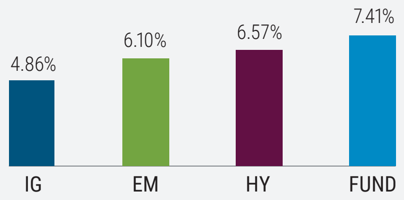
PIMCO

Diversified Income Quarterly Letter

Quality and caution in a fragile recovery.

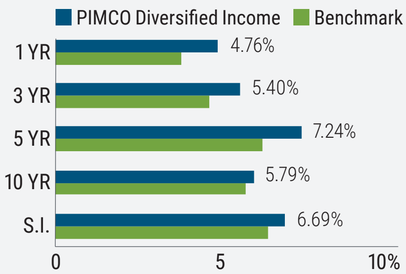
The whole is greater than the sum of the parts

Return vs indices since inception*



Performance**

The fund has beaten its benchmark on an after-fee basis over 1, 3, 5 and 10 years



THE FUND IN FIGURES

AUM: $16.7bn
Sharpe ratio*:** 0.61
Yield: 3.92%
Duration: 6.13 years
Inception date: June 2005

THE FUND IN 3 WORDS:

1. **Stability**
   Yield without compromising on risk
2. **Flexibility**
   EM, HY and IG exposure fully unconstrained
3. **Diversification**
   Access to global credit markets

MORNINGSTAR Gold™

A company of Allianz

Q3 2020: TUG OF WAR - MONETARY SUPPORT FIGHTS RISING VOLATILITY

Markets continued to rally in the first two months of the quarter as global monetary stimulus and improved sentiment drove some sectors to near pre-pandemic levels. However, the rally faltered in September: despite new Federal Reserve guidance forecasting U.S. rates to be on hold until 2023, rising COVID-19 infection rates across Europe and U.S. election-related uncertainty deflated markets. In emerging markets, concerns grew around some of the weaker sovereigns such as Zambia and Angola as well as more resilient ones like Turkey. This contributed to emerging markets (EM) underperforming investment grade (IG) and high yield (HY) assets during the quarter.

FUND STORIES

Winners and losers – The pandemic has affected sectors unevenly and some, like technology or pharmaceuticals, have even benefited from greater demand. Some of these highest-quality parts of the market are now trading at pre-pandemic levels, leading us to search further afield to find attractively-valued opportunities. For example, the airline and hotel industries have been hard hit and certain issuers within these two sectors saw significant spread widening despite resilient balance sheets and high liquidity. We have therefore added some secured airlines, aircraft leasing and select hotel exposure, attracted by their yields and downside protection through asset-backing/collateral.

Being prepared – Credit valuations have normalised and are around their 20-year average. Coupled with rising infection rates in Europe, an upcoming U.S. election and uncertainty around the final Brexit deal, we have taken a more cautious stance as we prepare for a possibly volatile year end. Consequently, we have transitioned from a neutral credit risk position to being underweight by tactically taking some profits. We believe this move leaves us better positioned to benefit from potential opportunities that may arise from any elevated levels of volatility.

Focus on resiliency – The pandemic and consequent oil-price weakness has led to higher downgrade and default volumes, especially in HY and in the energy sector. Meanwhile, recovery rates in HY bonds are well below their long term average, while dispersion in recovery rates is particularly high across different sectors and different levels of seniority - with some bonds recovering near zero. Avoiding credit losses is paramount for the strategy and we are focusing on issuers and sectors that can remain resilient across a broad range of economic scenarios; we avoid asset-light or more vulnerable companies.

WHY DIVERSIFIED INCOME? WHY NOW?

The fund's ability to take positions across the quality spectrum and its unconstrained exposure to EM, HY and IG, allows it to benefit from potential market dislocations in times of heightened market volatility. This diversified exposure, with low or negative correlations between asset classes, is designed to produce less volatile returns than single asset class exposures.

While markets have recovered since the March, pandemic-related sell-off, we see potential volatility in the near future, generated by different macro events. In this environment, a cautious and diversified approach is key. We combine this caution with our unconstrained scope in order to be able to take advantage of any potential opportunities, in any market environment.

All data as of 30 September 2020. *Fund Inception: 6/30/2005. Fund performance is gross of fees for the Institutional share class. IG is represented by the Bloomberg Barclays Global Aggregate Credit Index. EM is Emerging Market Corporate and is represented by the JPMorgan CEMBI Broad Composite, HY is represented by the BofA Merrill Lynch BB-B Rated Developed Markets High Yield Index. **As of 30 September 2020, net of fees. Benchmark: 1/3 each - Bloomberg Barclays Global Aggregate Credit ex Emerging Markets, USD Hedged; ICE BofAML BB-B Rated Developed Markets High Yield Constrained Index, USD Hedged; and JPMorgan EMBI Global, USD Hedged ***Sharpe ratio: trailing 3 years. Overall Morningstar Rating for PIMCO GIS Diversified Income Fund Institutional USD Acc, as of 30/09/2020. Category: Global Flexible Bond - USD Hedged.

THE TEAM

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HOW DOES THE FUND WORK?

By investing in HY and EMs bonds, and combining that with quality High Grade investments, we are able to deliver yield, while maintaining downside protection through diversification. We aim to generate alpha through four basic pillars - the foundation of our portfolio construction process.

1. Quality: We favour structurally senior positions in the capital structure of a company, as well as strong asset coverage. We find this is the most resilient segment in periods of market stress.
2. Structurally inefficient markets: Despite the growth of credit markets, there are pockets that are less well understood or not as widely followed, like securitised credit. We aim to find value in less-researched markets in order to deliver better risk-adjusted returns.
3. Risk management and diversification: We seek to build resilient portfolios, that are well positioned to withstand market volatility. We emphasise diversification, and with our rigorous risk controls we continuously stress test our portfolio to further reduce risk.
4. Catalyst trades: We look for securities with upside potential as a result of a potential catalyst, for example "rising stars"; companies which have the potential to improve their credit rating from High Yield to Investment Grade, or companies that may be subject to M&A or refinancing.

THE STRATEGY OFFERS THE BEST OF BOTH WORLDS

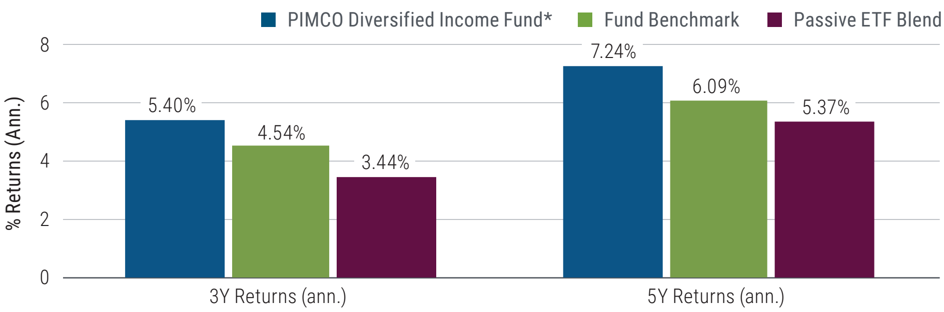
TOP-DOWN VIEW

PIMCO's investment process has evolved over decades and has been tested in virtually every market environment. It integrates insights from our Cyclical Forums, which anticipate market and economic trends over the coming six to 12 months, and our annual Secular Forum, which projects trends over the coming three to five years. Based on this top-down view we form an outlook on sectors, regions and asset classes.

BOTTOM-UP SELECTION

The fund invests in different asset classes within the global credit spectrum with various levels of risk, spreads and market inefficiencies. Our bottom-up approach has allowed us to generate high risk-adjusted returns over a long period of time. When investing in markets with varying levels of quality and corporate governance benchmarks, an active, bottom-up security selection is more important than ever. Through a bottom-up approach, we are able to benefit from the inherent inefficiencies of HY and EM sectors in a way that a fully top-down or passive approach would not be able to do.

PIMCO's Diversified Income Fund: Active management delivers



As of 30 September 2020. Source: PIMCO, Bloomberg. Performance is shown after fees, USD hedged. Volatility is calculated based on monthly returns. Passive ETF blend is represented by 1/3 iShares Global High Yield Corp Bond ETF (HYDL), 1/3 iShares Global Corp Bond ETF (CORP), 1/3 iShares JPM USD EM Bond Fund (IEMB).

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

Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **REITs** are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income. **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. **Management risk** is the risk that the investment techniques and risk analyses applied by an investment manager will not produce the desired results, and that certain policies or developments may affect the investment techniques available to the manager in connection with managing the strategy. **Diversification** does not ensure against loss.

Benchmark: Unless referenced in the prospectus and relevant key investor information document, a benchmark or index in this material is not used in the active management of the Fund, in particular for performance comparison purposes. Where referenced in the prospectus and relevant key investor information document a benchmark may be used as part of the active management of the Fund including, but not limited to, for duration measurement, as a benchmark which the Fund seeks to outperform, performance comparison purposes and/or relative VaR measurement. Any reference to an index or benchmark in this material, and which is not referenced in the prospectus and relevant key investor information document, is purely for illustrative or informational purposes (such as to provide general financial information or market context) and is not for performance comparison purposes. Please contact your PIMCO representative for further details. **Correlation:** As outlined under "Benchmark", where referenced in the prospectus and relevant key investor information document, a benchmark may be used as part of the active management of the Fund. In such instances, certain of the Fund's securities may be components of and may have similar weightings to the benchmark and the Fund may from time to time show a high degree of correlation with the performance of any such benchmark. However the benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the benchmark. Investors should note that a Fund may from time to time show a high degree of correlation with the performance of one or more financial indices not referenced in the prospectus and relevant key investor information document. Such correlation may be coincidental or may arise because any such financial index may be representative of the asset class, market sector or geographic location in which the Fund is invested or uses a similar investment methodology to that used in managing the Fund. The fund is actively managed in reference to the benchmark : 1/3 Bloomberg Barclays Global Aggregate Credit ex-Emerging Markets Index, 1/3 BofA Merrill Lynch BB-B Rated Developed Markets High Yield Constrained Index and 1/3 JPMorgan EMBI Global, as further outlined in the prospectus and key investor information document.

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 long-term, especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision.

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