PIMCO

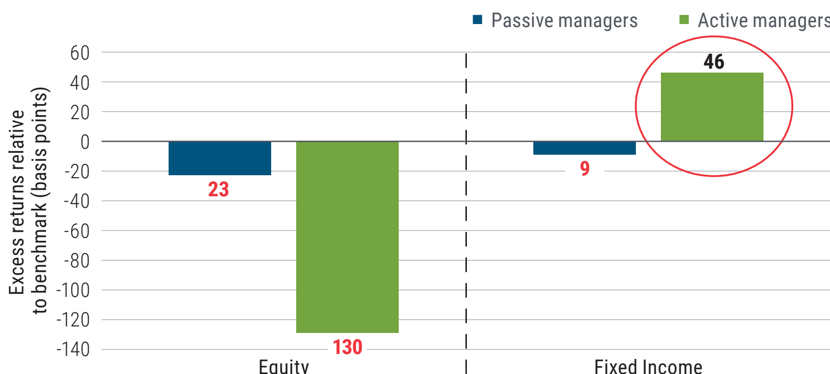
Passive May Make Sense for Equities, but Bonds Are Different

ACTIVE OUTPERFORMS PASSIVE – EVEN AFTER FEES

Active fixed income managers historically have had a greater likelihood of outperforming their benchmarks and their passive peer groups than active equity managers – even after fees. Over the last 10 years, the median active bond manager outperformed its passive counterpart by 0.55% after fees per year. That means that investors received more than 0.5% per year of excess return. This difference in performance can be significant over time for fixed income investors. Another key thing to note here is that passive managers typically underperformed the index due to fees. For equities, performance has been almost reversed, with active equities substantially underperforming both passive managers and the benchmark.

Active bond managers have outperformed benchmarks and passive peers

10-year median excess returns of U.S. active and passive managers (after fees)

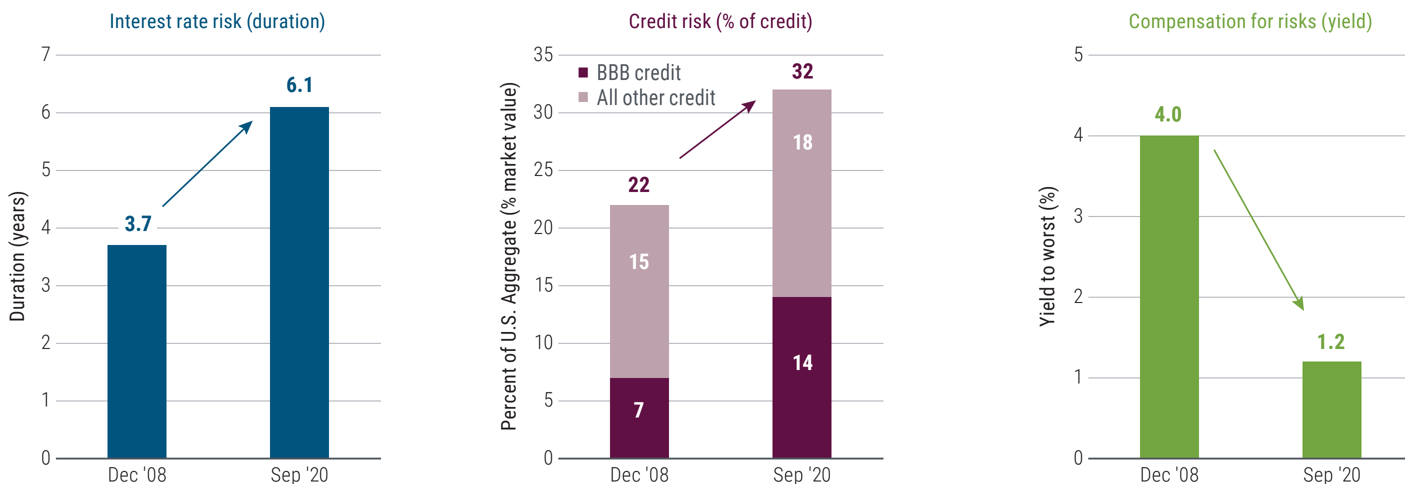


Past performance is not a guarantee or a reliable indicator of future results. Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product.
As of 30 September 2020; Source: Morningstar
Based on Morningstar U.S. Fund categories (Institutional shares only). Non U.S. Funds performance and results may vary significantly.
"Fixed Income" combines the Morningstar U.S. Fund Intermediate Core and Intermediate Core-Plus categories. "Equity" is based on the Morningstar U.S. Fund Large Cap Blend Category.
The Benchmark for Fixed Income: Bloomberg Barclays U.S. Aggregate Bond Index; Equity: S&P 500 Index

PASSIVE HAS BECOME RISKIER – AND MORE VULNERABLE

Investors haven't only received lower returns in passive fixed income strategies; they have also been taking on more risk. Since the financial crisis, the Bloomberg Barclays U.S. Aggregate Bond Index has taken on significantly more interest rate risk and credit risk, as the chart below shows. At the same time, yields have fallen, which means that investors are being compensated less to take on that additional risk. Importantly, because of its structure, the index has also provided greater exposure to the most indebted companies, which adds an additional layer of risk. In contrast, active managers, with the resources and know-how, have the ability to identify potential opportunities and help mitigate the risks lurking in traditional bond indexes and the passive strategies that replicate them.

The risk/return profile for the Bloomberg Barclays U.S. Aggregate Bond Index is significantly less attractive today



As of 30 September 2020; Source: Bloomberg Barclays U.S. Aggregate Bond Index (BBAG) duration, credit and yield statistics as of 31 December 2008 and 30 September 2020. See last page for index description. Within the BBAG, the share of credit - and BBB credit - has increased since 2008. All other credits include A, AA or AAA.

Textbook bond math holds that lower market-wide yields increase the duration of bonds. Some readers will wonder why at certain points yields and duration have risen together. The explanation is that the average maturity of the index has not remained constant; in fact, it has generally increased over time.

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

RISK: Investing in the **bond market** is subject to certain risks including the risk that fixed income securities will decline in value because of changes in interest rates; the risk that fund shares could trade at prices other than the net asset value; and the risk that the manager's investment decisions might not produce the desired results. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions; the risk that fund shares could trade at prices other than the net asset value; and the risk that the manager's investment decisions might not produce the desired results. 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 ensure against loss.

The credit quality of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody's, and Fitch respectively.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors 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.

Bloomberg Barclays 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.

This material contains the current opinions of the managers and such opinions are subject to change without notice. This material is distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This is not an offer to any person in any jurisdiction where unlawful or unauthorized. | **Pacific Investment Management Company LLC**, 650 Newport Center Drive, Newport Beach, CA 92660 is regulated by the United States Securities and Exchange Commission. | **PIMCO Europe Ltd** (Company No. 2604517) and PIMCO Europe Ltd - Italy (Company No. 07533910969) are authorised and regulated by the Financial Conduct Authority (12 Endeavour Square, London E20 1JN) in the UK. The Italy branch is additionally regulated by the Commissione Nazionale per le Società e la Borsa (CONSOB) in accordance with Article 27 of the Italian Consolidated Financial Act. PIMCO Europe Ltd services are available only to professional clients as defined in the Financial Conduct Authority's Handbook and are not available to individual investors, who should not rely on this communication. | **PIMCO Europe GmbH** (Company No. 192083, Seidlstr. 24-24a, 80335 Munich, Germany), PIMCO Europe GmbH Italian Branch (Company No. 10005170963) and PIMCO Europe GmbH Spanish Branch (N.I.F. W2765338E) are authorised and regulated by the German Federal Financial Supervisory Authority (BaFin) (Marie- Curie-Str. 24-28, 60439 Frankfurt am Main) in Germany in accordance with Section 32 of the German Banking Act (KWG). The Italian Branch and Spanish Branch are additionally supervised by the Commissione Nazionale per le Società e la Borsa (CONSOB) in accordance with Article 27 of the Italian Consolidated Financial Act and the Comisión Nacional del Mercado de Valores (CNMV) in accordance with obligations stipulated in articles 168 and 203 to 224, as well as obligations contained in Tile V, Section I of the Law on the Securities Market (LSM) and in articles 111, 114 and 117 of Royal Decree 217/2008, respectively. The services provided by PIMCO Europe GmbH are available only to professional clients as defined in Section 67 para. 2 German Securities Trading Act (WpHG). They are not available to individual investors, who should not rely on this communication| **PIMCO (Schweiz) GmbH** (registered in Switzerland, Company No. CH-020.4.038.582-2), Brandschenkestrasse 41, 8002 Zurich, Switzerland, Tel: + 41 44 512 49 10. The services provided by PIMCO (Schweiz) GmbH are not available to individual investors, who should not rely on this communication but contact their financial adviser. | **PIMCO Asia Pte Ltd** (Registration No. 199804652K) is regulated by the Monetary Authority of Singapore as a holder of a capital markets services licence and an exempt financial adviser. The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | **PIMCO Asia Limited** is licensed by the Securities and Futures Commission for Types 1, 4 and 9 regulated activities under the Securities and Futures Ordinance. PIMCO Asia Limited is registered as a cross-border discretionary investment manager with the Financial Supervisory Commission of Korea (Registration No. 08-02-307). The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | **PIMCO Australia Pty Ltd** ABN 54 084 280 508, AFSL 246862. This publication has been prepared without taking into account the objectives, financial situation or needs of investors. Before making an investment decision, investors should obtain professional advice and consider whether the information contained herein is appropriate having regard to their objectives, financial situation and needs. | **PIMCO Japan Ltd,** Financial Instruments Business Registration Number is Director of Kanto Local Finance Bureau (Financial Instruments Firm) No. 382. PIMCO Japan Ltd is a member of Japan Investment Advisers Association and The Investment Trusts Association, Japan. All investments contain risk. There is no guarantee that the principal amount of the investment will be preserved, or that a certain return will be realized; the investment could suffer a loss. All profits and losses incur to the investor. The amounts, maximum amounts and calculation methodologies of each type of fee and expense and their total amounts will vary depending on the investment strategy, the status of investment performance, period of management and outstanding balance of assets and thus such fees and expenses cannot be set forth herein. | **PIMCO Taiwan Limited** is managed and operated independently. The reference number of business license of the company approved by the competent authority is (109) Jin Guan Tou Gu Xin Zi No. 027. 40F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.). Tel: +886 2 8729-5500. | **PIMCO Canada Corp.** (199 Bay Street, Suite 2050, Commerce Court Station, P.O. Box 363, Toronto, ON, M5L 1G2) services and products may only be available in certain provinces or territories of Canada and only through dealers authorized for that purpose. | **PIMCO Latin America** Av. Brigadeiro Faria Lima 3477, Torre A, 5° andar São Paulo, Brazil 04538-133. | No part of this publication may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America L.P. in the United States and throughout the world. ©2020, PIMCO.

CMR2020-1021-1378619