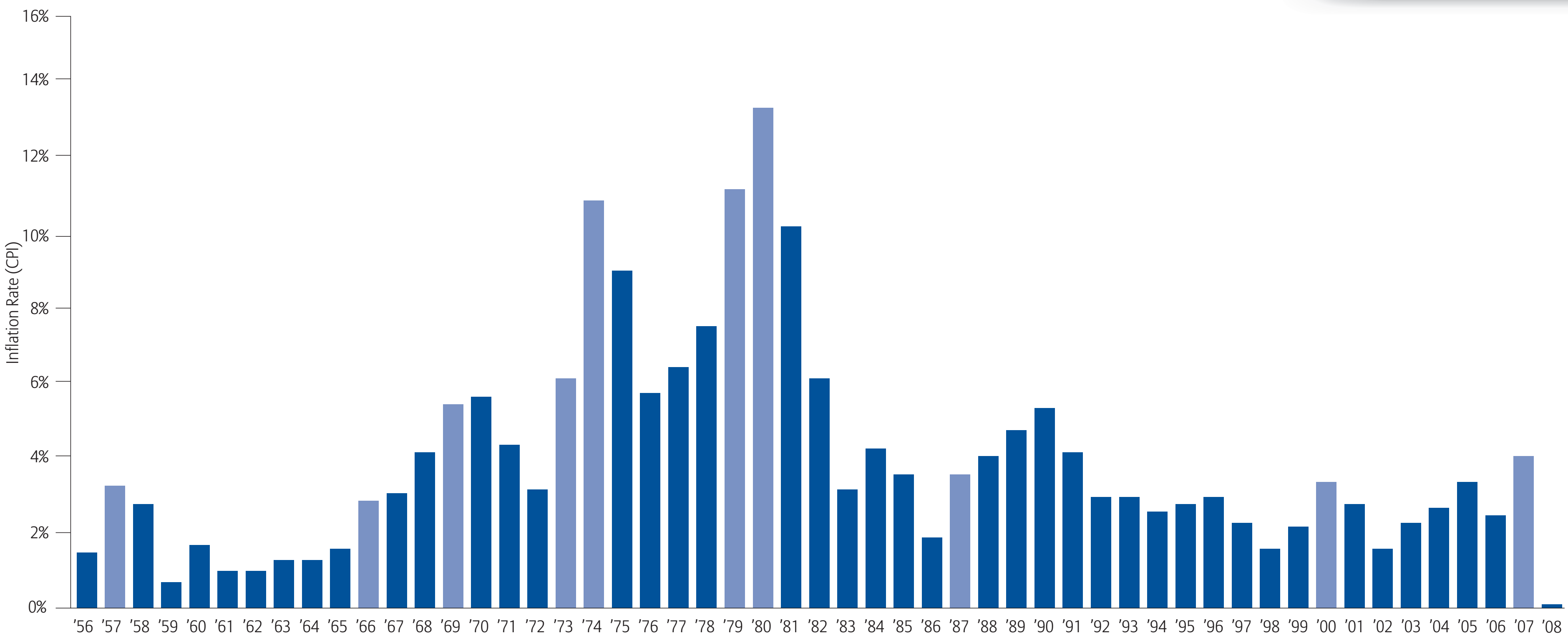
Investor Education Series

The Constant—and Often Unexpected—Risk of Inflation

Many investors overlook the impact of inflation on their portfolios, even though it is a constant factor. The rate of inflation, as measured by changes in the Consumer Price Index (CPI), has been positive in each of the past 50 calendar years. In addition, inflation can spike rapidly, as shown in the highlighted years below. These facts make a strong case for maintaining an allocation to inflation protected bonds.

Allianz Global Investors



Source: International Strategy and Investment, Standard and Poors. Based on historical data as of 12/31/08.

Past performance is no guarantee of future results. This chart is not indicative of the past or future performance of any Allianz Global Investors product. Core CPI is an inflationary indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity and transportation. Core CPI differs from the wider known CPI in that it excludes food and energy. Since food and energy prices are volatile, the "core CPI" is thought to be a more accurate measure of underlying inflation.

Inflation-indexed bonds, including Treasury Inflation-Protected Securities (TIPS), are structured to provide protection against inflation, the value of these bonds is likely to change in response to changes in "real" interest rates (current market interest rates minus the expected impact of inflation). In other words, a rise in real interest rates can lead to a decrease in the value of inflation-indexed bonds. A decline in real interest rates could produce the opposite effect.

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