio on the date shown. The market weighted yield of a portfolio is calculated by summing up each security's individual market weighted yield. An individual security's market weighted yield is calculated by multiplying the yield associated with the particular security by the market value weighted percentage value of that security.
- 4 The duration contribution of inflation-linked to the overall duration of the portfolio as adjusted by a yield beta.
- 5 The duration contribution of nominal bonds to the overall duration of the portfolio.
- 6 Net cash equivalents includes STIF, CP, ST Government, BAs and CDs, less the amount used to back liabilities such as futures, forwards and unsettled trades. Money Market Futures/Options include Eurodollar and Euribor futures that are based on short term interest rates and represent short maturity exposures. They are not backed by other assets and have no deliverable at expiration as they are cash settled. The notional amount of money market futures, captured in the column labeled "% of Market Value", is based on an annualized 3-month interest rate and follows the industry convention of dividing the notional amount by 4 to reflect the underlying 3-month rate exposure. Money market futures' contribution to overall portfolio duration is captured in the column labeled "Duration in Yrs" Other includes repurchase agreements, accrued interest and bankers acceptances.
- 7 Tracking error, a measure of risk, is defined as the standard deviation of the portfolio's excess return vs.the benchmark expressed in percent. The information ratio is defined as the portfolio's excess return per unit of risk, or tracking error. For example, an information ratio of 1 means that a portfolio manager generates 100 basis points, or one percent of excess return for every 100 basis points of risk taken.

### **Market Commentary and Market Outlook**

Mortgage bonds are susceptible to risks such as default and prepayment of principal, and taxable at the state and federal levels. Treasuries are guaranteed by the United States government and are only taxable at the Federal level. Guarantee does not eliminate market risk.

Inflation Linked Bonds (ILBs), are issued by the issuing government at a fixed rate that is adjusted based on the change of the issuing governments Consumer Price Index, or equivalent. ILBs decline in value when real interest rates rise.

Nominal Bonds are any security issued, both domestic and foreign, that do not have inflation protection. The risks of nominal bonds fluctuate with the characteristics and credit rating of the issuing entity or government.

Bonds issued by a government outside of the United States that are guaranteed by the issuing government. Guarantee does not eliminate market risk. It is important to note that longer maturity bonds have greater volatility and risk when compared to shorter maturity bonds. Also, governments outside of the United States have different credit ratings which directly correlate to the risks associated with securities.

Treasury Inflation-Protected Securities (TIPS) are ILBs issued by the U.S. Government. Inflation-linked bonds (ILBs) issued by a government are fixed-income securities whose principal value is periodically adjusted according to the rate of inflation; ILBs decline in value when real interest rates rise.

High Yield bonds involve greater volatility and risk to principal than investments in higher-rated securities as the issuing entity has a lower credit rating possibly making the security more susceptible to default. Generally these types of bonds are taxable at the state and federal level.

Emerging Market bonds are susceptible to market, credit, currency, liquidity, legal, political, technical and other risks different from, or greater than, the risks of investing in developed foreign countries.

### Market Commentary and Market Outlook, (cont'd)

Sovereign securities are generally backed by the issuing government, obligations of U.S. Government agencies and authorities are supported by varying degrees but are generally not backed by the full faith of the U.S. Government; portfolios that invest in such securities are not guaranteed and will fluctuate in value.

### Portfolio Characteristics and Benchmark Variance

1 Other includes emerging markets and cash equivalents. Cash equivalents include liquid assets such as net payables/receivables, money market securities, and other high quality, short-duration instruments. Europe - EMU represents the 12 "Euro-in" countries; Europe Non -EMU includes Switzerland, Denmark, Norway and Sweden; North America includes US and Canada.

### **Direct Country and Currency Exposure**

- 1 Country exposures reflect the portfolio's effective exposure to non-U.S. markets, inclusive of forward settled holdings. Small allocations may round to zero.
- 2 Includes currency exposure due to non-U.S. holdings, hedging transactions and outright currency transactions. Positive numbers reflect long currency positions relative to base currency. Allocations may not add to totals due to rounding.
- 3 Other includes swaps and securities issued in euros by issuers outside of core Europe.
- 4 Includes liabilities associated with futures, forwards and unsettled trades.

### **Summary of Derivatives**

1 This Fund may use derivative instruments for hedging purposes or as part of its investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that a fund could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested.

### **Index Descriptions**

Barclays World Government Inflation-Linked Bond Index is an index that measures the performance of the major government inflation-linked bond markets. The Index includes inflation-linked debt issued by the following countries: Australia, Canada, France, Sweden, UK, & the United States. It is not possible to invest directly in an unmanaged index.

Barclays U.S. TIPS Index is an unmanaged market index comprised of all U.S. Treasury Inflation Protected Securities rated investment grade (Baa3 or better), have at least one year to final maturity, and at least \$250 million par amount outstanding. Performance data for this index prior to 10/97 represents returns of the Barclays Inflation Notes Index. It is not possible to invest directly in an unmanaged index. Prior to November 1st, 2008, this index was published by Lehman Brothers.

Barclays U.S. TIPS: 1-10 Year is an unmanaged index market comprised of U.S. Treasury Inflation Protected securities having a maturity of at least 1 year and less than 10 years. It is not possible to invest directly in an unmanaged index. Prior to November 1st, 2008, this index was published by Lehman Brothers.

Barclays U.S. Treasury Inflation Notes: 10+ Year is an unmanaged index market comprised of U.S. Treasury Inflation Protected securities with maturities of over 10 years. It is not possible to invest directly in an unmanaged index. Prior to November 1st, 2008, this index was published by Lehman Brothers.

Barclays World Government Inflation-Linked Bond Index is an index that measures the performance of the major government inflation-linked bond markets. The Index includes inflation-linked debt issued by the following countries: Australia, Canada, France, Sweden, UK, & the United States. It is not possible to invest directly in an unmanaged index.

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