



# PIMCO Unconstrained Bond Fund (Canada)



Quarterly Investment Report | 4Q23

## **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.

# Executive summary

## Portfolio Performance

The PIMCO Unconstrained Bond (Canada) Fund (Series A, after fees) posted a positive return over the fourth quarter driven mainly by contributions from duration and spread strategies while currencies were flat.

### CONTRIBUTORS

- Long exposure to US Duration
- Long exposure to investment grade and high yield corporate credit
- Long exposure to Agency MBS

### DETRACTORS

- Long exposure to Non-Agency MBS
- Tactical exposure to a basket of EM currencies

Performance periods ended 31 Dec '23	3 mos.	6 mos.	1 yr.	3 yrs.	5 yrs.	SI
Series A Fund, after fees	3.50	4.23	6.39	-0.53	0.85	1.28
Benchmark*	1.28	2.55	5.15	2.71	2.23	1.76

*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.*

**Tactical duration positioning:** We maintain an emphasis on the shorter and intermediate parts of the U.S. yield curve, while being short the longer end of the curve. While we still favor US rates, the fund has also maintained long exposure to Canada and Australian rates given the potential for rates to decline in these economies due to their elevated interest rate sensitivity.

**Long Agency Mortgage Backed Securities:** 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. The allocation is focused primarily on higher coupons, which offer higher spreads and less duration risk.

**High quality credit holdings:** Favor housing-related and mortgage credit given resilient fundamentals in the US housing market. We continue to focus on bottom-up security selection in corporate credit, 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.

\*Canadian Overnight Repo Rate (CORRA)

\*\*As of 30/06/2023. Management expense ratio is based on total expenses, including the management fee, (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The Annual Management Fee is used to pay for investment management services and general administration of the fund, this fee does not include taxes.

\*\*\*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:	A
Inception date:	30 Sep '14
Fund assets (in CAD millions):	CAD79.99
Series A MER:**	1.470%
Series A management fee:**	1.350%

### Summary information 31 Dec '23

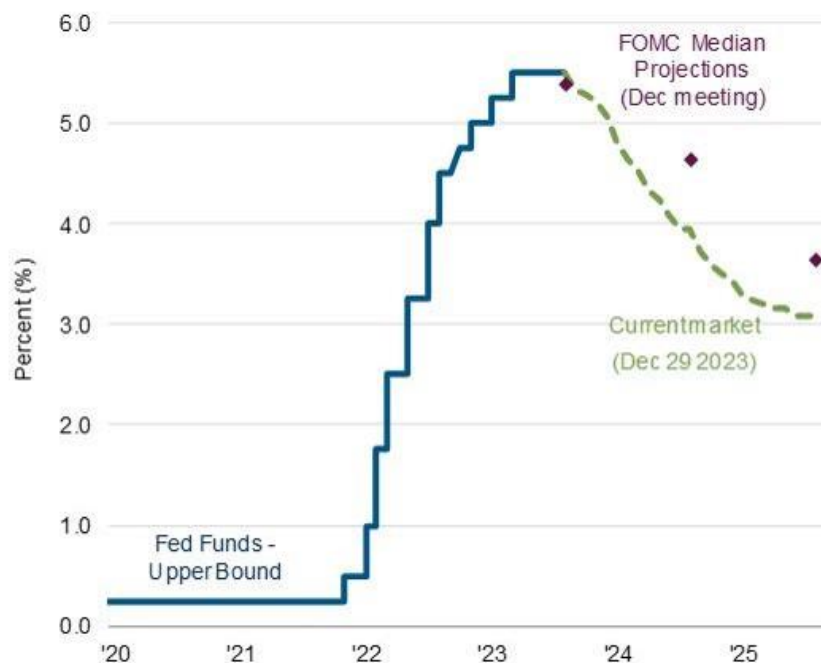
Estimated yield to maturity (Gross of fee)***	5.53%
Effective duration (yrs)	2.14
Effective maturity (yrs)	0.95
Average coupon	4.91%
Tracking error (5 yrs)	5.21
Information ratio (5 yrs)	0.04

Sector allocation	Dur. (yrs)	MV(%)
Government-related	-2.42	-17.66
Securitized	3.27	73.45
Investment grade credit	0.71	18.73
High yield credit	0.18	3.37
Emerging markets	0.37	13.31
Municipal/Other	0.00	0.14
Net other short duration instruments	0.03	8.67
<b>Total</b>	<b>2.14</b>	<b>100</b>

# Quarter in Review

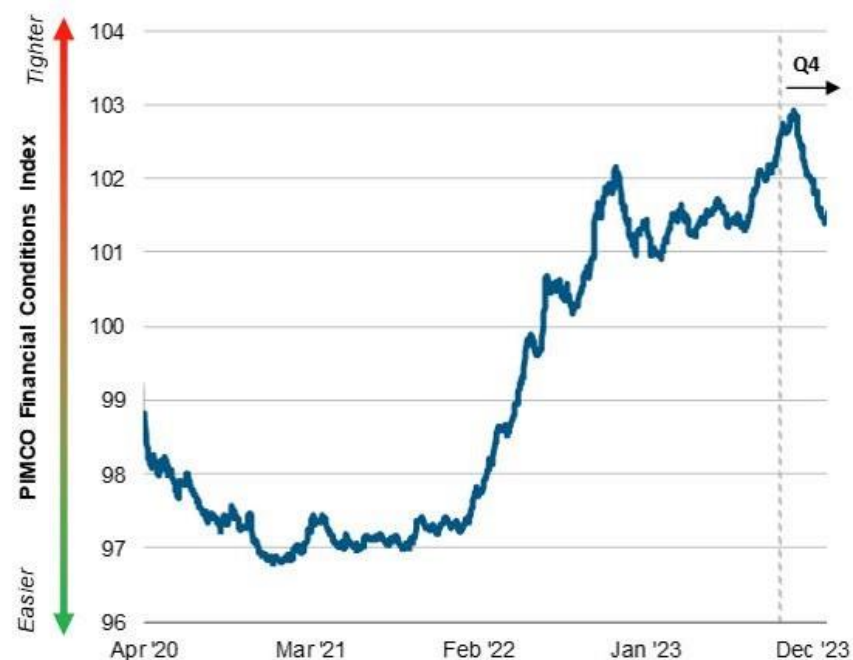
## Early signs of economic weakening spark market optimism

Indications of slowing inflation and a cooling labor market led market participants to price in an accelerated path of rate cuts for 2024, prompting a broad rally across the global bond market. Risk sentiment rebounded, with the MSCI World rising 11.53%, while the dollar weakened. The Fed paused rate hikes for the third consecutive time, while the central bank's dot plot pointed to the potential for 75 bps of cuts in 2024. Global developed central banks broadly maintained hawkish stances, with both the ECB and BoE signaling that rates would remain restrictive for longer. Meanwhile, the BoJ maintained its negative interest rate policy and left its dovish guidance unchanged.



Weakening economic data has sparked optimism, with market participants pricing in roughly 6 cuts in 2024, for a total of more than 150 bps.

Source: Bloomberg



After rising for much of 2023, financial conditions notably eased over the quarter amid early signs of economic weakening.

Source: Bloomberg  
 The PIMCO Financial Conditions Index (FCI) is a proprietary index that summarizes the information about the future state of the economy contained in a wide range of financial variables. It includes variables such as the Fed funds rate, bond yields, credits, equity prices, oil prices, and the broad trade-weighted USD, all of which will impact the economy. The weights of these variables is determined by simulations with the Federal reserve's FRB/US model. An increase (decline) in the FCI implies a tightening (easing) of financial conditions.

# Market Summary

## Q4'23: Weakening economic data

The Fund's duration and spread strategies contributed to performance while currencies remained flat over the quarter.

### Developed market debt

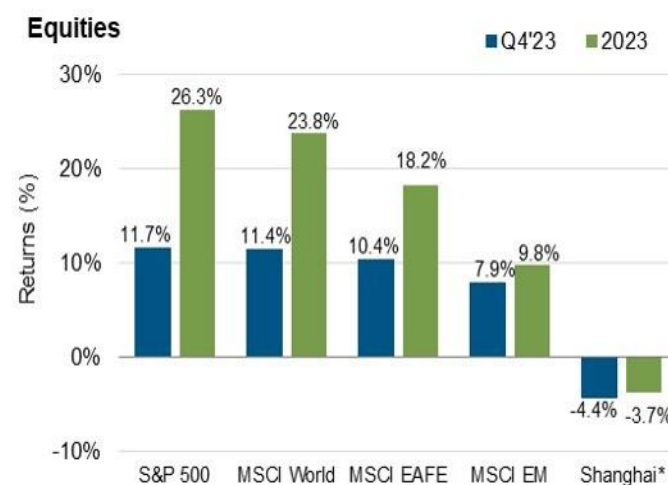
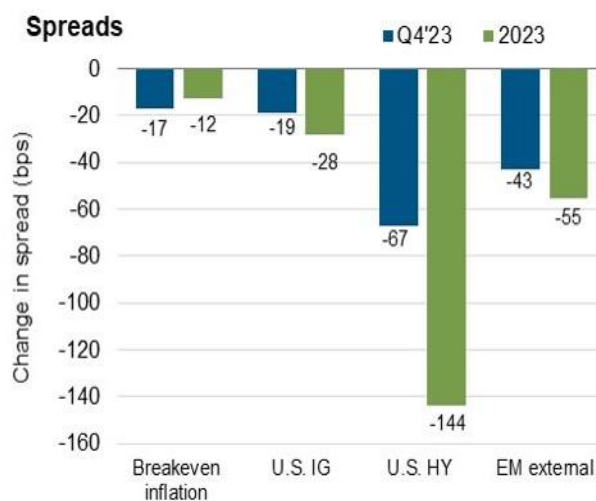
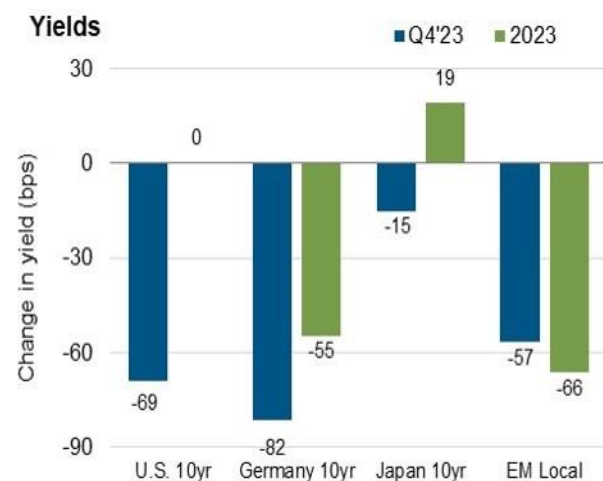
Indications of slowing inflation in the second half of the quarter prompted markets to price in accelerated expectations of rate cuts for next year. Yields fell broadly in developed markets as central banks held rates steady, including in the U.S., U.K., and Germany. In Japan, yields fell more modestly as the Bank of Japan weighed a potential exit to its accommodative monetary policy.

### Credit

U.S. investment grade credit<sup>1</sup> spreads tightened 19 bps, ending the quarter at 93 bps. The sector returned 8.15%, outperforming like-duration treasuries by 1.81%. High quality credit posted two strong months of returns to end the year amid the rate rally.

### Equities

Developed market equities<sup>2</sup> rose 11.4% in the fourth quarter of 2023 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

# Navigating the Descent: Four economic themes

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**Peak inflation and rising unemployment consistent with rate cuts**



**Soft landings are possible, but risks remain**



**Markets already price a substantial cutting cycle**



**Global divergence in monetary policy**

# Portfolio Outlook

## Strategic outlook

Further disinflation and the potential for a faster cutting cycle should, in our view, raise the prospects for a soft landing. However, this is not to say that we believe that the path toward a soft landing is the only possible path. It is our view that the tighter-for-longer strategy that central banks have been communicating along with the strong possibility of stagnation in developed market supply and demand growth leave recession risks elevated.

## Key strategies

### Duration

Against a backdrop of heightened rate volatility, the Fund aims 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 maintained long exposure to Australian and Canadian duration given those countries' higher sensitivity to front end interest rate cuts.

### Spread

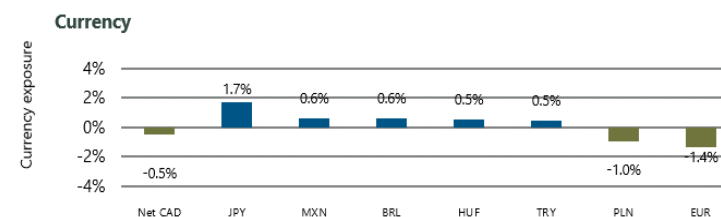
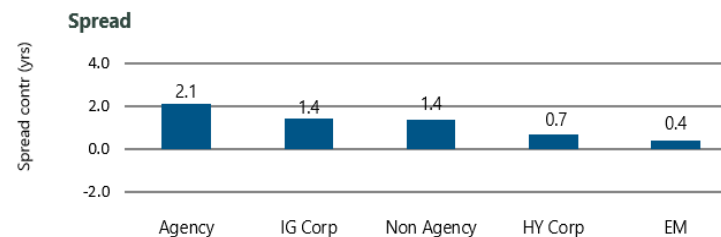
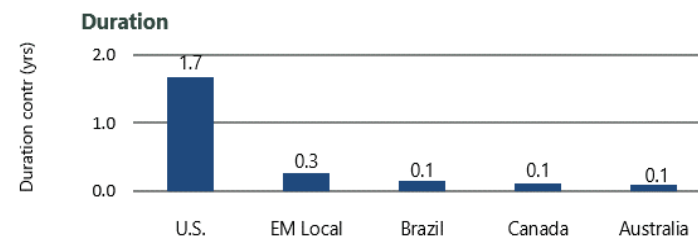
We continue to see value in securitized credit including Non-Agency MBS as the sector is relatively insulated from key risks facing global markets. We also continue to hold select Agency MBS as the asset class offers its most attractive forward-looking return potential in more than 15 years along with a defensive profile that has historically performed well through economic downturns. Within corporate credit, we are selective exposure to high yield credit and prefer defensive non-cyclical sectors while still slightly favoring financials, along with telecommunications and healthcare for investment grade credit.

### Currency

We remain tactical with currency positioning, holding modest long positions across a diversified selection of both DM and EM currencies. Our EM currency exposures include Brazil, Mexico and Turkey while our DM exposures include the JPY.

Source: PIMCO

## Position



# Sector exposure

	Portfolio			
	% of Market value		Duration in years	
	30 Sep '23	31 Dec '23	30 Sep '23	31 Dec '23
<b>Euro Government - Related</b>	-5.96	-6.26	-0.24	-0.25
<b>U.K. Government - Related</b>	1.21	-0.32	0.05	-0.05
<b>U.S. Government - Related</b>	-7.86	-18.82	-1.67	-2.29
<b>Other Government - Related</b>	9.06	7.73	0.19	0.17
<b>Securitized*</b>	69.46	73.45	3.67	3.27
<b>Invest. Grade Credit</b>	19.72	18.73	0.73	0.71
<b>High Yield Credit</b>	1.29	3.37	0.19	0.18
<b>Emerging Markets**</b>	14.24	13.31	0.36	0.37
Bonds and other long duration instruments	13.45	13.28	0.36	0.37
EM Short Duration Instruments	0.80	0.03	0.00	0.00
<b>Municipal/Other</b>	0.14	0.14	0.00	0.00
<b>Net Other Short Duration Instruments****</b>	-1.31	8.67	0.03	0.03
Commingled Cash Vehicles	0.00	0.00	0.00	0.00
Certificate of Deposit/Commercial Paper/STIF	3.04	3.28	-0.00	0.01
Government Related	4.03	1.15	0.00	0.00
Mortgage	1.10	0.96	0.00	0.00
Credit	0.37	0.36	0.00	0.00
Bankers Acceptance	0.00	0.00	0.00	0.00
Other***	25.86	23.06	0.00	0.00
Short Duration Derivatives and Derivative Offsets	1.96	21.15	0.02	0.01
Net Unsettled Trades	-37.67	-41.29	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>	<b>3.31</b>	<b>2.14</b>

\*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)	
	30 Sep '23	31 Dec '23
Effective duration	3.30	2.14
Bull market duration	3.14	1.73
Bear market duration	3.31	2.77
<b>Spread duration</b>		
Mortgage spread duration	3.82	3.59
Corporate spread duration	0.85	0.91
Emerging markets spread duration	0.45	0.41
Swap spread duration	0.83	0.32
Covered bond spread duration	-	0.00
Sovereign related spread duration	0.01	0.01

## Quality exposure (MV%)

	Portfolio	
	30 Sep '23	31 Dec '23
A1/P1	6.49	3.50
AAA	46.29	50.44
AA	1.61	1.28
A	4.73	6.03
Below A1/P1	0.00	0.20
BAA	13.64	14.21
BB	8.41	6.04
B	7.67	7.47
Below B	11.16	10.83
<b>Total</b>	<b>100</b>	<b>100</b>

## Derivative exposure (duration in yrs)

	30 Sep '23	31 Dec '23
<b>Government futures</b>	-2.49	-3.22
<b>Interest rate swaps</b>	0.91	0.51
<b>Credit default swaps*</b>	-2.89	-2.83
Purchased swaps	-6.15	-3.72
Written swaps	3.26	0.88
<b>Options</b>	0.06	-0.06
Purchased options	0.00	0.00
Written options	0.06	-0.06
<b>Mortgage derivatives</b>	0.05	0.05
<b>Money market derivatives</b>	0.01	0.01
Futures	0.00	0.00
Interest rate swaps	0.01	0.01
<b>Other Derivatives</b>	0.00	0.00

\* Shown as a percentage of market value



# Country and currency exposure

## Country exposure by currency of settlement

	30 Sep '23		31 Dec '23	
	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)
<b>United States</b>	<b>2.65</b>	<b>-2.32</b>	<b>1.68</b>	<b>-2.05</b>
<b>Japan</b>	<b>0.00</b>	<b>2.23</b>	<b>0.00</b>	<b>1.70</b>
<b>Eurozone</b>	<b>0.01</b>	<b>-1.08</b>	<b>0.01</b>	<b>-1.38</b>
Austria	0.01	0.00	0.01	0.00
Belgium	0.01	0.00	0.01	0.00
Euro Currency	0.00	-1.08	0.00	-1.38
European Union	0.20	0.00	0.22	0.00
France	0.06	0.00	0.06	0.00
Germany	-0.36	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
<b>United Kingdom</b>	<b>0.10</b>	<b>0.02</b>	<b>-0.00</b>	<b>0.09</b>
<b>Europe non-EMU</b>	<b>-0.00</b>	<b>-0.94</b>	<b>-0.00</b>	<b>-0.97</b>
Poland	-0.00	-0.94	-0.00	-0.97
<b>Dollar Block</b>	<b>0.27</b>	<b>99.87</b>	<b>0.20</b>	<b>99.93</b>
Australia	0.08	0.37	0.08	0.44
Canada	0.20	99.50	0.11	99.49
<b>Other Industrialized Countries</b>	<b>-0.00</b>	<b>-0.53</b>	<b>-0.00</b>	<b>-0.20</b>
Chile	0.00	0.00	0.00	0.07
Singapore	-0.00	-0.52	-0.00	-0.27
<b>EM - Asia</b>	<b>0.00</b>	<b>0.64</b>	<b>0.00</b>	<b>0.34</b>
China	0.00	0.10	0.00	0.08
India	0.00	0.54	0.00	0.26
<b>EM - Latin America</b>	<b>0.18</b>	<b>1.33</b>	<b>0.19</b>	<b>1.48</b>
Argentina	0.00	0.14	-0.00	0.05
Brazil	0.16	0.50	0.15	0.63
Colombia	0.00	0.17	0.00	0.16
Mexico	0.01	0.54	0.03	0.64
Peru	0.01	-0.02	0.01	-0.00
<b>EM - CEEMEA</b>	<b>0.08</b>	<b>0.78</b>	<b>0.08</b>	<b>1.06</b>
Hungary	0.00	0.74	0.00	0.49
South Africa	0.08	0.04	0.08	0.08
Turkey	0.00	0.00	0.00	0.49
<b>Total</b>	<b>3.30</b>	<b>100</b>	<b>2.14</b>	<b>100</b>

## Emerging markets exposure by country of risk

	30 Sep '23			31 Dec '23		
	% of MV short duration Instruments	% of MV bonds	Duration (yrs)	% of MV short duration Instruments	% of MV bonds	Duration (yrs)
Argentina	0.00	0.86	0.02	0.00	0.99	0.03
Brazil	0.01	5.71	0.16	0.03	6.48	0.15
Colombia	0.00	0.00	0.00	0.01	0.00	0.00
EM Index Product	0.78	0.00	0.00	0.00	0.00	0.00
Hungary	0.03	0.00	0.00	0.07	0.28	0.00
Mexico	0.00	0.48	0.03	0.01	0.72	0.04
Peru	0.01	0.27	0.01	0.00	0.27	0.01
Romania	0.00	0.42	0.02	0.00	0.44	0.03
South Africa	-0.04	4.90	0.10	-0.07	3.31	0.09
Turkey	0.00	0.81	0.02	0.00	0.79	0.02
<b>Total</b>	<b>0.80</b>	<b>13.45</b>	<b>0.36</b>	<b>0.03</b>	<b>13.28</b>	<b>0.37</b>

# Additional series unit performance

PIMCO Unconstrained Bond Fund (Canada) (net of fees performance)

Performance periods ended: 31 Dec '23	MER*	Management Fee**	NAV currency	Class Inception date	3 mos.	6 mos.	1 yr.	3 yrs.	5 yrs.	SI
Series A	1.470	1.350	CAD	30 Sep '14	3.50	4.23	6.39	-0.53	0.85	1.28
Series F	0.950	0.850	CAD	30 Sep '14	3.64	4.51	6.95	-0.01	1.39	1.81
Series M	0.910	0.820	CAD	30 Sep '14	3.65	4.52	6.99	0.02	1.41	1.84
Series O	1.400	1.300	CAD	30 Sep '14	3.52	4.27	6.47	-0.46	0.92	1.33
3 Month USD LIBOR	-	-	-	-	1.42	2.83	5.40	2.44	2.16	0.00
Canadian Overnight Repo Rate (CORRA)	-	-	-	-	1.28	2.55	4.86	-	-	1.76
Series A - USD Hedged	1.470	1.350	USD	30 Jan '15	3.64	4.53	6.96	-0.33	1.16	1.38
Series F - USD Hedged	0.910	0.850	USD	30 Jan '15	3.78	4.81	7.53	0.20	1.73	1.94
Series M - USD Hedged	0.930	0.820	USD	30 Jan '15	3.78	4.82	7.54	0.21	1.74	1.97

\*As of 30/06/2023. Management expense ratio is based on total expenses which includes the Management Fee (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

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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.

# Important Disclosures

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*No offering is being made by this material. Interested investors should obtain a copy of the prospectus, which is available on [pimco.ca](http://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.

# Important Disclosures

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**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-advisor. 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.

# 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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