

# Widening Your Playing Field

## Moderate Investment Climate

There are many indications that overall returns from mainstream financial assets may be modest in the years ahead.

- The global economy appears poised to slow after several years of solid growth.
- Slower global growth may temper investment performance as corporate profits soften and risk premiums rise.
- Mainstream financial assets do not appear priced to deliver exceptional returns. For example, despite strong earnings growth, stock P/E ratios have only receded to just above their long-term historical averages.<sup>1</sup>

1. Research Affiliates.

*"There's no place to hide. Today, no major market is priced to deliver the real returns we all seek."*  
 —Robert Arnott

## The Potential Benefits of a Broader Opportunity Set

Given this environment, asset allocation could be more critical than ever.

- Markets/sectors outside of core stocks and bonds may offer stronger performance potential.
- Holding asset classes with relatively low correlations to each other can reduce overall volatility.
- Multiple strategies to enhance returns can be employed to increase opportunities for success.

## Strategies to Enhance Return Potential

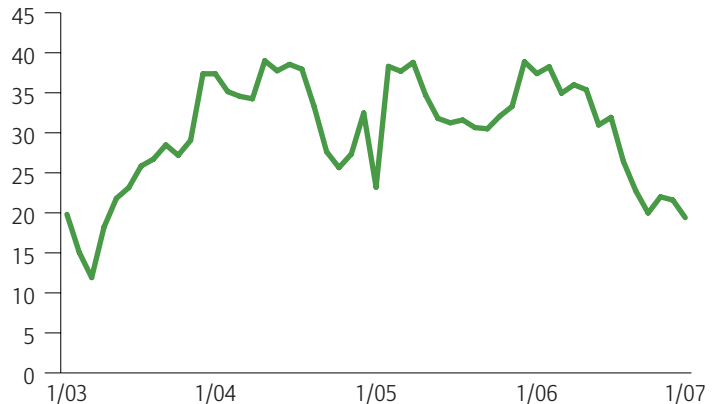
Investors seeking to enhance overall investment returns in today's economy may want to consider strategies with the potential to add alpha to a portfolio:

- Look beyond stocks and bonds. Non-traditional asset classes can be priced to offer better return potential, especially in a slower growth economy.
- Seek out skilled managers with proven track records in their particular investment style.
- Actively managing the asset mix may help contribute to portfolio performance.

**Alpha:** *a measure of return, adjusted for risk, relative to a given market index. Alpha often refers to the risk-adjusted excess return that an active manager seeks to add above a given market index.*

## World Business Confidence on the Decline

World Business confidence has slowed substantially over the past year. This suggests conditions are emerging that may produce financial asset returns that are lower than many expect.



Source: Dismal Scientist, "Survey of Business Confidence."

## Non-Traditional Asset Classes Outperformed

As these results for 2002–2006 show, non-traditional asset classes offered attractive returns compared to traditional stocks and bonds. Of course, these other assets classes often carry additional risks as well.

Asset Class	Return (cumulative)	Risk (annualized standard deviation)
Commodities	111%	14
Real Estate (REIT)	191%	15
Emerging Markets Bonds	93%	9
TIPS	41%	6
Government Bonds	25%	5
U.S. Bonds	28%	4
U.S. Stocks	35%	12

Source: Research Affiliates. This chart is not indicative of the past or future performance of any Allianz Global Investors product.

## Seeking to Generate Alpha

This three-tiered approach may help investors increase the return potential of their investment portfolios.

1. CONSIDER NON-TRADITIONAL ASSET CLASSES

2. SEEK MANAGERS WITH A PROVEN TRACK RECORD

3. ACTIVELY MANAGE THE ASSET MIX

Source: Research Affiliates.

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Consider how these PIMCO Funds may offer the potential to add alpha to your investment portfolio.

## PIMCO All Asset Fund

For investors looking for a core investment, including access to traditional and non-traditional asset classes.

**Symbol / CUSIP:**  
Class A: PASAX / 72200Q711  
Class B: PASBX / 72200Q695  
Class C: PASCX / 72200Q687

### Highlights:

- Seeks to outperform its primary and secondary benchmarks, the Lehman Global Inflation-Linked U.S. TIPS 1–10 Year Index and CPI + 5%, respectively.

- Diversification potential across a broad universe of asset classes and sectors.
- Focus on long-term growth of purchasing power.

## PIMCO All Asset All Authority Fund

For investors seeking an alternative investment, including access to a broader range of investment opportunities.

**Symbol / CUSIP:**  
Class A: PAUAX / 72200Q232  
Class C: PAUCX / 72200Q216

### Highlights:

- Seeks to outperform its primary and secondary benchmarks, the S&P 500 Index and CPI + 6.5%, respectively.
- Access to funds not generally included in the All Asset Fund universe, such as PIMCO

StocksPLUS® TR Short Strategy Fund and smaller foreign equity sector funds. (It should be noted that while they offer greater return potential, shorting strategies, leverage and foreign securities exposure will increase the risk profile of the Fund).

Not FDIC Insured | May Lose Value | No Bank Guarantee

Investors should consider the investment objectives, risks, charges and expenses of this Fund carefully before investing. This and other information is contained in the Fund's prospectus, which may be obtained by contacting your financial advisor, by visiting [www.allianzinvestors.com](http://www.allianzinvestors.com) or by calling 888-877-4626. Please read this prospectus carefully before you invest or send money.

**Past performance is no guarantee of future results.** All data as of 12/31/06, unless otherwise indicated. Fund performance is available at [www.allianzinvestors.com](http://www.allianzinvestors.com). This commentary should not be considered a recommendation or investment advice. The material contains the current opinions of the author, which are subject to change without notice. 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.

Asset classes presented in the "Non-traditional Asset Classes Outperformed" table are represented by the following indexes: Commodities—Dow Jones AIG Commodities Index, which is composed of futures contracts on 19 physical commodities. Real Estate—Dow Jones Wilshire REIT Index, which measures publicly-traded Real Estate Investment Trusts in the U.S. Emerging Markets Debt—JPMorgan EMBI, which tracks emerging markets bonds in the Americas, Europe, Asia, Middle East, and Africa. TIPS—Lehman Global U.S. TIPS Index, a market index made up of U.S. Treasury Inflation Protection securities. Government Bonds—Lehman Government Bond Index, which is composed of all publicly issued, non-convertible, domestic debt of the U.S. Government or any agency thereof, quasi-federal corporations or corporate debt guaranteed by the U.S. Government. U.S. Bonds—Lehman Brothers Aggregate Bond Index, which is composed of securities from the Lehman Brothers Government/Credit Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index. It is generally considered to be representative of the domestic, investment-grade, fixed-rate, taxable bond market. U.S. Stocks—S&P 500 Index, an index of U.S. companies that is generally representative of the U.S. stock market. Unless otherwise indicated, index returns reflect the reinvestment of dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Indexes are unmanaged. It is not possible to invest directly in an index.

Standard deviation is an absolute measure of volatility measuring dispersion about an average which, for an index, depicts how widely the returns varied over a certain period of time. The greater the degree of dispersion, the greater the risk. P/E is a ratio of security price to earnings per share. Typically, an undervalued security is characterized by a low P/E ratio, while an overvalued security is characterized by a high P/E ratio. The Consumer Price Index (CPI) is an unmanaged index representing the rate of inflation in U.S. consumer prices as determined by the U.S. Department of Labor Statistics.

The cost of investing in the All Asset and All Asset All Authority Funds will generally be higher than the cost of investing in a fund that invests directly in individual stocks and bonds. The Funds' net asset value (NAV) will fluctuate in response to changes in the NAV of the underlying PIMCO Funds in which they invest. The Funds' allocations among the underlying Funds will vary, and an investment may be subject to various risks at different times and to different degrees. Investments in non-U.S. securities may entail greater risk due to non-U.S. economic and political developments, which may be enhanced when investing in emerging markets. High-yield bonds generally involve a greater risk to principal than higher rated bonds. Investments in mortgage-related securities may be sensitive to interest rates.

The underlying funds may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that a fund could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested. Investments in commodity-linked derivative instruments may subject the Fund to greater volatility than investments in traditional securities. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes, and international economic and political developments. Investments in real estate-linked derivative instruments may subject the Fund to greater volatility and economic, regulatory, and liquidity risk. The Funds are nondiversified, which means that they may concentrate their assets in a smaller number of issuers than a diversified fund.

All Asset All Authority Fund may invest in an underlying fund that employs short sale strategies, with the risk that losses may be exaggerated, potentially losing more money than the actual cost of the investment. The Fund may use leverage by borrowing for investment purposes, which creates the potential for greater gains during favorable market conditions and the risk of magnified losses during adverse market conditions. Allianz Global Investors Distributors LLC.