

PIMCO StocksPLUS® Small Institutional PSCSX

A small-cap index fund plus an actively managed bond portfolio.

Morningstar's Take PSCSX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

Process		Neutral
Performance		Positive
People		Positive
Parent		Positive
Price		Positive

Role In Portfolio

Supporting

Fund Performance PSCSX

Year	Total Return (%)	+/- Category
YTD	9.94	2.87
2017	17.63	5.35
2016	24.98	4.20
2015	-6.64	-1.26
2014	6.29	2.50

Data through 7-31-18

8-20-18 | by Patricia Oey

PIMCO StocksPlus Small's seasoned management, reasonable fees, and structural advantage, which has contributed to its long-term outperformance, merits a Morningstar Analyst Rating upgrade to Bronze from Neutral.

PIMCO capitalizes on its vast bond-investing resources and derivatives-trading capabilities to offer this 2-for-1 fund, which seeks to track the Russell 2000 using futures, and generate alpha from an actively managed bond strategy. Since the derivatives require only a small cash outlay, the fund is able to provide about a 100% exposure to the performance of both the Russell 2000 and the bond portfolio.

Long-term performance has been top-quartile within the small-blend Morningstar Category. This is in part due to its ability to capitalize on a favorable dynamic in the Russell 2000 futures market. Because it is

difficult to short small-cap stocks, investors instead can short Russell 2000 Index futures, resulting in an attractive supply and demand dynamic for investors, such as this fund, who take long positions in Russell 2000 index futures. Over the past four years, this fund's index futures holdings contributed an average 50 basis points a year. (PIMCO StocksPLUS funds that track the S&P 500 or MSCI EAFE have incurred about a 20-basis-point cost per year for its futures exposure.)

This fund is in the able hands of Mohsen Fahmi, who has over 30 years of bond-investing experience. He is also a manager at PIMCO Dynamic Bond PUBAX, which employs a similar process. Starting in 2016, the portfolios of the two funds have started to look more different, as Fahmi seeks to reduce this fund's bond portfolio's correlation to equities. As a result, he tends to hold less emerging-markets debt and corporate credit relative to PIMCO Dynamic. He also incorporates more relative value trades designed to have almost no correlation to equities. These changes were implemented after a difficult 2015, when the bond portfolio detracted about 200 basis points, due to its long duration and emerging-markets positions.

This fund's unique structure should provide a performance edge over the long term.

Process Pillar Neutral | Patricia Oey
08/20/2018

This fund seeks to outperform the Russell 2000 Index by tracking its benchmark (like an index fund) and supplementing returns with an actively managed bond sleeve. For the equities exposure, the fund holds Russell 2000 Index futures at a notional value of 100% of the net asset value of the fund. The managers then invest the remaining cash in fixed-income securities, in line with the themes set by PIMCO's investment committee. Mohsen Fahmi can take long and short positions across a broad

investment universe, including global credit, rates, and currencies. The goal of the bond sleeve is to generate returns of Libor plus 200-300 basis points over a cycle, before fees.

The process is similar to that of Morningstar Neutral-rated PIMCO Dynamic Bond PUBAX, but for this fund, Fahmi is mindful that this bond sleeve sits alongside an equity sleeve. Starting in January 2016, he has been reducing exposure to areas that are more correlated to equities, such as high-yield credit and and negative-duration positioning. He has also implemented more relative value trades with the goal of generating returns that will be uncorrelated with that of equities. There is also an emphasis on liquidity, as this is a small-cap equity fund, which can see more-volatile flows relative to a bond fund.

While promising, the Process has been a work in progress over the past few years and currently receives a Neutral Process Pillar rating.

About 70% of the fund's assets are in fixed-income securities, with the remainder in short-term instruments that are used as collateral for the derivatives that provide the fund's equity and some of its active bond exposures. The parameters for the bond portfolio are a duration range of negative three years to positive eight years and a maximum exposure of 20% in high yield, 25% in emerging markets, and 35% in non-U.S.-dollar currencies. The portfolio tends to be well below these caps.

For rates, Mohsen Fahmi is concentrated in the United States, as the Fed moves toward normalization, albeit slowly, ahead of other major central banks. Within U.S. government bonds, he is focused on the intermediate portions of the curve. In credit, he tilts toward assets that should benefit from U.S. growth and the improving housing market, such as bank- and housing-related credits. He continues to hold TIPS versus nominal Treasuries as he thinks inflation expectations remain low. A notable

difference here versus PIMCO Dynamic is Fahmi's much lower exposure to emerging-markets debt and currency, which tends to be correlated with equities. The fund uses derivatives, such as swaps and currency forwards, which come with counterparty, liquidity, and leverage risks, especially in periods of market stress. Equity investors here should also note this fund comes with some duration and credit risk, given its fixed-income holdings.

Performance Pillar + Positive | Patricia Oey 08/20/2018

The fund has generated above-average returns relative to peers, thanks in part to its ability to capitalize on a favorable dynamic in the Russell 2000 futures market. We are upgrading this fund's Performance rating to Positive.

The fund's trailing three-, five-, and 10-year returns through June 2018 (12.1%, 13.7%, and 15.0%) handily outperformed the Russell 2000 Index (11.1%, 12.5%, and 10.6%) and the small-blend Morningstar Category average (9.4%, 11.0%, and 9.7%). In all three periods, the fund's performance and risk-adjusted returns were within the top quartile. The trailing three-year return includes a difficult 2015, when the bond strategy detracted about 220 basis points due to its negative duration as rates fell, and its exposure to slumping emerging-markets debt. But in 2016 and 2017, the bond portfolio contributed about 350 basis points per year. Securitized mortgage spread positions were the main drivers of performance in those years.

Holding a long position in Russell 2000 futures actually contributes to returns (the financing costs for derivatives usually detracts from returns), as demand to short the index tends to be higher than the demand to take a long position. This is because investors tend to short the Russell 2000 as a proxy for shorting small-cap stocks. Over the past four years, the fund's average financing "cost" for its Russell 2000 exposure contributed about 50 basis points per year.

People Pillar + Positive | Patricia Oey 08/20/2018

Mohsen Fahmi is a seasoned investor and is supported by PIMCO's strong investment team. This fund earns a Positive People rating. Fahmi joined PIMCO in August 2014 and one month later took over this fund when Bill Gross left the firm. He is a named manager for PIMCO Dynamic Bond PUBAX (previously PIMCO Unconstrained), PIMCO Multi Strategy Alternatives PXAAX, and the 14 other PIMCO PLUS equity funds. He is a member of the investment committee, which sets macro guidance for managers across the firm's strategies.

Fahmi had not managed mutual funds before joining PIMCO in 2014, but he does have over 30 years of bond investing experience. Prior to joining PIMCO, he spent 11 years at hedge fund firm Moore Capital, where he served as chief operating officer for three years and most recently as a portfolio manager for a relative value strategy.

On July 20, 2018, PIMCO added Jing Yang and Bryan Tsu as named managers to this and the other StocksPLUS funds. This followed the departure of prior manager Sudi Mariappa, who moved on to become PIMCO's new global head of risk management. Both Yang and Tsu have been at PIMCO for over 10 years, focusing on structured credit. As the most senior manager on this fund, Fahmi will retain responsibility for portfolio construction, risk management, and performance. He does not invest in this strategy, but he does invest over \$1 million in PIMCO Dynamic.

Parent Pillar + Positive | Patricia Oey 04/04/2017

PIMCO has endured rocky waters, including the late-2014 departure of co-founder Bill Gross. Outflows soared at the firm thereafter but slowed in 2015 and 2016; the firm returned to net inflows in January 2017.

The firm continues to benefit from a standout investment culture. Dan Ivascyn has been successful as comanager of PIMCO Income PONAX and has clearly grown into his CIO role. In November 2016, Emmanuel "Manny" Roman took over as PIMCO's CEO. His priorities appear mostly aligned with the investment management team's, though we intend to keep an eye on the addition of quant capabilities and

investment offerings, as well as the expansion of alternative strategies such as those involving private-market debt.

We have historically taken the firm to task for failing to pass along economies of scale in pricing, but its overall expense profile is reasonable if not notably attractive. That said, PIMCO has never closed a fund to new investors. That is an issue of import given that assets managed in, and using the same strategy as, PIMCO Income grew to more than \$100 billion of assets at the end of 2016. We've yet to see evidence drawing a direct line between asset size and performance, but we continue to evaluate the situation.

On balance, PIMCO has many more pluses than minuses and has earned a Positive Parent Pillar Rating.

Price Pillar + Positive | Patricia Oey 08/20/2018

Below-average fees across this fund's share classes justify a Positive Price rating.

The fund's six share classes carry a Low Morningstar Fee Level relative to small-blend funds distributed through similar channels.

Because of the fund's derivatives exposure, its five-year tax-cost ratio of 2.8% is higher than the category average of 1.7%.

Investors should consider the investment objectives, risks, charges and expenses of the funds carefully before investing. This and other information are contained in the fund's prospectus and summary prospectus, if available, which may be obtained by contacting your investment professional or PIMCO representative or by visiting www.pimco.com. Please read them carefully before you invest or send money.

All data is as of 31 July 2018 unless noted otherwise. Holdings are subject to change.

Average annual net total returns (as of 30 June 2018)	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since Inception (31 March 2006)
PIMCO StocksPLUS® Small Fund	18.91%	12.11%	13.66%	14.95%	11.76%
Russell 2000® Index	17.57%	10.96%	12.46%	10.60%	7.90%

Average annual net total returns (as of 31 July 2018)	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since Inception (31 March 2006)
PIMCO StocksPLUS® Small Fund	19.71%	13.12%	12.56%	14.72%	11.83%
Russell 2000® Index	18.73%	12.04%	11.33%	10.39%	8.0%

Total Expense Ratio is 0.79% for Institutional class shares.

The Net Expense Ratio excluding interest expense is 0.69%. Interest expense can result from portfolio investment transactions and is not paid to PIMCO.

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Current performance may be lower or higher than performance shown. For performance current to the most recent month-end, visit PIMCO.com or by calling 888.87.PIMCO.

Overall Morningstar Rating is for PIMCO StocksPLUS® Small Fund Institutional Class, as of 07/31/2018 rated against 646 Small Blend funds based on risk-adjusted returns.

Performance figures presented reflect the total return performance after fees and reflect changes in share price and reinvestment of dividend and capital gain distributions on the payable date. All periods longer than one year are annualized. Total return performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The Fund does not impose any sales charges on Institutional class shares. Only certain investors are eligible to purchase this share class. The minimum initial investment for Institutional class shares is \$1 million; however, it may be modified for certain financial intermediaries who submit trades on behalf of eligible investors.

A word about risk:

In managing the strategy's investments in Fixed Income Instruments, PIMCO utilizes an absolute return approach; the absolute return approach does not apply to the equity index replicating component of the strategy. **Absolute return** portfolios may not fully participate in strong positive market rallies. **Equities** may decline in value due to both real and perceived general market, economic, and industry conditions. 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 the current low interest rate environment increases this risk. Current 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. 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. **Inflation-linked bonds (ILBs)** issued by a government are fixed income securities whose principal value is periodically adjusted according to the rate of inflation; ILBs decline in value when real interest rates rise. **Treasury Inflation-Protected Securities (TIPS)** are ILBs issued by the U.S. government. Investing in securities of **smaller companies** tends to be more volatile and less liquid than securities of larger companies. **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 Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. It is not possible to invest directly in an unmanaged index.

PIMCO

Morningstar Analyst Rating

The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark, or in the case of exchange-traded funds and index mutual funds, a relevant peer group, over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weight of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's conviction in a fund's prospects for outperformance. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to global.morningstar.com/managerdisclosures/.

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Morningstar Star Rating

Morningstar Rating™ as of 31 July 2018 is for the Class Institutional shares; other classes may have different performance characteristics. The PIMCO StocksPLUS Small Fund was rated against the following number of Small Blend funds over the following time periods: Overall: 5 Stars (646 funds rated); 3 Yrs: 4 Stars (646 funds rated); 5 Yrs: 4 Stars (547 funds rated); 10 Yrs: 5 stars (393 funds rated). Past performance is no guarantee of future results. A rating is not a recommendation to buy, sell or hold a fund. © 2018 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

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