



The New Normal: a Bumpy Journey to a New Destination

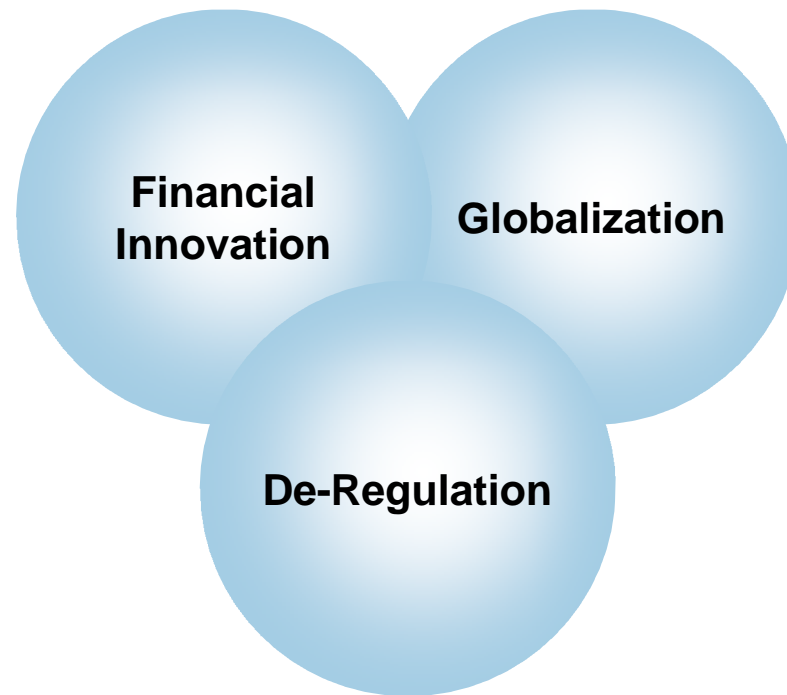
October 5, 2009

Pacific Investment Management Company , 840 Newport Center Drive, Newport Beach, CA 92660, (800) 927-4648

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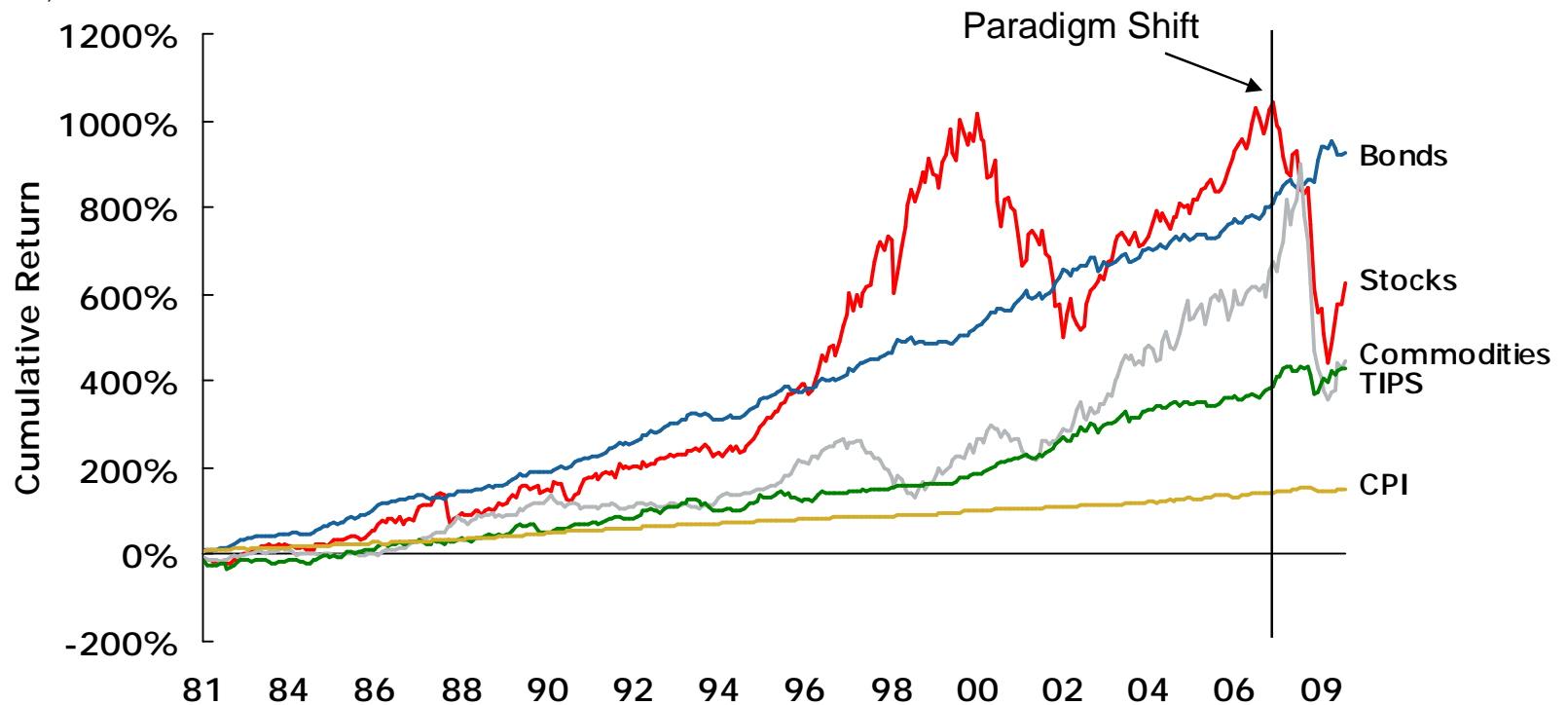
P I M C O

Where we were: a powerful combination for growth and markets



Where we were: children of the bull market

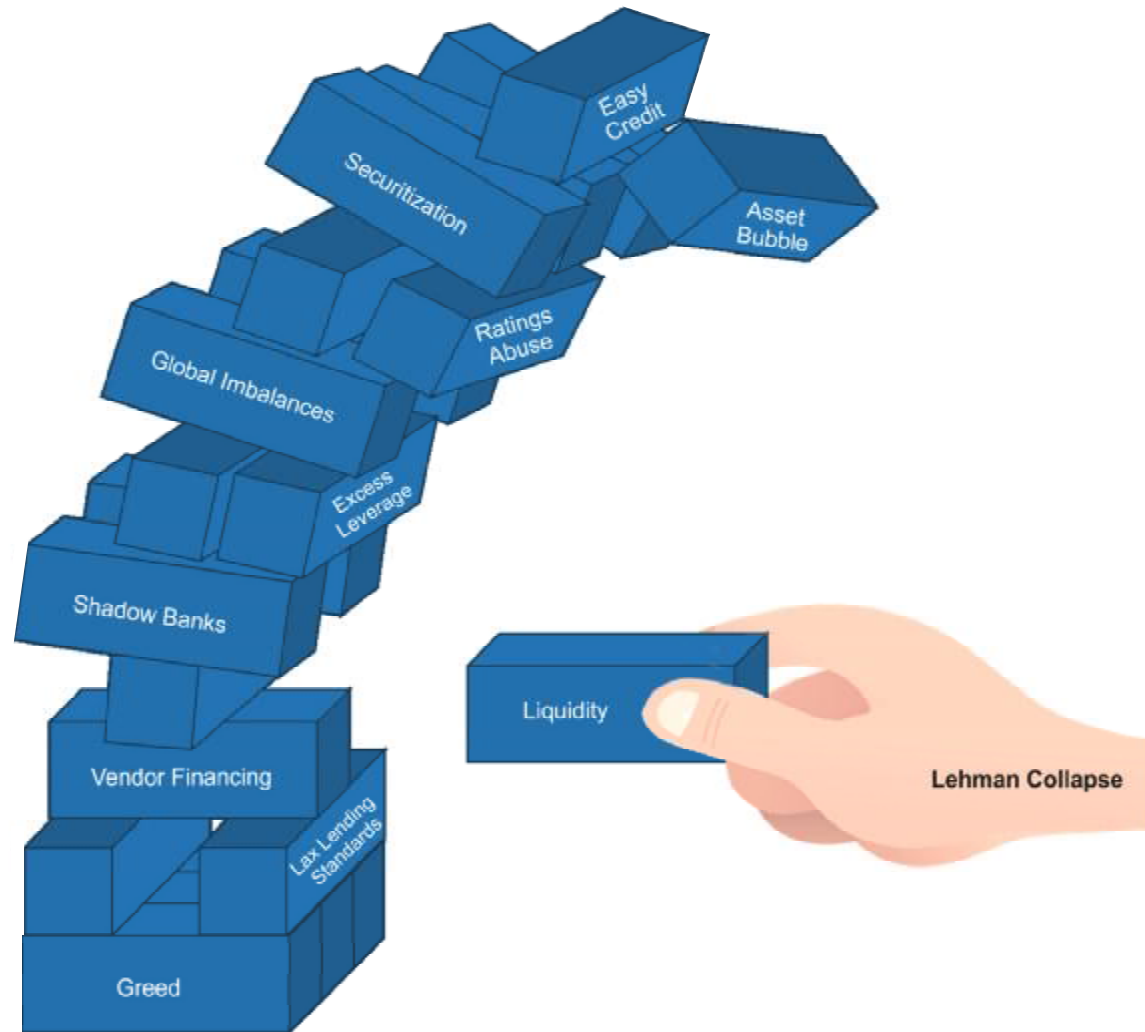
As of August 31, 2009



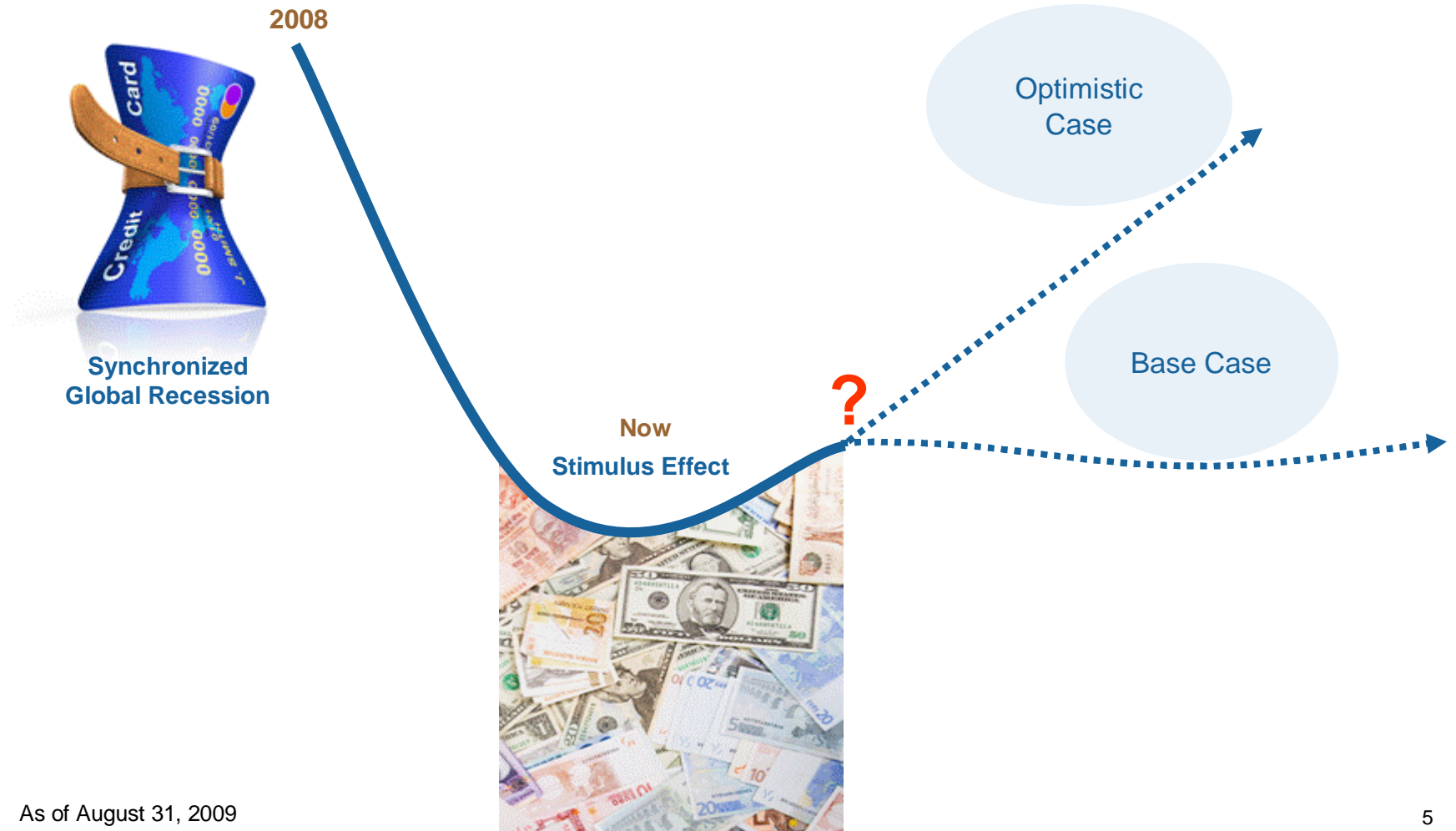
SOURCE: Morningstar

Stocks is represented by the S&P 500; bonds is represented by the 10 Year U.S. Treasury, commodities is represented by the Gorton and Rouwenhorst Commodity Index Plus from January 1981 to December 1990, DJ-AIG Commodity TR Index (starting January 1991) DJ UBS Commodity TR Index as of May 2009, and TIPS Total Returns were calculated in the periods before TIPS were issued by combining actual U.S. CPI (NSA) inflation with estimated price returns and real yields prior to February 1997. The estimates were from the Livingston Survey of Economists' Forecasts. The estimated price returns were calculated by multiplying the monthly changes in these estimated real yields by an assumed duration of 7 years. Estimated real yields were calculated by subtracting 12 month ahead forecasted CPI (NSA) from ten-year U.S. Treasury yields. From beginning of February 1997 through 2000, TIPS Total Returns were represented by the Barclays Capital U.S. TIPS Index.

A sudden stop: a crisis of the system

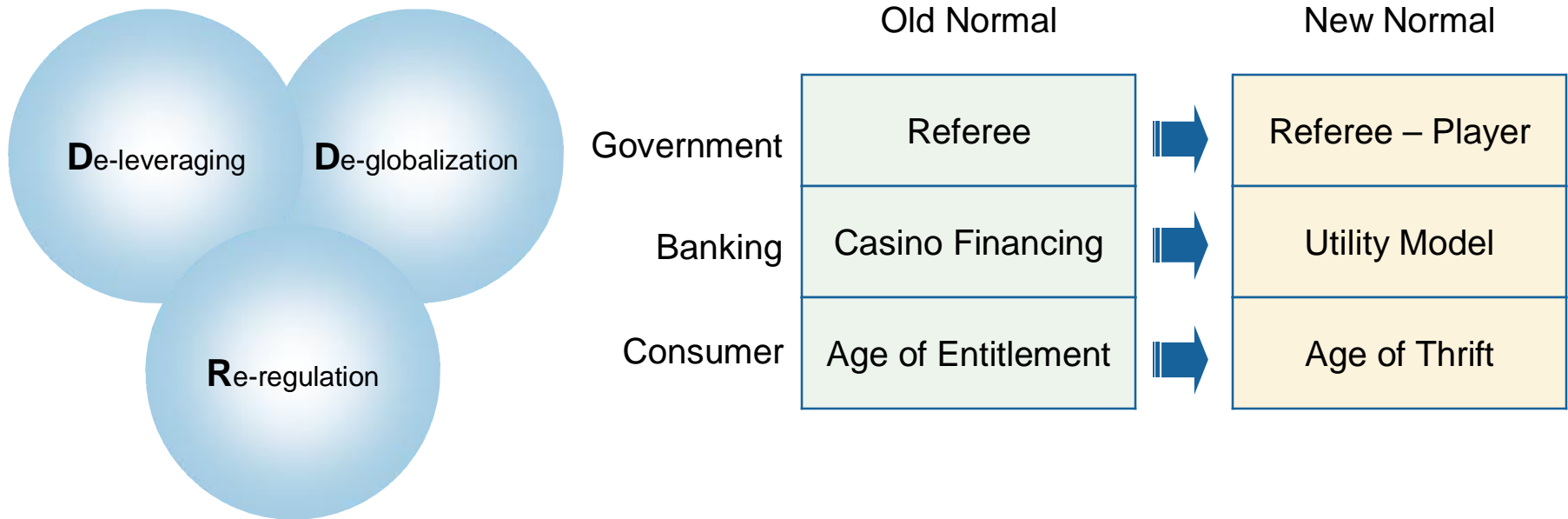


Outlook: a sustainable recovery?



As of August 31, 2009

Defining the new normal



What will the new normal look like?

As of August 31, 2009

- § Slowdown, but not depression, ~2% growth
- § Limited inflation / potential deflation now; longer-term inflation possible
- § Corporate profits under pressure; business and employment models evolve
- § Hand-off of global growth to emerging economies continues
- § \$ weakness a risk
- § Investment returns tempered

Now more than ever

Be forward-looking, both tactically and strategically

Focus on risk factors, not just asset classes

Hedge risk from systemic market shocks ('tail events')

Be forward looking

Investment process should be forward looking

Annual Secular Forum (3 – 5 Year Outlook)

Assess long term trends
demographics, political factors,
globalization of trade and capital,
productivity / technology

Quarterly Cyclical Forum (6 – 9 Month Outlook)

- § G-3/Emerging Market inflation and GDP forecasts
- § Fine tune the secular outlook



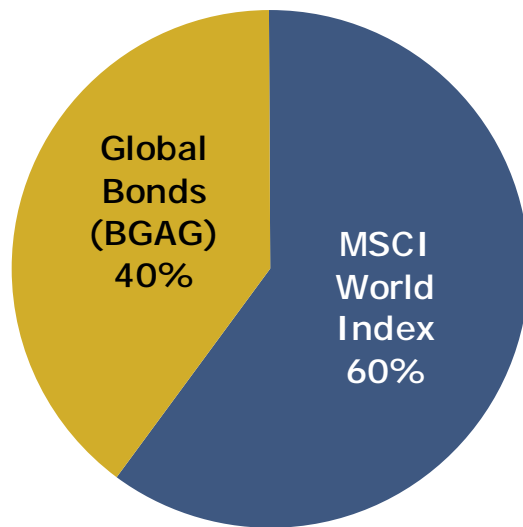
Output: Themes that guide portfolio construction

- § Sector allocation ideas
- § Interest rate direction and volatility
- § Exchange rate expectations
- § Credit trends

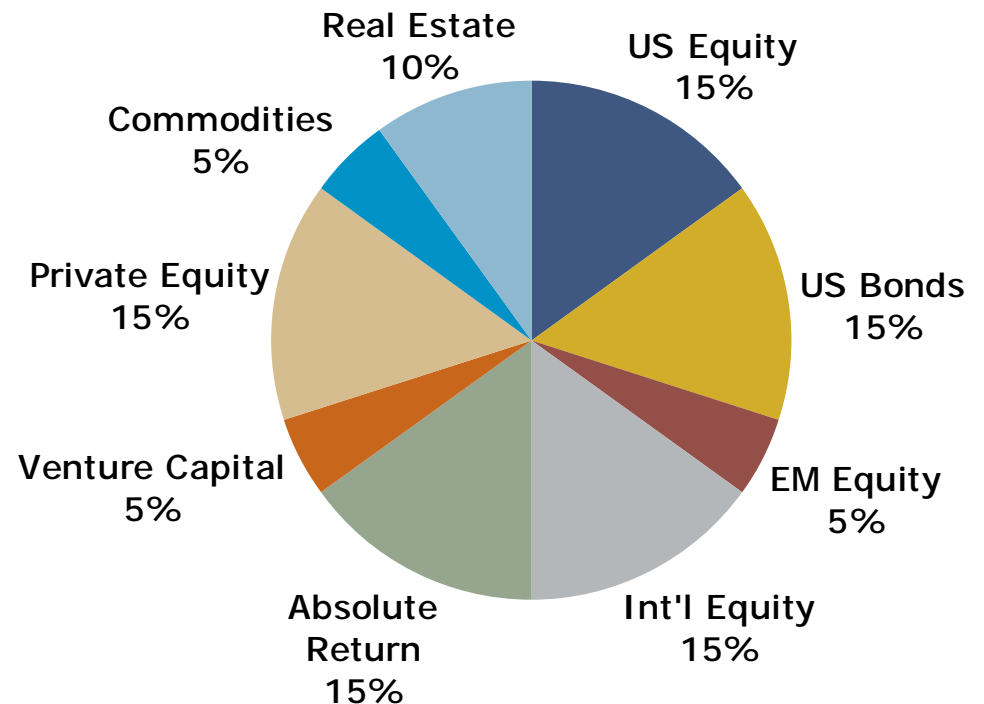
Focus on risk factors

Asset class diversification \neq risk diversification

60/40 Portfolio



Endowment Style Portfolio

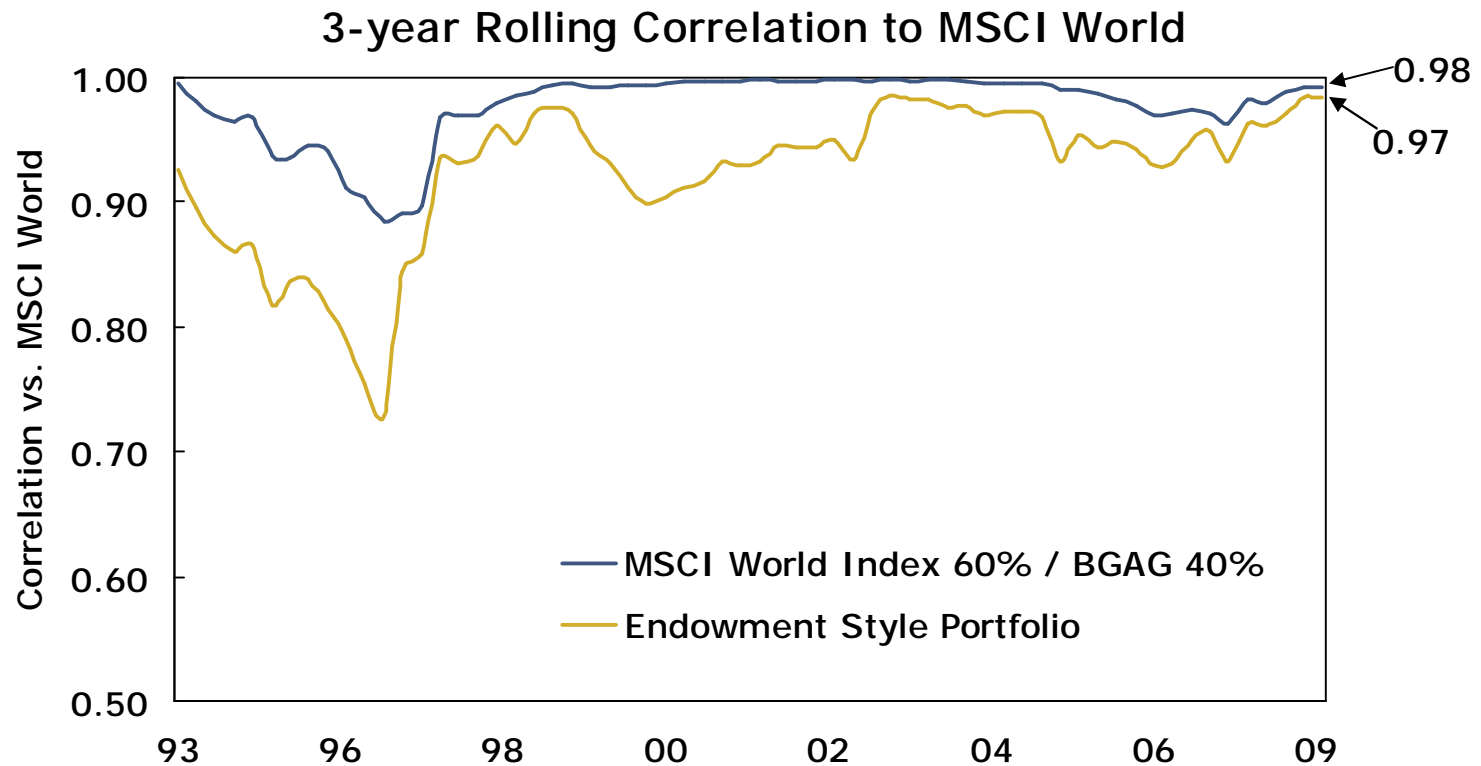


As of August 31, 2009

SOURCE: Morgan Stanley, Bloomberg, Cambridge Associates, and Hedge Fund Research. Private Equity and Venture Capital quarterly returns are released approximately 12-15 weeks following the close of each quarter

Asset class diversification \neq risk diversification

As of March 31, 2009

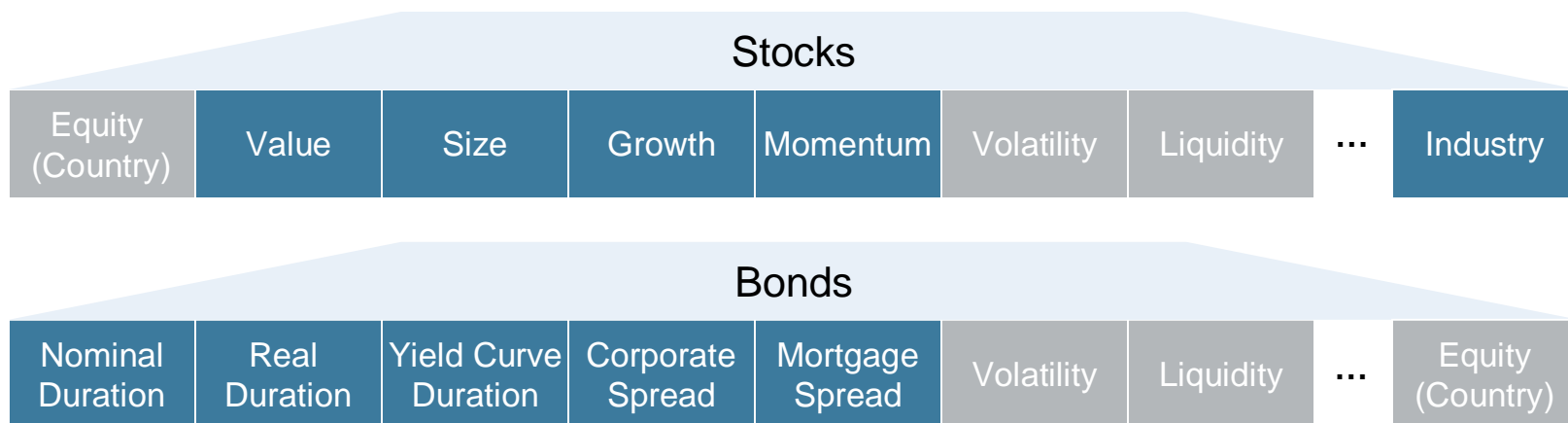


SOURCE: Morgan Stanley, Bloomberg, Cambridge Associates, and Hedge Fund Research.

Private Equity and Venture Capital quarterly returns are released approximately 12-15 weeks following the close of each quarter.

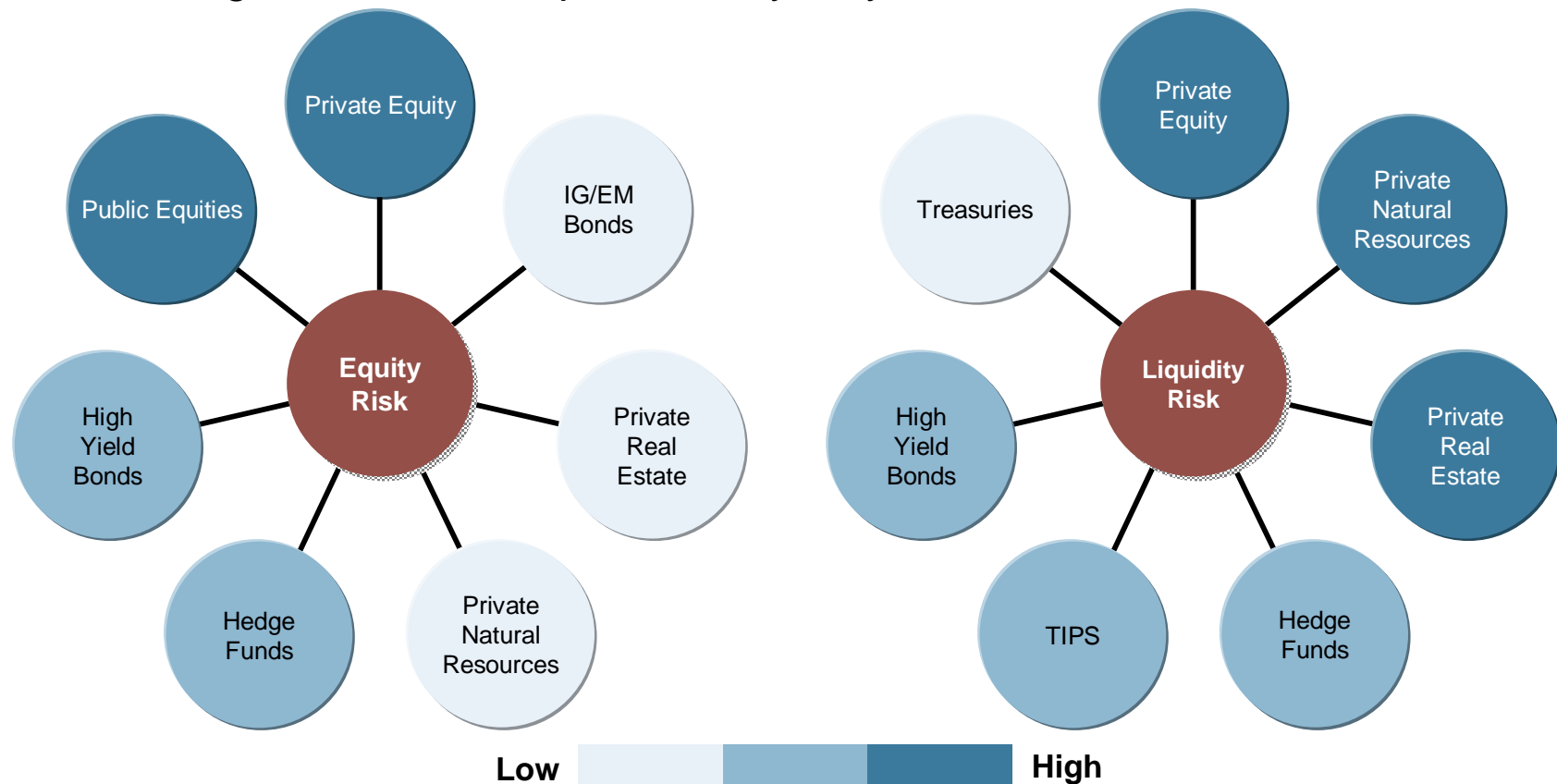
What are risk factors?

- § Building blocks that drive asset class returns
- § Asset classes are simply carriers of various risk factors



Risk Factors Across Asset Classes

§ Different asset classes can carry exposure to the same underlying risk, although the level of exposure may vary

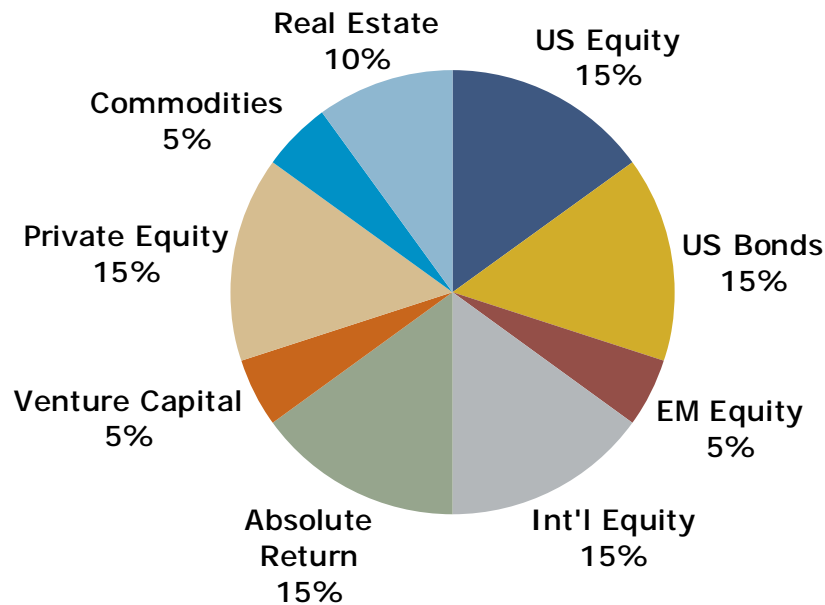


Asset classes -> risk factors

As of August 31, 2009

Endowment Style Portfolio

Asset Class Exposures

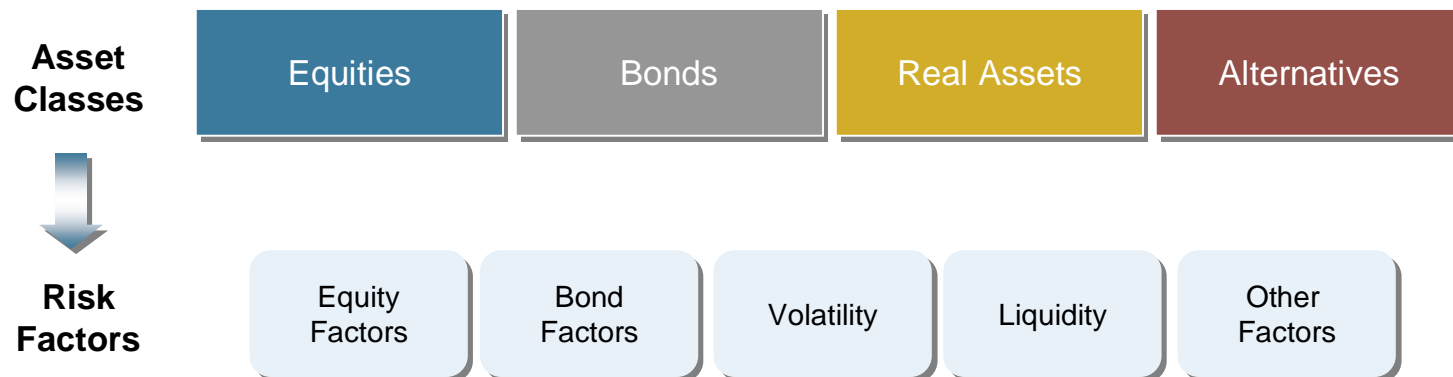


Risk Factor Exposures

Risk Factor	Exposure
Equity (Beta)	0.78
Value	0.07
Size	0.18
Momentum	0.06
Interest Rate Risk	0.62
Yield Curve Risk	0.12
Mortgage Spread Risk	0.24
Corporate Spread Risk	0.18
Liquidity	Low

So how does one achieve true portfolio diversification?

- § Express your portfolio in terms of risk factors
 - Provides clarity on key sources of underlying risks



Investors should focus on diversifying across risk factors – that is the key to achieving true portfolio diversification

Hedging the tails

Defining Tail Events

§ What are Tail Events?

- Improbable events that cause significant portfolio effects

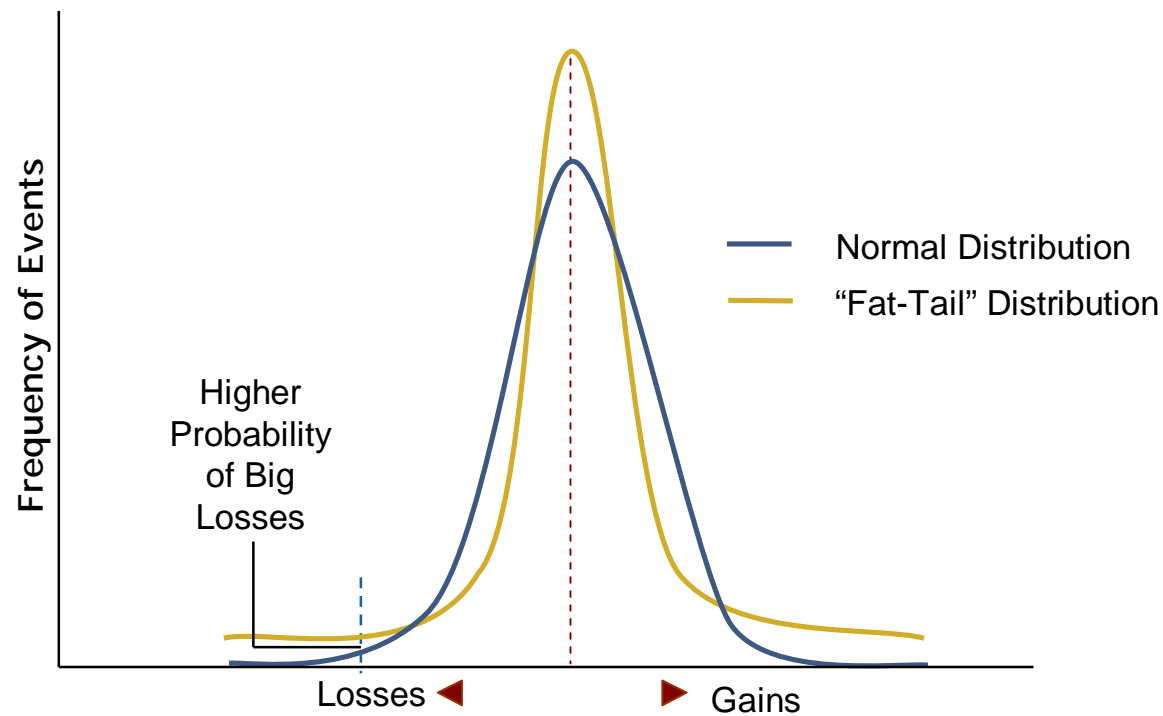
Statistically: Multi-standard deviation events

Colloquially: Hundred year floods

Examples: Major Financial Crises since 1980

1982	Mexican default	1994-5	Mexican peso crisis
1987	Black Monday, Dow drops 22.6%	1997-8	Asian financial crisis
1989-91	United States S&L crisis	1998	Russian default and LTCM
1989-91	Latin American debt crises	2001-2	Argentine default, dot-com bust, Enron
1992-3	European Monetary System crisis	2007-9	Financial market meltdown

What do we mean by fat tails?



SOURCE: PIMCO
Sample for illustrative purposes only.

Just how fat are fat tails?

Daily Change in DJIA 1916 – 2003 (21,924 Trading Days)

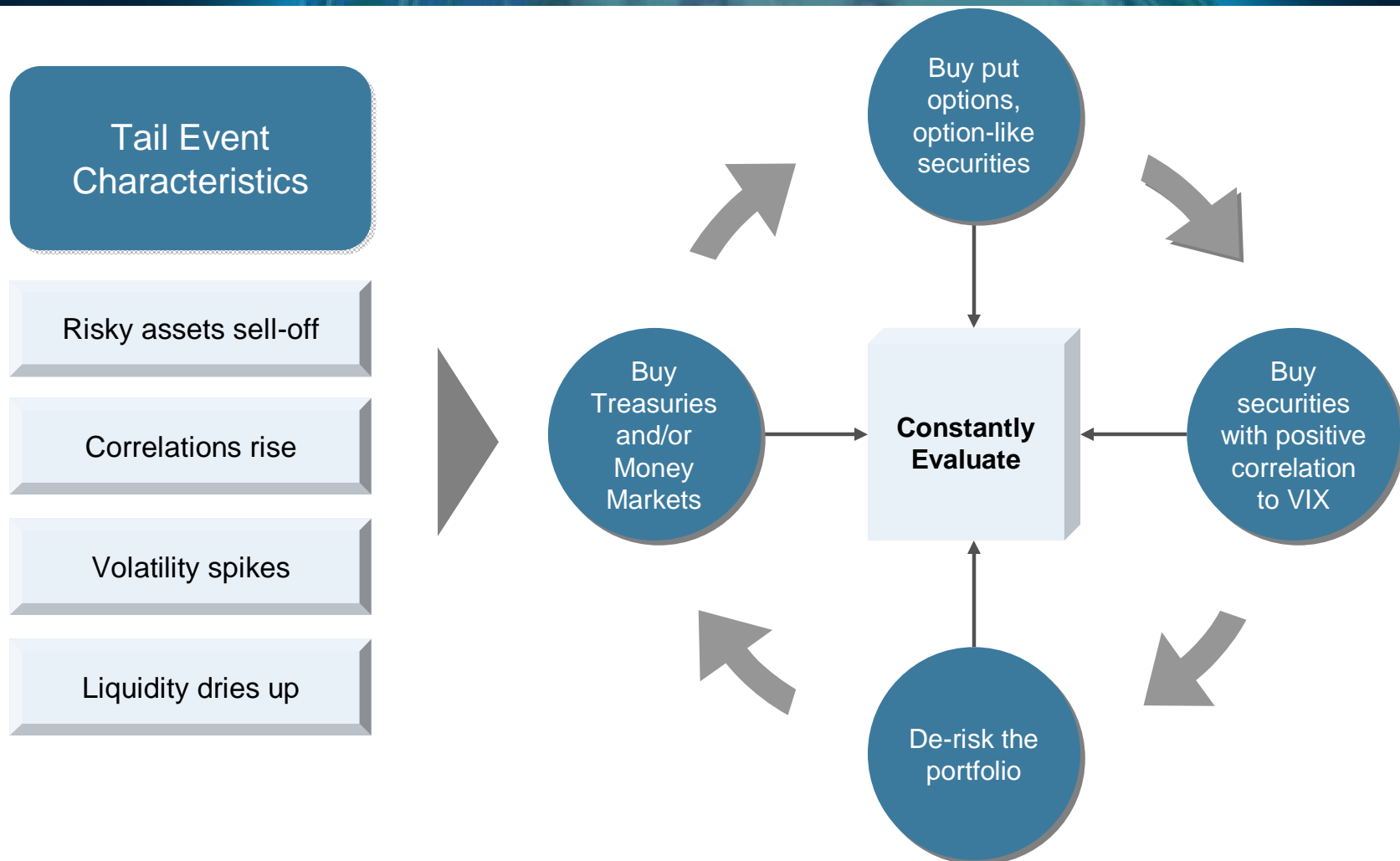
Daily Change (+/-)	Normal Distribution Approximation	Actual	Ratio of Actual to Normal
> 3.4%	58 days	1001 days	17x
> 4.5%	6 days	366 days	61x
>7%	1 in 300,000 years	48 days	Very Large

SOURCE: PIMCO, Benoit Mandelbrot
Sample for illustrative purposes only.

Assumes 252 trading days per year.

Data from 1916 through its inception in 1957 was recreated using the DJIA Index Methodology. Data from 1957 and forward represents actual data.

Hedging tail risk



Summary – A New Approach for a New Normal

Old Normal Approaches	New Normal Approach
<ul style="list-style-type: none">• Tend to be quantitative and model driven	<ul style="list-style-type: none">• Qualitative and forward-looking
<ul style="list-style-type: none">• Rely on historical asset class volatilities, correlations and return forecasts	<ul style="list-style-type: none">• Allocate based on secular views on key risk factors
<ul style="list-style-type: none">• Focus on asset class diversification	<ul style="list-style-type: none">• Focuses on risk factor diversification
<ul style="list-style-type: none">• Ignore “fat tail” events	<ul style="list-style-type: none">• Seeks to hedge “fat tail” events

Please contact PIMCO Account Manager Will Pompa for more information: william.pompa@pimco.com

Appendix

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

Endowment Style Portfolio Index Sources

US Equities are represented by the S&P 500, International Equities are represented by the MSCI EAFE Net Dividend Index in USD, EM Equities is represented by the MSCI Emerging Markets Index, US Bonds are represented by the Barclays Capital US Aggregate Index, Global Bonds are represented by the JPMorgan Global Unhedged Index, Commodities are represented by the Dow Jones UBS Commodity Total Return Index, REITs are represented by NCREIF Property Index, Absolute Return is represented by the HFRI Fund Weighted Composite Index, Private Equity is represented by the Cambridge Associates LLC U.S. Private Equity Index®, Venture Capital is represented by the Cambridge Associates LLC U.S. Venture Capital Index®

Investment Strategy

There is no guarantee that these investment strategies will work under all market conditions and each investor should evaluate their ability to invest for a long-term especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

Outlook

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. Outlook and strategies are subject to change without notice.

Appendix

Risk

Investing in the bond market is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk; 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. 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 insure against loss.

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Appendix

Index Descriptions

The PIMCO Global Advantage Bond Index (GLADI) is a diversified global index that covers a wide spectrum of global fixed income opportunities and sectors, from developed to emerging markets, nominal to real assets, and cash to derivative instruments. Unlike traditional indices, which are frequently comprised of bonds weighted according to their market capitalization, GLADI uses GDP-weighting which puts an emphasis on faster-growing areas of the world and thus makes the index forward-looking in nature.

Certain features of the PIMCO Global Advantage Bond Index (GLADI) are patent pending. GLOBAL ADVANTAGE and GLADI are trademarks of Pacific Investment Management Company LLC. Registered trademarks or trademarks contained herein are the property of Pacific Investment Management Company LLC and/or Allianz Global Investors of America L.P. in the United States and/or other countries.

Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Prior to November 1, 2008, this index was published by Lehman Brothers.

Barclays Capital U.S. TIPS Index is an unmanaged market index comprised of all U.S. Treasury Inflation Protected Securities rated investment grade (Baa3 or better), have at least one year to final maturity, and at least \$250 million par amount outstanding. Performance data for this index prior to 10/97 represents returns of the Barclays Capital Inflation Notes Index. Prior to November 1, 2008, this index was published by Lehman Brothers.

The Consumer Price Index (CPI) is an unmanaged index representing the rate of inflation of the U.S. consumer prices as determined by the U.S. Department of Labor Statistics. There can be no guarantee that the CPI or other indexes will reflect the exact level of inflation at any given time.

The Morgan Stanley Capital International World Index is an unmanaged market-weighted index that consists of over 1,200 securities traded in 22 of the world's most developed countries. Securities are listed on exchanges in the US, Europe, Canada, Australia, New Zealand, and the Far East. The index is calculated separately; without dividends, with gross dividends reinvested and estimated tax withheld, and with gross dividends reinvested, in both U.S. Dollars and local currency.

The Dow Jones Industrial Average (DJIA), sometimes referred to as the Dow, is the best-known and most widely followed market indicator in the world. It tracks the performance of 30 blue chip US stocks

The Dow Jones UBS Commodity Total Return Index is an unmanaged index composed of futures contracts on 19 physical commodities. The index is designed to be a highly liquid and diversified benchmark for commodities as an asset class. Prior to May 7, 2009, this index was known as the Dow Jones AIG Commodity Total Return Index.

Appendix

The MSCI EAFE Net Dividend Hedged USD Index is an unmanaged index of issuers in countries of Europe, Australia, and the Far East represented in U.S. Dollars on a hedged basis.

The Morgan Stanley Capital International Emerging Markets Index is an unmanaged index that measures equity market performance in the global emerging markets. As of May 2005, the Emerging Markets Index (float-adjusted market capitalization index) consisted of indices in 26 emerging countries: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey, and Venezuela.

JPMorgan GBI Global (Unhedged) is an unmanaged market index representative of the total return performance in U.S. dollars on an unhedged basis of major world bond markets.

The HFRI Fund Weighted Composite Index is comprised of over 2000 domestic and offshore constituent funds. All funds report assets in USD and report net of fees returns on a monthly basis. There is no Fund of Funds included in the index and each has at least \$50 million under management or have been actively trading for at least twelve months

The Cambridge Associates LLC U.S. Venture Capital Index is based on returns data compiled on funds representing over 80% of the total dollars raised by U.S. venture capital managers between 1981 and 2001. Cambridge Associates LLC calculates the pooled net time-weighted return by quarter from March 31, 1981 through the most recent quarter. The pooled means represent the time-weighted rates of return calculated on the aggregate of all cash flows and market values as reported by the General Partners to Cambridge Associates LLC in their quarterly and annual audited financial reports. Net returns exclude all management fees, expenses and performance fees that take the form of a carried interest.

The Cambridge Associates U.S. Private Equity Index is based on returns data representing nearly two-thirds of leveraged buyout, subordinated debt, and special-situations partnerships since 1986.

It is not possible to directly invest into an unmanaged index.