

Fund Focus

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Paul Reisz Discusses PIMCO's Income Fund



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Mr. Reisz is a Senior Vice President and Product Manager covering PIMCO's Enhanced Cash, Stable Value, and Income strategies. He joined PIMCO in 2000, previously having been associated with Transamerica Asset Management. Mr. Reisz was with Transamerica for more than ten years, and was responsible for business development, client servicing, and product development. He has over twenty-three years of investment and financial services experience. In addition to being a Certified Public Accountant, he holds a bachelor's degree from the University of California, Berkeley, and an MBA from the University of Southern California.

Many investors who are retired or approaching retirement are looking for ways to generate a high level of relatively steady income. PIMCO recently launched the Income Fund to help meet that need. We spoke with Product Manager Paul Reisz about the fund and how it differs from some similar funds.

Q: Why did PIMCO decide to launch the Income Fund?

Reisz: As more baby boomers reach retirement age, the number of retirees should continue to grow. As more people retire, demand will increase for investment strategies that can turn savings into retirement income.

The PIMCO Income Fund takes a broad-based approach to investing for high and consistent income. The Income Fund pursues its objective by tapping into multiple areas of the global bond market and employing PIMCO's vast analytical capabilities and sector expertise.

Q: So the fund is specifically designed for investors who want a high, steady stream of income?

Reisz: Yes. We created the Income Fund for investors who buy bond funds as an income component in their overall investment portfolio and are looking primarily for relatively stable yield.

Many retirees, for example, should have some pension income but cannot rely heavily on Social Security, so they are looking for additional sources of income—from IRAs, 401(k)s and other investment portfolios—to cover living expenses and healthcare costs. We designed the Income Fund to try to help meet this need. The fund's primary objective is to generate high, consistent income. Total return is an important but secondary objective.

Q: Does the focus on income make the fund different from PIMCO's other products?

Reisz: Yes. The Income Fund is governed by its primary objective of maximizing current income through the dividend distribution, while total return is a secondary goal. The Income Fund also focuses on providing daily liquidity through a fund structure.

The Income Fund is one component of a suite of income funds offered by PIMCO. Managing for income and managing for total return are consistent goals and are compatible. With the Income Fund, we take the same firm-wide views and investment

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strategies that we apply to PIMCO's other funds and implement them in a way that is efficient from an income perspective.

Q: So the Income Fund is similar in some ways to PIMCO's other products?

Reisz: The Income Fund is similar to PIMCO's other products in many ways. First, as I mentioned, the Income Fund employs many of the same investment strategies used in other PIMCO funds, such as the Total Return Fund, and reflects the macroeconomic and asset allocation views of the PIMCO Investment Committee.

Second, the Income Fund benefits from PIMCO's expertise, depth of resources, and long experience in the fixed income markets. PIMCO has been actively managing income-producing fixed-income securities for more than 35 years. The firm was at the forefront of investing in many sectors, including mortgage-backed securities and emerging-market bonds, and employs dedicated specialists in virtually every fixed-income sector.

I should add that we currently manage a number of income-oriented bond strategies that feature investment objectives similar to those of PIMCO's Income Fund.

Finally, the Income Fund utilizes PIMCO's overall process and philosophy. The Income Fund is a multi-sector strategy, in which no single sector or portfolio strategy should dominate. Our process depends on both "top-down" and "bottom-up" strategies—combining perspectives from both the portfolio and security levels. In this way, we seek to add value consistently over time with acceptable levels of portfolio risk.

Q: How does PIMCO's Income Fund differ from some competing products?

Reisz: Perhaps the most significant difference between PIMCO's Income Fund and other income-oriented products is that our Income Fund may seek a high level of average credit quality.

The Income Fund focuses on utilizing multiple sectors. PIMCO limits its exposure to no more than 50% of the Fund in below investment-grade securities. We plan to exploit some opportunities in the credit sectors that can offer higher yields, but we also want to look at income generation in a creative manner, by tapping into a much broader opportunity set. For example, we could also take advantage of opportunities in highly rated segments of the bond market, such as global securities and mortgage-backed securities that are rated triple-A or have agency guarantees.

In short, PIMCO's Income Fund utilizes multiple sectors. We try to take exposure to sectors across the global bond market that we believe offer attractive income potential.

Our Income Fund has other distinguishing characteristics. We aim to maintain an intermediate average portfolio duration to emphasize a combination of income as the primary objective and capital appreciation as the secondary objective of the Fund. The Income Fund also has access to PIMCO's robust credit analysis, proprietary quantitative tools, and cost effective trading.

With all these strengths, we believe the Income Fund is positioned to maximize current income.

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Q: In the current environment, what sectors do you find attractive for the Income Fund?

Reisz: Based on our expectations for a slowing economy later this year, we believe a bias toward higher-quality securities makes sense. For the Income Fund, we plan to target average portfolio credit quality of about double-A-minus, and our exposure to high-yield corporate bonds would be at the higher end of the ratings spectrum—double-B and double-B-plus.

We find some positions in global bond markets attractive, as well as U.S. agency guaranteed mortgages. Although some asset-backed securities have been affected by changes in the sub-prime mortgage market, we believe that this is a good environment for finding value and yield within the sector, specifically in highly rated senior securities.

Also, allocations to some of the more stable emerging markets, where fundamentals are improving and balance sheets look very strong from an historical perspective, could be an attractive way to supplement returns.

Q: Thank you, Paul.

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.

Past performance is no guarantee of future results. 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

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derivative instruments, including mortgages and mortgage-backed securities. Mortgage-backed securities are subject to prepayment risk. Use of derivative 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. The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio.

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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