PIMCO

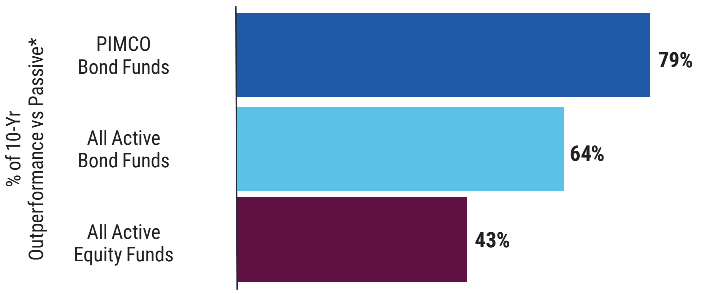
Bonds Are Different: The Active Advantage

While active equity strategies often lag behind passive peers – active bond managers have outperformed.

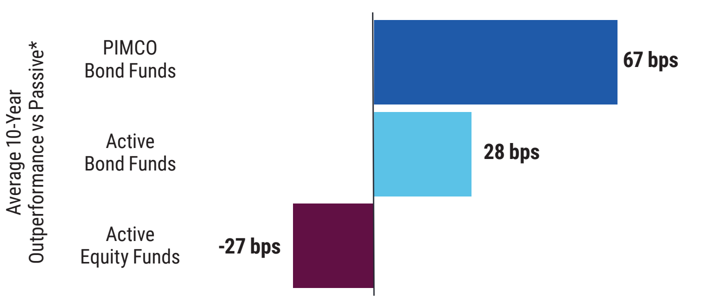
ACTIVE VS. PASSIVE: COMPARING PERFORMANCE[1]

Our analysis, spanning two decades, shows that active bond managers have outperformed their passive counterparts in 64% of the periods examined. PIMCO active bond funds have done even better with an 79% success rate. Both measures are well above the 44% rate of active equity managers beating their passive peers.

Percentage of active funds outperforming the median passive peer over rolling 10-year periods, net of fees



Average excess returns of active funds over the median passive peer across rolling 10-year periods, net of fees



Source: PIMCO and Morningstar as of 31 December 2024.
Past performance is not a guarantee or a reliable indicator of future results.

WHY ACTIVE BOND MANAGEMENT WORKS

We believe the bond market's vast complexity, with 300,000+ issuers and $100+ trillion in debt outstanding,[2] gives active bond managers an opportunity to exploit structural inefficiencies that don't exist in equity markets.

Index replication is challenging in bond markets

Bond market complexity and high turnover hinder perfect index replication. Passive managers often hold less than half the index, leading to unavoidable tracking error.

Bond index design may be suboptimal

Bond indices assign the highest weights to countries and companies with the greatest debt outstanding, not necessarily the best economic value.

Many bond market participants do not seek to maximize profits

Over half of the bond market consists of central banks, public institutions, and insurers, which typically invest with goals such as interest rate management, rather than profit maximization.

* Active outperformance compares the performance of actively managed funds (net of fee) versus the median passive peer (net of fees) over 10 year periods. The average magnitude of outperformance over the 10 year periods is annualized.

1 PIMCO Bond Funds represents all PIMCO mutual funds and active ETFs in the Morningstar U.S. Taxable Bond and Municipal Bond Categories. All Active Bond Funds represents all actively managed mutual funds and ETFs in the Morningstar U.S. Taxable Bond and Municipal Bond Categories. All Active Equity Funds represents all actively managed mutual funds and ETFs in the Morningstar U.S. category groups of U.S. Equity, International Equity, Sector Equity, and Nontraditional Equity. PIMCO Bond Funds average annual outperformance is calculated at NAV. Performance does not take into account the maximum initial sales charge and would be lower if it did. The net returns of All Active Bond Funds, All Active Equity Funds and PIMCO Bond Funds were compared against the median net returns of passive peers in each 10-year rolling period between 12/31/2004 to 12/31/2024 when both the funds being analyzed and the passive peers are present. Passive peers are mutual funds and ETFs classified as an "index fund" or an "enhanced index fund" in the same Morningstar category as the funds being analyzed. Oldest share class net returns are used for analysis. Results would vary if a different share class was selected. Different fund types (e.g. ETFs, open-ended investment companies) and fund share classes are subject to different fees and expenses (which may affect performance). They may also have different minimum investment requirements and be entitled to different services.

2 Source: PIMCO, SIFMA, and Bloomberg as of December 2022, the latest data available

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GREATER MARKET COMPLEXITY FAVORS ACTIVE MANAGEMENT OF BONDS VS. STOCKS

Bond Market	Stock Market
> 10,000 Over 10,000 securities in the Bloomberg US Aggregate, a common bond index	**~500** About 500 securities in the S&P 500, a common equity index
20% Typical annual turnover for a bond index due to bonds maturing and new issuance	**1%** Typical annual new issuance of equities in equity indexes
Hundreds Number of potential outstanding bonds issued by a single company, with varying maturities and levels of seniority	**One** Number of equity securities typically outstanding for most listed firms
OTC Bonds trade over the counter (OTC). Parties negotiate prices, at less frequent intervals, with more limited pricing information	**Exchange** Equities trade on markets with standardized terms on a continuous basis during the day, with pricing information broadly disseminated
> 50%[1] Percent of bond market participants, such as central banks, who invest with goals other than profit-maximization	**~0%** Few stock market investors seek goals other than profit-maximization

Source: PIMCO, Bloomberg and S&P as of 31 December 2023

1 Source: PIMCO, IMF, Federal Reserve Board, ECB, BOE, Yardeni, Eurostat, SIFMA, and NAIC as of December 2023, representing the latest data available

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