

Fund Focus

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PIMCO's Approach: The Income Fund

Generating a high level of current income is often a primary goal for investors who are retired or approaching retirement. In addition to focusing on long-term gains for a portion of their asset allocation, these investors are looking to preserve their savings and generate reliable, steady income from their assets.

To help these investors potentially meet their unique financial goals, PIMCO has launched the PIMCO Income Fund, which takes a multi-sector approach to investing in fixed income securities that seeks to capture a high level of yield. The strategy's primary investment objective seeks to maximize current income by investing in an array of fixed-income sectors, and by employing income-efficient investment strategies. The Fund pursues long-term capital appreciation as a secondary objective.

As the baby-boomers begin to retire, many are looking for investment products that can turn their savings into retirement income. The Income Fund is an intermediate-term bond portfolio that aims to meet this need by investing in a broad opportunity set of global fixed income sectors, including mortgage-backed securities, U.S. Treasury bonds and corporate bonds – both investment grade and high yield securities (“junk bonds”).

The Income Fund pursues its objective by investing in multiple areas of the global bond market and employing PIMCO's analytical capabilities and sector expertise. While the Income Fund should provide an attractive income stream for investors, it has an intermediate bond duration and exposure which can cause potential volatility in performance.

How does the fund seek to generate income?

The new fund employs many of the same investment strategies as PIMCO's other portfolios, such as the Total Return strategy and the Low Duration strategy, and reflects the macroeconomic and asset allocation views of PIMCO's Investment Committee.

However, the Income Fund also utilizes unique investment strategies in an effort to help maximize income. The Income Fund seeks to utilize a broad opportunity set of securities including high yield securities; investment grade corporate bonds of issuers located in the United States and non-U.S. countries; fixed income securities issued by U.S. and non-U.S. governments, their agencies and instrumentalities; mortgage-related and other asset backed securities; and foreign currencies.

While the primary aim of the Income Fund is to generate high current income, long term capital appreciation is a secondary goal. PIMCO manages the fund to include our best total return strategies in an effort to help generate capital appreciation and thus provide above-market returns.

How is this fund different from other income-oriented bond funds?

PIMCO's Income Fund plans to invest in a very broad opportunity set, targeting a portfolio with:

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- Exposure to sectors across the global bond market that offer attractive income potential;
- A level of dividend income that is stable, high, and consistent;
- Higher average credit quality than other income-oriented products as we place a limitation on how much of the fund can be invested in below-investment grade securities in order to seek quality sources of income;
- An intermediate average portfolio duration to emphasize income while also considering capital appreciation; and
- Low correlation with the overall bond market.

To create this multi-sector, high quality portfolio, PIMCO employs a powerful combination of proprietary risk analytics and depth and breadth of fixed income expertise.

Why is the fund's ability to invest across fixed-income sectors so important?

The global economic landscape is constantly changing, causing different bond sectors to go in and out of favor. The Fund's multi-sector approach allows it to seek a broad range of income-generating opportunities in any given market climate while managing overall portfolio risk. In addition, having a multi-sector approach can potentially result in a low correlation to the overall bond market and other asset classes. These low correlations provide the potential for the Income Fund to be a good diversifier and performance enhancer.

How does the fund draw on PIMCO's strengths?

The Income Fund capitalizes on PIMCO's deep portfolio management experience, as well as our expertise in the global bond markets.

PIMCO has managed several portfolios with the aim of maximizing income, and we apply many of the same techniques we have developed for these portfolios to the Income Fund. In pursuing the fund's secondary goal of capital appreciation, we draw on PIMCO's extensive experience in total return investing, which began with the launch of our total return strategy in 1975.

As a multisector fixed income portfolio, the Income Fund relies on PIMCO's breadth and depth across all sectors of the fixed-income market. As one of the largest fixed income managers in the world, we have specialized portfolio managers and fixed-income analysts in nine offices around the globe.

The Income Fund also stands to benefit from the same macro themes PIMCO develops for our other core fixed-income products and from our top-notch risk management capabilities.

What type of investors might be interested in the fund?

PIMCO Income Fund may be an attractive option for income-oriented investors—such as those planning for retirement—who seek a bond investment with the potential for a relatively high and consistent income stream and an emphasis on risk management. Because the Fund's multisector approach gives it the flexibility to adapt to changing

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economic conditions, it may be a good choice for a long-term income allocation. Of course, the fund entails additional risks, and therefore should be considered as a complement to an investor's core bond holdings.

Conclusion

PIMCO created the Income Fund to meet investors' growing need for income. The fund is designed foremost to generate consistent, high income by investing broadly in the fixed-income market and by utilizing several techniques that aim to maximize income. Capital appreciation is a secondary goal. The Income Fund draws on PIMCO's expertise in both portfolio management and the fixed-income market.

Past performance is no guarantee of future results.

*Investors should consider the investment objectives, risks, charges and expenses of this fund carefully before investing. This and other information are contained in the fund's prospectus, which may be obtained by contacting your PIMCO representative. Please read the prospectus carefully before you invest or send money. PIMCO Funds are distributed by **Allianz Global Investors Distributors LLC**, member NASD, 840 Newport Center Drive, Newport Beach, CA 92660*

The Fund offers different share classes, which are subject to different fees & expenses (which may affect performance), have different minimum investment requirements and are entitled to different services.

The PIMCO Income Fund normally invests a majority of its assets in a portfolio of Fixed Income Instruments of varying maturities representing a broad array of fixed income sectors, including U.S. and non-U.S. corporate and government securities, asset-backed securities, and foreign currencies. The Fund may invest without limit in securities denominated in foreign currencies and may invest to a limited extent in securities of issuers based in countries with developing or emerging market economies. Investing in non-U.S. securities entails additional risks, including political and economic risk and the risk of currency fluctuations; these risks may be enhanced in emerging markets. The Fund will normally limit its foreign currency exposure.

The Fund may invest a substantial portion of its assets in high yield securities rated below investment grade. Lower rated bonds generally involve a greater risk to principal than higher rated bonds. The Fund may invest all of its assets in derivative instruments. 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 in these instruments. When interest rates rise, bond prices generally fall. The Fund is non-diversified, which means that it may concentrate its assets in a smaller number of issuers than a diversified fund.

Each sector of the bond market entails risk. Not necessary The guarantee on Treasuries, TIPS and Government Bonds is to the timely repayment of principal and

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interest. Shares of mutual funds that invest in them are not guaranteed. Mortgage-backed securities are subject to prepayment risk. With corporate bonds there is no assurance that issuers will meet their obligations.

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

Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

In an environment where interest rates may trend upward, rising rates will negatively impact 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 a fund's price sensitivity to interest rates expressed in years) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations.

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