PIMCO

PIMCO Unconstrained Bond Fund (Canada)

Quarterly Investment Report | 1Q24

IMPORTANT NOTICE
Please note that this material contains the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

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Executive summary

Portfolio Performance

The PIMCO Unconstrained Bond (Canada) Fund (I series, before fees) posted a positive return over the first quarter driven mainly by contributions from spread and currency strategies, while duration strategies detracted.

CONTRIBUTORS

- Exposure to the cash interest rate in Canada, from carry
- Holdings of securitized assets, primarily US Agency MBS and non-Agency MBS
- Holdings of investment grade corporate credit, as spreads tightened, and through carry and selection

DETRACTORS

- Long exposure to US duration, as yields rose
- Short exposure to the US dollar, as it appreciated against the Canadian dollar

Performance periods ended 31 Mar '24	3 mos.	6 mos.	1 yr.	3 yrs.	5 yrs.	SI
Series I Fund, before fees	1.71	5.66	8.41	1.10	2.23	2.86
Benchmark*	1.26	2.55	5.16	3.10	2.37	1.84

Performance is net of operating expenses, but does not include management or administrative fees. Management fees for Series I units of a Fund are negotiated and paid directly by the investor, not by the Fund, and will not exceed the Series A management fees of the Fund. Please refer to the prospectus for additional details on applicable fees and expenses.
Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all dividends and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Portfolio strategy

Tactical duration positioning: We maintain an emphasis on the front and intermediate parts of the U.S. yield curve, while being short the longer end. While we still favor US rates, the fund also increased long exposure to Australian duration over the quarter, given the country's higher interest rate sensitivity.

Long Agency Mortgage Backed Securities: Within US Agency MBS, the Fund continues to be dynamic in adjusting exposures across the coupon stack, targeting up-in-coupon MBS, which may offer more compelling spreads and less duration risk versus lower coupons. We continue to hold select Agency MBS as a way to maintain a high quality, very liquid position that offers a "safe spread" over US Treasuries.

Focus on securitized credit and senior financials: Favor non-Agency and other high quality securitized credit given resilient fundamentals and historically high spread levels. Within corporate credit, we continue to focus on bottom-up security selection, where we continue to find value in financials following years of increased regulation, and non-cyclical sectors, such as utilities.

Cautious on high yield and emerging markets: While we believe there are some compelling bottoms-up opportunities, including in higher-rated EM countries, we are generally more selective and defensive on assets that would be more vulnerable to an economic slowdown. The Fund also holds a position in HY CDX protection to hedge against higher volatility.

*Canadian Overnight Repo Rate (CORRA)

***Yield to Maturity (YTM) is the estimated total return of a bond if held to maturity. YTM accounts for the present value of a bond's future coupon payments. Refer to the Important Disclosures at the conclusion of this report for additional important information.

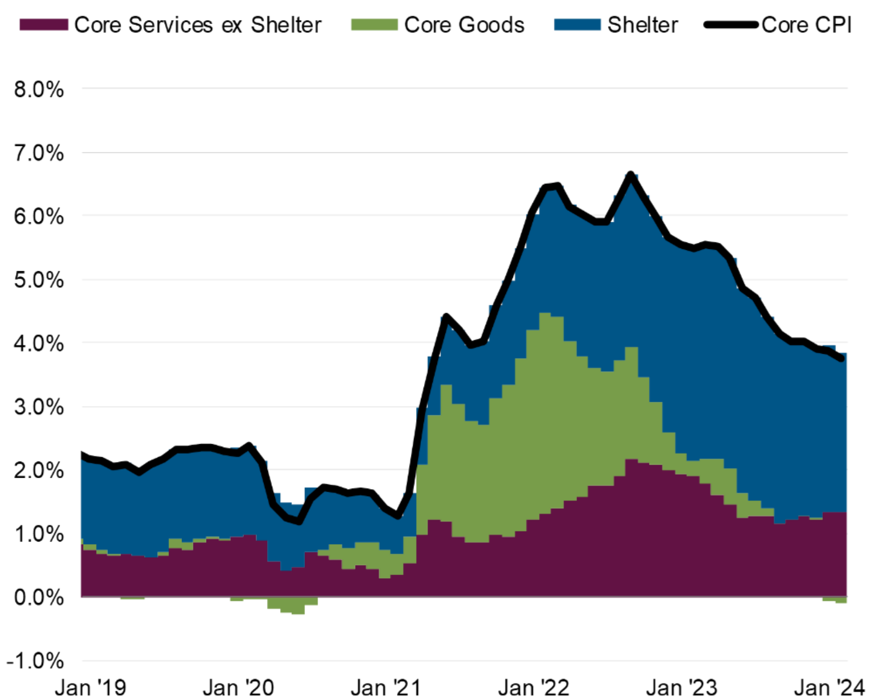
Series:	**I**
Inception date:	**30 Sep '14**
Fund assets (in CAD millions):	**CAD79.42**

Summary information	31 Mar '24
Estimated yield to maturity (Gross of fee)***	6.27%
Effective duration (yrs)	1.80
Effective maturity (yrs)	1.37
Average coupon	4.88%
Tracking error (5 yrs)	5.20
Information ratio (5 yrs)	0.00

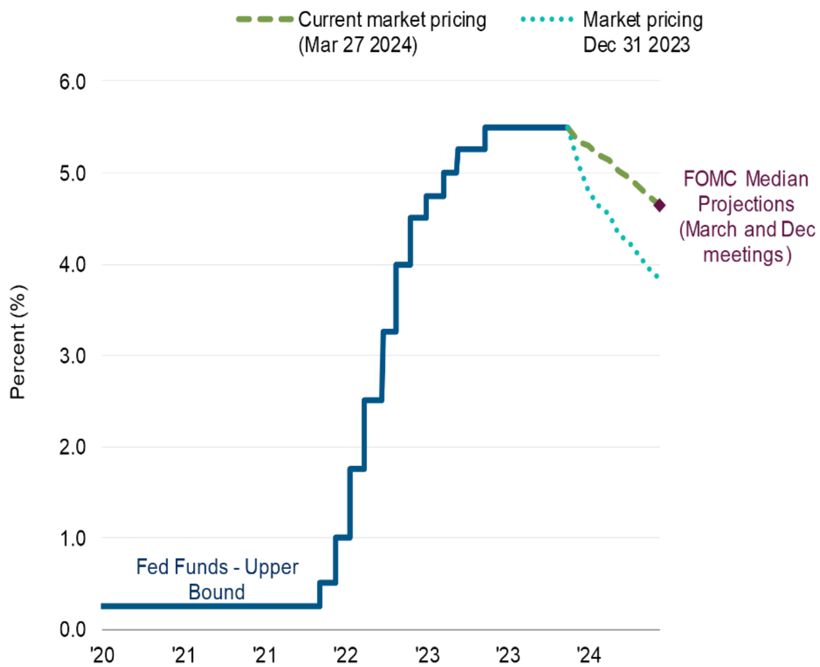
Sector allocation	Dur. (yrs)	MV(%)
Government-related	-2.74	-21.62
Securitized	3.49	73.57
Investment grade credit	0.66	17.25
High yield credit	0.13	3.48
Emerging markets	0.23	7.08
Municipal/Other	0.00	0.14
Net other short duration instruments	0.02	20.11
Total	**1.80**	**100**

Persistent inflation pushed yields and year-end rate projections higher

A perceived "last mile" problem in the Fed's battle against inflation led bond markets to retrace their Q4'23 rally and bring expectations for 2024 cuts in line with the Fed's dot plot. Risk sentiment remained robust despite the possibility of "higher-for-longer" rates, with the MSCI World finishing the quarter up 9.01% and credit spreads broadly tightening. The Fed paused once again and maintained its forecast for three 25-basis-point rate cuts in 2024. Global developed central banks largely followed suit, with both the ECB and BoE leaving rates on hold. Meanwhile, in Japan, the BoJ raised its policy rate for the first time since 2007, marking the end of negative interest rate policies.



Inflation in the U.S. remained sticky over the quarter, driven by core services, highlighting the "last mile" problem that the Fed is facing in its attempts to return inflation to 2%.



Persistent inflationary pressures saw bond markets retrace their Q4'23 rally, with market pricing now in line with the Fed's median dot plot projection for year end 2024 (which remained unchanged relative to December projections).

SOURCE: Haver

Source: Bloomberg

Market Summary

Q1'24: Inflation rebound

The Fund's spread and currency strategies contributed to performance while duration strategies detracted from overall performance.

Developed market debt

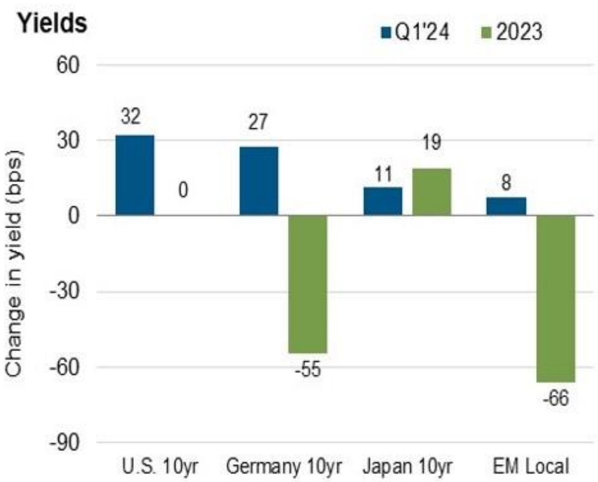
Yields rose broadly across developed markets as inflation remained firm and economic activity robust, particularly in the U.S. While central banks generally held policy rates steady, including in the U.S., U.K., and Europe, dovish remarks from officials bolstered risk sentiment even as investors adjusted expectations for rate cuts in 2024. In Japan, the BoJ hiked rates for the first time in 17 years, ending its negative interest rate policy.

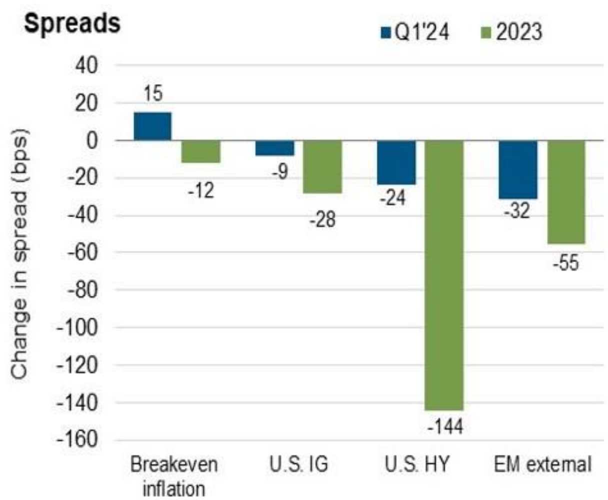
Credit

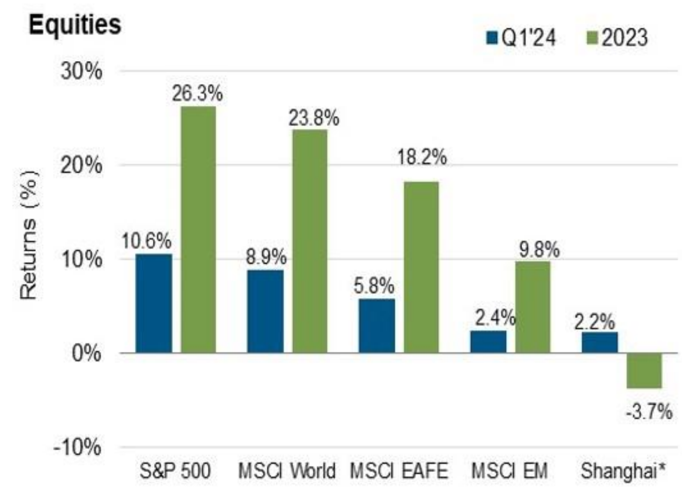
U.S. investment grade credit[1] spreads tightened 8 bps, ending the quarter at 85 bps. The sector returned -0.41%, outperforming like-duration treasuries by 0.83%. Credit spreads continued to tighten amid strong earnings results and heavy issuance to start the year.

Equities

Developed market equities[2] rose 8.9% in the first quarter of 2024 driven by optimism around interest rate cuts, easing inflationary pressures, and economic growth.







Source: U.S. 10yr, Germany 10yr, Japan 10yr, Breakeven inflation (Bloomberg); EM local (JPMorgan GBI-EM Global Diversified Composite Yield to Maturity Index); U.S. investment grade credit (Bloomberg U.S. Credit Index); U.S. high yield credit (ICE BofA High Yield Constrained Index); EM external (JPMorgan Emerging Bond Index Global Sovereign Spread); S&P 500 (S&P 500 Total Return Index); MSCI EAFE (MSCI EAFE Net Total Return USD Index); MSCI EM (MSCI Emerging Net Total Return USD Index); *Shanghai (Shanghai Stock Exchange Composite Index).
1: Bloomberg US Credit Index
2: MSCI World Index

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Investment implications:
Opportune time to consider going active in global fixed income

Look global	Greater-than-usual focus on bond markets outside of the U.S.
Lock in elevated yields	Intermediate maturities can offer a “sweet spot” with markets expecting cash rates to fall
Favor high quality	Up-in-quality bias in both public and private credit markets
Go active	Differentiated macro paths present compelling opportunities for active investors

Source: PIMCO

Portfolio Outlook

Strategic outlook

Higher savings balances and a slower pass-through of monetary policy in the U.S. relative to other developed markets could, in our view, keep inflation above the Fed's 2% target over the cyclical horizon. We still expect the Fed to start normalizing policy at midyear, similar to other DM central banks; however, the Fed's subsequent rate-cutting path could be more gradual. Additionally, we believe that an economic soft landing is achievable, but both recessionary and inflationary risks remain elevated in the aftermath of unprecedented global shocks to supply and demand.

Key strategies

Duration

Against a backdrop of heightened rate volatility, the Fund continues to actively manage its duration and tactically adjust exposure in response to rate moves and take advantage of relative value opportunities as global growth cycles and central bank policies become less synchronized. We have reduced duration over the quarter, yet still favor long US interest rate exposure versus other global developed rates as a hedge against a risk asset sell-off. The fund also increased long exposure to Australian duration given its higher sensitivity to front end interest rate cuts. Elsewhere, the Fund opened a tactical short position to Japanese duration given the potential for further tightening from the BoJ.

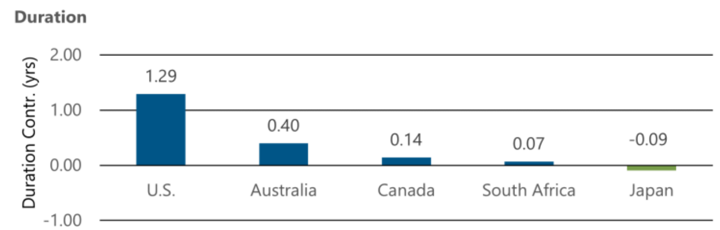
Spread

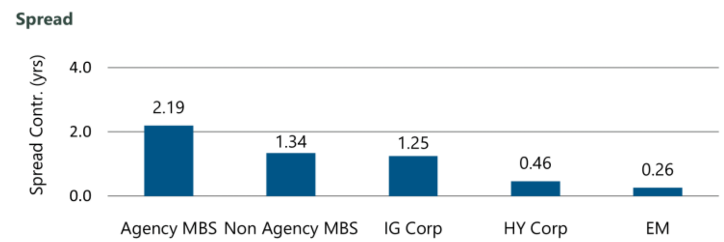
We continue to see value in higher quality securitized credit including non-Agency MBS as underlying fundamentals remain compelling and the sector is relatively insulated from key risks facing global markets. Within investment grade corporate credit, the Fund maintains an emphasis on financial sector securities, which benefit from improved fundamentals following years of increased regulation and offer attractive valuation versus the non-financial sector. Within high yield credit, the Fund maintains modest holdings, focusing on select issuers and opportunities. The Fund also has a position in CDX protection to hedge beta exposure given potential for higher volatility.

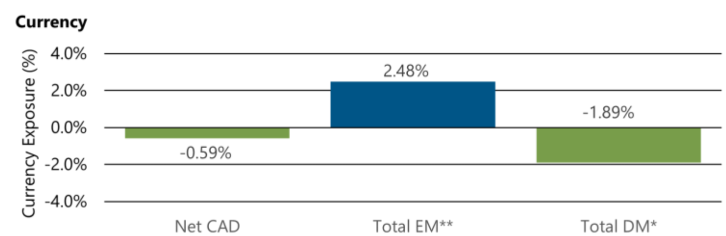
Currency

The Fund remains tactical with currency positioning, holding modest long positions across a diversified selection of both DM and EM currencies. We continue to hold a broad basket of commodity-linked currencies such as the MXN, BRL, ZAR, COP, CLP and AUD where we believe valuations remain attractive. The Fund also holds long exposures to INR and TRY, and short exposures to SGD and PLN. Within developed market currencies, we are tactically short the USD and EUR.

Position







Source: PIMCO
*DM Basket Includes: Long positions in AUD and short positions in USD, GBP, CAD, EUR.
**EM Basket Includes: Long positions in MXN, BRL, INR, ZAR, ARS, CLP, TRY, COP, CNY and a short position in SGD, PLN.

Sector exposure

	Portfolio			
	% of Market value		Duration in years	
	31 Dec '23	31 Mar '24	31 Dec '23	31 Mar '24
Euro Government - Related	-6.26	-5.98	-0.25	-0.24
U.K. Government - Related	-0.32	-0.29	-0.05	-0.05
U.S. Government - Related	-18.82	-29.19	-2.29	-2.82
Other Government - Related	7.73	13.84	0.17	0.38
Securitized*	73.45	73.57	3.27	3.49
Invest. Grade Credit	18.73	17.25	0.71	0.66
High Yield Credit	3.37	3.48	0.18	0.13
Emerging Markets**	13.31	7.08	0.37	0.23
Bonds and other long duration instruments	13.28	7.09	0.37	0.23
EM Short Duration Instruments	0.03	-0.01	0.00	0.00
Municipal/Other	0.14	0.14	0.00	0.00
Net Other Short Duration Instruments******	8.67	20.11	0.03	0.02
Commingled Cash Vehicles	0.00	0.00	0.00	0.00
Certificate of Deposit/Commercial Paper/STIF	3.28	1.12	0.01	0.01
Government Related	1.15	0.44	0.00	0.00
Mortgage	0.96	0.90	0.00	0.00
Credit	0.36	0.86	0.00	0.00
Bankers Acceptance	0.00	0.00	0.00	0.00
Other***	23.06	30.82	0.00	0.00
Short Duration Derivatives and Derivative Offsets	21.15	29.08	0.01	0.01
Net Unsettled Trades	-41.29	-43.11	0.00	0.00
Total	**100**	**100**	**2.14**	**1.80**

*Securitized includes Agency MBS, non-Agency MBS, CMBS, ABS, CDO, CLO, and Pooled Funds.

**Emerging markets instruments includes an emerging market security or other instrument economically tied to an emerging market country by country of risk with an effective duration less than one year and rated investment grade or higher or if unrated, determined to be similar quality by PIMCO. Emerging Markets includes the value of short duration emerging markets instruments previously reported in another category.
***Investment vehicles not listed, allowed by prospectus.

****Net Other Short Duration Instruments includes securities and other instruments (except instruments tied to emerging markets by country of risk) with an effective duration less than one year and rated investment grade or higher or, if unrated, determined by PIMCO to be of comparable quality, commingled liquidity funds, uninvested cash, interest receivables, net unsettled trades, broker money and derivatives offset. With respect to certain categories of short duration securities, the Adviser reserves the discretion to require a minimum credit rating higher than investment grade for inclusion in this category.

Portfolio characteristics

Interest rate exposure

	Portfolio (yrs)	
	31 Dec '23	31 Mar '24
Effective duration	2.14	1.80
Bull market duration	1.73	1.33
Bear market duration	2.77	2.16
Spread duration		
Mortgage spread duration	3.59	3.62
Corporate spread duration	0.91	0.80
Emerging markets spread duration	0.41	0.26
Swap spread duration	0.32	-0.57
Covered bond spread duration	-	0.00
Sovereign related spread duration	0.01	0.01

Derivative exposure (duration in yrs)

	31 Dec '23	31 Mar '24
Government futures	-3.22	-2.64
Interest rate swaps	0.51	-0.56
Credit default swaps*	-2.83	-0.54
Purchased swaps	-3.72	-1.43
Written swaps	0.88	0.89
Options	-0.06	-0.02
Purchased options	0.00	0.00
Written options	-0.06	-0.02
Mortgage derivatives	0.05	0.05
Money market derivatives	0.01	0.01
Futures	0.00	0.00
Interest rate swaps	0.01	0.01
Other Derivatives	0.00	0.00

* Shown as a percentage of market value

Quality exposure (MV%)

	Portfolio	
	31 Dec '23	31 Mar '24
A1/P1	3.50	2.95
AAA	50.44	56.19
AA	1.28	1.23
A	6.03	3.36
Below A1/P1	0.20	0.00
BAA	14.21	13.48
BB	6.04	8.02
B	7.47	3.72
Below B	10.83	11.04
Total	**100**	**100**

Country and currency exposure

Country exposure by currency of settlement

	31 Dec '23		31 Mar '24	
	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)
United States	**1.68**	**-2.05**	**1.29**	**-0.90**
Japan	**0.00**	**1.70**	**-0.09**	**-0.01**
Eurozone	**0.01**	**-1.38**	**-0.03**	**-0.56**
Austria	0.01	0.00	0.01	0.00
Belgium	0.01	0.00	0.01	0.00
Euro Currency	0.00	-1.38	0.00	-0.56
European Union	0.22	0.00	0.18	0.00
France	0.06	0.00	0.06	0.00
Germany	-0.38	0.00	-0.38	0.00
Italy	0.04	0.00	0.04	0.00
Luxembourg	0.04	0.00	0.04	0.00
Netherlands	0.01	0.00	0.01	0.00
Spain	0.01	0.00	0.01	0.00
United Kingdom	**-0.00**	**0.09**	**-0.02**	**0.06**
Europe non-EMU	**-0.00**	**-0.97**	**0.00**	**-0.96**
Poland	-0.00	-0.97	0.00	-0.96
Dollar Block	**0.20**	**99.93**	**0.54**	**99.90**
Australia	0.08	0.44	0.40	0.47
Canada	0.11	99.49	0.14	99.42
Other Industrialized Countries	**-0.00**	**-0.20**	**-0.00**	**-0.20**
Chile	0.00	0.07	0.00	0.06
Singapore	-0.00	-0.27	-0.00	-0.27
EM - Asia	**0.00**	**0.34**	**0.00**	**0.35**
China	0.00	0.08	0.00	0.09
India	0.00	0.26	0.00	0.27
EM - Latin America	**0.19**	**1.48**	**0.04**	**1.50**
Argentina	-0.00	0.05	0.00	0.06
Brazil	0.15	0.63	0.00	0.57
Colombia	0.00	0.16	0.00	0.17
Mexico	0.03	0.64	0.03	0.70
Peru	0.01	-0.00	0.01	0.00
EM - CEEMEA	**0.08**	**1.06**	**0.07**	**0.83**
Hungary	0.00	0.49	0.00	0.00
South Africa	0.08	0.08	0.07	0.09
Turkey	0.00	0.49	0.00	0.74
Total	**2.14**	**100**	**1.80**	**100**

Emerging markets exposure by country of risk

	31 Dec '23			31 Mar '24		
	% of MV short duration Instruments	% of MV bonds	Duration (yrs)	% of MV short duration Instruments	% of MV bonds	Duration (yrs)
Argentina	0.00	0.99	0.03	0.00	1.25	0.05
Brazil	0.03	6.48	0.15	-0.01	0.33	0.00
Colombia	0.01	0.00	0.00	0.00	0.00	0.00
Hungary	0.07	0.28	0.00	0.00	0.00	0.00
Mexico	0.01	0.72	0.04	0.00	0.74	0.04
Peru	0.00	0.27	0.01	0.00	0.27	0.01
Romania	0.00	0.44	0.03	0.00	0.46	0.03
South Africa	-0.07	3.31	0.09	0.00	3.22	0.08
Turkey	0.00	0.79	0.02	0.00	0.81	0.02
Total	**0.03**	**13.28**	**0.37**	**-0.01**	**7.09**	**0.23**

Important Disclosures

No offering is being made by this material. Interested investors should obtain a copy of the prospectus, which is available on pimco.ca or from your Financial Advisor.

Past performance is not a guarantee or a reliable indicator of future results. Past performance is not a guarantee or a reliable indicator of future results. The performance figures presented reflect the total return performance and reflect changes in unit price and reinvestment of dividend and capital gain distributions. All periods longer than one year are annualized. Funds typically offer different series, which are subject to different fees and expenses (which may affect performance), having different minimum investment requirements and are entitled to different services.

There is no assurance that any fund, including any fund that has experienced **high or unusual performance** for one or more periods, will experience similar levels of performance in the future. High performance is defined as a significant increase in either 1) a fund's total return in excess of that of the fund's benchmark between reporting periods or 2) a fund's total return in excess of the fund's historical returns between reporting periods. Unusual performance is defined as a significant change in a fund's performance as compared to one or more previous reporting periods.

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

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

Although the Fund may seek to maintain stable distributions, the Fund's distribution rates may be affected by numerous factors, including but not limited to changes in realized and projected market returns, fluctuations in market interest rates, Fund performance, and other factors. There can be no assurance that a change in market conditions or other factors will not result in a change in the Fund's distribution rate or that the rate will be sustainable in the future.

For instance, during periods of low or declining interest rates, the Fund's distributable income and dividend levels may decline for many reasons. For example, the Fund may have to deploy uninvested assets (whether from purchases of Fund units, proceeds from matured, traded or called debt obligations or other sources) in new, lower yielding instruments. Additionally, payments from certain instruments that may be held by the Fund (such as variable and floating rate securities) may be negatively impacted by declining interest rates, which may also lead to a decline in the Fund's distributable income and dividend levels.

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Important Disclosures

Yield to Maturity (YTM) is the estimated total return of a bond if held to maturity. YTM accounts for the present value of a bond's future coupon payments. PIMCO calculates a Fund's Estimated YTM by averaging the YTM of each security held in the Fund on a market-weighted basis. PIMCO pulls each security's YTM from PIMCO's Portfolio Analytics database. In general, the calculation will incorporate the yield based on the notional value of all derivative instruments held by a Fund. The measure does not reflect the deduction of fees and expenses and is not necessarily indicative of the Fund's actual performance. A portfolio's actual yield or distribution rate may be significantly lower than its estimated YTM in practice. Also, estimated YTM is not intended to indicate that a portfolio will actually hold any or all of its portfolio securities to maturity in practice, and various securities may be sold or otherwise disposed of prior to maturity. Estimated YTM is not a projection or prediction of the actual yield or return that a portfolio may achieve or any other future performance results. There can be no assurance that a portfolio will achieve any particular level of yield or return and actual results may vary significantly from estimated YTM.

A word about risk: Absolute return portfolios may not fully participate in strong positive market rallies. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Investing in **foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Mortgage and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee there is no assurance that private guarantors will meet their obligations. **High-yield, lower-rated, securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Equities** may decline in value due to both real and perceived general market, economic, and industry conditions. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. **Diversification** does not ensure against loss.

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

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be interpreted as investment advice, as an offer or solicitation, nor as the purchase or sale of any financial instrument. Forecasts and estimates have certain inherent limitations, and unlike an actual performance record, do not reflect actual trading, liquidity constraints, fees, and/or other costs. In addition, references to future results should not be construed as an estimate or promise of results that a client portfolio may achieve.

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

Differences in the Fund's performance versus the FTSE Canada Universe Bond Index (the "Index") and related attribution information with respect to categories of securities or individual positions may be attributable, in part, to differences in the pricing methodologies used by the Fund and the Index.

Canadian Overnight Repo Rate (CORRA) measures the cost of overnight general collateral funding in Canadian dollars using Government of Canada treasury bills and bonds as collateral for repurchase transactions.

The products and services provided by PIMCO Canada Corp. may only be available in certain provinces or territories of Canada and only through dealers authorized for that purpose. PIMCO Canada has retained PIMCO LLC as sub-adviser. PIMCO Canada will remain responsible for any loss that arises out of the failure of its sub-advisor.

The 3-month CDOR is the average bid-side rate for Canadian bankers acceptances determined daily from a survey of market makers and can be used as a proxy for the cost of 3-month bank funding. It does not reflect deductions for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

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Important Disclosures

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Important Disclosures

Acronyms and definitions of investment terms used throughout the report:

Alpha is a measure of performance on a risk-adjusted basis calculated by comparing the volatility (price risk) of a portfolio vs. its risk-adjusted performance to a benchmark index; the excess return relative to the benchmark is alpha.

Average coupon is the average of the coupon payments of the underlying bonds within the portfolio.

Average effective maturity is a weighted average of all the maturities of the bonds in a portfolio, computed by weighting each bond's effective maturity by the market value of the security.

“Bend-but-not-break” refers to credits that PIMCO would not expect to default in a credit-stressed environment.

Beta is a measure of price sensitivity to market movements. Market beta is 1.

Breakeven inflation rate (or expectation) is a market-based measure of expected inflation or the difference between the yield of a nominal and an inflation-linked bond of the same maturity.

Carry is the rate of interest earned by holding the respective securities.

The terms **“cheap” and “rich”** as used herein generally refer to a security or asset class that is deemed to be substantially under- or overpriced compared to both its historical average as well as to the investment manager’s future expectations. There is no guarantee of future results or that a security’s valuation will ensure a profit or protect against a loss.

CPI is the Consumer Price Index.

The **credit quality** of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody’s, and Fitch respectively.

Dividend yield is represented by the weighted average coupon divided by the weighted average price.

Duration is the measure of a bond's price sensitivity to interest rates and is expressed in years.

Effective duration is the duration for a bond with an embedded option when the value is calculated to include the expected change in cash flow caused by the option as interest rates change.

Forward curve is a function graph that defines the prices at which a contract for future delivery or payment can be concluded today.

Fallen angel is a bond that was initially given an investment grade rating but has since been reduced to below investment grade status.

GFC is the Global Financial Crisis.

Information ratio is a ratio of portfolio returns above the returns of a benchmark to the volatility of those returns.

Like-duration Securities are calculated by the index provider by comparing the index return to a hypothetical matched position in the security.

LNG is Liquefied Natural Gas.

The **Option Adjusted Spread (OAS)** measures the spread over a variety of possible interest rate paths. A security's OAS is the average return an investor will earn over Treasury returns, taking all possible future interest rate scenarios into account. The OAS is the net spread over the swap curve that will on average be earned if the security is held to maturity.

Rising star is the term given to a bond that was rated high yield but has since been upgraded to investment grade.

“Risk assets” are any financial security or instrument that are likely to fluctuate in price.

Risk premia is the return in excess of the risk-free rate of return an investment is expected to yield.

Roll yield is the yield that a futures investor captures as their long position in a futures contract converges to the spot price.

“Safe haven” is an investment that is expected to retain or increase in value during times of market turbulence.

“Safe Spread” is defined as sectors that we believe are most likely to withstand the vicissitudes of a wide range of possible economic scenarios. All investments contain risk and may lose value.

The **SEC yield** is an annualized yield based on the most recent 30 day period. The subsidized yield includes contractual expense reimbursements and it would be lower without those reimbursements. The **Unsubsidized 30 day SEC Yield** excludes contractual expense reimbursements.

Tracking error measures the dispersion or volatility of excess returns relative to a benchmark.

To relate the price sensitivity of ILBs to changes in nominal yields, yield beta is applied to nominal changes to arrive at a price sensitivity of ILBs to changes in nominal rates. A **yield beta** of 0.90 implies that if nominal yields move 100 basis points, real yields will move 90 basis points. ILBs with long maturity may respond differently to changes in nominal rates than shorter maturity ILBs.

The distribution yield for monthly paying Funds is calculated by annualizing actual dividends distributed for the monthly period ended on the date shown and dividing by the net asset value on the last business day for the same period. The distribution yield for quarterly paying Funds is calculated by taking the average of the prior four quarterly distribution yields. The quarterly distribution yields are calculated by annualizing actual dividends distributed for the quarterly period ended on the most recent quarterly distribution date and dividing by the net asset value for the same date. The yield does not include long- or short-term capital gains distributions.

Asset-Backed Security (ABS); Bank of England (BOE); Bank of Japan (BOJ); Breakeven Inflation (BEI); Collateralized Debt Obligation (CDO); Collateralized Loan Obligation (CLO); Commercial Mortgage-Backed Security (CMBS); Developed Markets (DM); Emerging Markets (EM); Federal Reserve Board (The Fed); Europe Central Bank (ECB); Federal Open Market Committee (FOMC); Foreign Exchange (FX); Gross Domestic Product (GDP); Gulf Cooperation Council (GCC); High Yield (HY); Inflation-Linked Bond (ILS); Investment Grade (IG); Leveraged-buyout (LBO); Loan-to-Value (LTV); Master Limited Partnership (MLP); Mortgage-Backed Security (MBS); Market Weighted Spread (MWS); Real Estate Investment Trust (REIT); Residential Mortgage-Backed Security (RMBS); Treasury Inflation-Protected Security (TIPS); Year-over-Year (YoY)

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