

Product Focus

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PIMCO's Approach to Municipal Bonds

PIMCO is well positioned to take advantage of opportunities in the municipal (muni) bond market. Our approach to muni bond investing aims to achieve attractive after-tax total returns. We focus on credit quality, top-down and bottom-up analysis of individual securities, and risk management. In addition, we are also one of the largest participants in the market, which gives us certain advantages.

Focus on After-Tax Returns

Our approach to municipal bond investing aims to achieve attractive after-tax total returns in several ways.

First, we focus on securities with high or improving credit quality. Credit quality is one of the most important considerations in today's market; changes in credit quality can occur rapidly, affecting the value of individual bonds and even entire sectors of the municipal bond market. So choosing bonds of high or improving credit quality can be crucial.

Second, we combine top-down and bottom-up analysis. Our investment process begins with our top-down, secular view of the major trends that will influence the financial markets over the next three to five years. We also incorporate quarterly economic forecasts to fine-tune our long-term secular strategies. Then we apply bottom-up analysis of individual municipal bond issues.

In selecting securities, we look at both yield and performance characteristics, including call structure, coupon, maturity and liquidity risks, and the likelihood that a security will outperform the market in a changing environment, which is key to achieving high total return.

Finally, we emphasize risk management. We use internally developed quantitative research models designed specifically for municipal portfolios. Our Municipals Under Management (MUM) modeling system employs a proprietary set of quantitative tools that can be used at both the security and portfolio levels.

At the individual security level, our modeling system evaluates how individual bond returns will be impacted by changes in interest rates, yield volatilities, curve shapes, credit premiums and taxable market discounts. We then estimate risk-adjusted yields, which are used as a baseline to identify relative value opportunities. At the portfolio level, we aggregate security risk measures assessing a portfolio's price reaction to changes in key variables.

We can also customize our core municipal strategy to help clients manage their taxable assets. We often combine munis with other fixed-income instruments, such as Treasuries, mortgages and corporate bonds, in an effort to achieve higher after-tax

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returns. For tax-sensitive investors, we also employ tax management techniques, such as harvesting losses to offset gains and minimize tax events.

Size an Advantage

As one of the largest participants in the municipal bond market, we have access to the heads of dealer trading desks as well as senior decision makers at the state and local governments that issue munis. We can thus gain greater insight into market developments. As a major participant, we also achieve better execution on our transactions when we both purchase and sell securities.

Conclusion

PIMCO's approach to municipal bond investing aims to achieve a high after-tax total return. We focus on credit quality, top-down and bottom-up analysis, and risk management. As one of the largest participants in the municipal bond market, we also have access to market information and can execute efficient trades.

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