

**Product Focus**

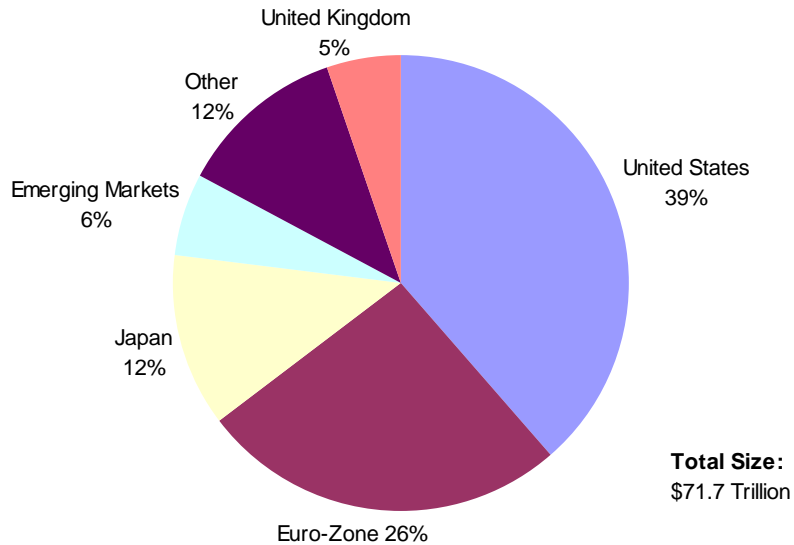
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**PIMCO’s Diversified Approach to Global Bonds**

The global bond market offers more opportunity and diversification than ever. As the global bond market has gone through a remarkable evolution in recent years, growing in both size and complexity, investing efficiently requires innovation, sophistication and experience.

Non-U.S. bonds now account for more than half the global marketplace and represent an increasing variety of sectors, securities and derivatives, offering investors many opportunities to diversify a fixed income portfolio, potentially lowering volatility and enhancing returns. As new derivatives and structured instruments are introduced around the world, investing in the global bond market is becoming more complex and more specialized, requiring broad resources, experience and expertise.

**Size of the Global Bond Market**



Source: Bank for International Settlements

**PIMCO’s Approach to Global Bond Investing**

PIMCO’s approach to investing in the continually expanding and evolving global bond market is based on a rigorous research process that looks at long-term global and regional economic trends to identify the best areas of opportunity. At the same time, PIMCO analysts perform focused research on individual credits and products to determine which specific investments to make across world markets.

Diversification is the most effective method for offsetting uncertainty and limiting portfolio volatility, and in today’s global marketplace, a mix of domestic assets alone may no longer provide sufficient diversification. PIMCO’s combination of top down and bottom up research identifies the avenues for diversification globally that we feel will offer clients the most benefit while minimizing risk.

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### Thinking Globally

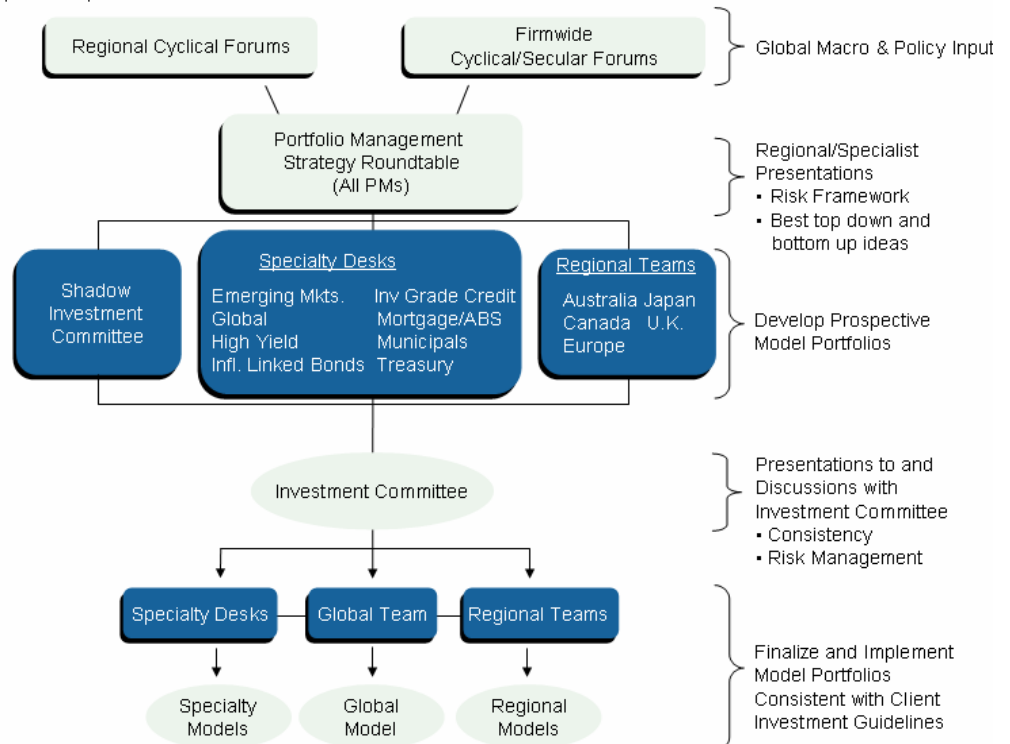
At the core of PIMCO's global macroeconomic analysis is the annual Secular Forum, where our investment professionals from around the world gather with industry experts for a three-day discussion about the economic, social and political trends that will affect the outlook for the global economy and financial markets. This drives the long-term forecasts that underpin our investment strategies globally.

The goal of the Forum is to look beyond the current business cycle and determine how secular forces could play out globally over the next three to five years. Through this process, we develop top down strategies in four primary areas: duration, yield curve, volatility and credit.

These views determine how we position global portfolios to take advantage of secular trends across all international bond markets. For example, if we conclude that growth is likely to slow over the secular timeframe, we might focus on the front end of the yield curve on the expectation of central bank rate cuts, favoring markets in countries where growth is likely to slow the most. On the other hand, if we forecast robust secular growth, we might increase our exposure to corporate bonds or other sectors likely to benefit from strong growth, with an emphasis on markets in countries where growth is likely to be strongest.

### PIMCO's Global Investment Process

As of September 30, 2007



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By investing among countries at different stages of the economic and interest rate cycle, our goal is to maximize return potential with limited incremental risk due to enhanced diversification into assets that are unlikely to move in the same direction at the same time.

### Acting Locally

The ability to implement global investment strategies effectively and efficiently in local markets is critically important, requiring both global resources and local expertise. With more corporate bonds, securitized debt and other non-government bonds issued in Europe and Asia, and domestic and multi-national corporations increasingly borrowing in the international bond markets, investors have a wide variety of maturities, risk profiles and sectors of the economy to choose from in more regions.

In order to identify the most effective investments in each local market across all the available fixed income securities and products, PIMCO supplements our top-down fundamental views with bottom-up analysis by our local portfolio managers and credit analysts, focusing on credit quality and market factors including supply, demand and liquidity.

We place a great deal of emphasis on our independent analysis of corporate bonds and other instruments with exposure to credit. Based on our macro views, our portfolio managers work with a team of experienced credit analysts to evaluate sectors that are likely to outperform in the current economic environment and individual securities within those sectors that offer the greatest return potential for the risk we take on behalf of our clients.

### PIMCO's Fundamental Philosophy

Within this overall framework of top-down and bottom-up analysis, PIMCO's global fixed income investment philosophy is founded on the following five key principles:

#### A Core Approach

PIMCO's goal is to limit portfolio volatility relative to the benchmark. Our clients typically spend considerable resources determining a proper asset allocation. Creating a portfolio with very different volatility than that of the benchmark and different correlations with other asset classes could render our clients' asset allocation decisions meaningless.

#### Multiple Sources of Added Value

We believe using multiple sources of added value is the best method for producing consistent above-benchmark performance. While some managers prefer to take a few large exposures that depart from the benchmark, PIMCO typically makes many small departures from the benchmark.

#### Bond and Currency Decisions are Separate

The factors that influence bond markets are often different from those that influence currencies. Given the number of efficient tools for hedging exposure to foreign currency, there is no reason why the decision to buy a particular bond should obligate us to hold that currency as well.

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### **Fundamentals Determine Value**

PIMCO's country bond allocation process focuses on economic and credit fundamentals as the key determinants of value in fixed income markets. We identify attractive countries through our analysis of economic data, real yields and country risk.

### **Risk Measurement is Crucial**

PIMCO uses advanced, proprietary, quantitative tools to measure and assess risk. This is crucial in monitoring the impact of specific positions in the portfolio and helps us identify strategies that have systematically added value.

### **The Currency Question**

Investing in foreign bonds can expose a portfolio to foreign currencies unless that exposure is hedged. Hedging a portfolio converts the foreign currency exposure of owning international bonds back into domestic currency through a variety of techniques.

Foreign exchange markets can be far more volatile than bond markets, creating opportunities for additional returns on foreign bond investments but also carrying the potential for significantly higher risk and overall volatility in the portfolio. If we like a bond but not the currency exposure that comes with it, we hedge the currency component.

For investors with the ability to take greater risk, foreign currencies can provide a good opportunity to potentially enhance returns and, given their low or negative correlations to stocks and bonds, a potential source of diversification. An unhedged global bond portfolio can be an efficient way to gain exposure to currency markets and capture potentially strong returns from currency re-alignments.

As Bill Gross, PIMCO Chief Investment Officer, recently said "If you have one investment idea, it's to buy investments in non-dollar currencies." However, foreign exchange markets are volatile, so investors must be careful to make an unhedged allocation in accordance with their tolerance for risk.

### **Conclusion**

Diversification remains one of the most effective method for offsetting the unpredictability of financial markets. A global bond allocation as part of a core fixed income portfolio can offer improved diversification, decreased volatility and the potential for higher returns. The expanding opportunity set and increasingly complex nature of the global bond market play to PIMCO's strength as one of the world's largest asset managers and a leader in derivatives and fixed income.

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

Each sector of the bond market entails risk. Municipals may realize gains and may incur a tax liability from time to time. The guarantee on Treasuries, TIPS and Government Bonds is to the timely repayment of principal and interest; shares of a portfolio that invest in them are not guaranteed. Mortgage-backed securities are subject prepayment risk. With corporate bonds, there is no assurance that issuers will meet their obligations. An investment in high-yield securities generally involves greater risk to principal than an

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investment in higher-rated bonds. Investing in non-U.S. securities may entail risk because of non-U.S. economic and political developments, which may be enhanced when investing in emerging markets.

Diversification does not ensure against loss.

The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio.

Currency rates in non-U.S. countries may fluctuate significantly over short periods of time and may reduce the returns of a portfolio.

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