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Patricia Davis
MPERA Member Services Bureau Chief
Montana Public Employee Retirement Administration
100 North Park Avenue
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Helena, MT 59601

Dear Patricia Davis:

This letter outlines our view of PIMCO both from a firm wide perspective; as well as a fund specific level, following the recent news of the departure of Bill Gross, CIO and founder of PIMCO, from the firm.

Mr. Gross announced (via press release) on September 26, 2014 that he would be leaving the firm to join Janus Capital Management ("Janus"). Later that day, PIMCO confirmed that Dan Ivascyn would become PIMCO's Group CIO effective immediately. This announcement accompanied details of how Mr. Gross' fund management responsibilities would be delegated going forward.

At Buck Global Investment Advisors ("BGIA"), we have had meetings and participated in conference calls with PIMCO to discuss the departure and to provide us with insight into the initiatives PIMCO is taking to move forward. The purpose of this letter is to provide you with our immediate views of this development.

Events leading up to Bill Gross' departure

In January 2014, Mohammed El-Erian, CEO and co-CIO of PIMCO left the firm. While Mr. El-Erian publicly stated that his decision to step down was based on a lifestyle choice, it has been alleged in the media that his relationship with Mr. Gross had soured towards the end of his tenure at the firm. Following Mr. El-Erian's departure, PIMCO sought to address future issues surrounding succession planning for Mr. Gross by appointing six deputy CIOs. This appeared to signify a move away from a founder-led star man culture towards a more team-based approach. In our recent discussions with PIMCO, it was suggested that Mr. Gross did not fully embrace this apparent shift in firm culture. Regarding Mr. Gross' exit, Douglas Hodge, CEO of PIMCO, stated, "the firm's leadership and Bill [Gross] have fundamental differences about how to take PIMCO forward."

Mr. Gross' departure was particularly abrupt with him resigning on September 26 and starting work at Janus on September 29. Mr. Gross had previously worked with Janus CEO, Dick Weil, at PIMCO. It has been reported in the media that the PIMCO Executive Board were to meet on September 27 to discuss Gross' position at the firm.

Ownership Structure

Mr. Gross co-founded PIMCO in 1971, and at its peak, the firm managed close to $2.2 trillion in assets for clients, predominantly within fixed income mandates. In 2000, PIMCO was acquired by

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Allianz SE, a German financial services company, and since this time, PIMCO has continued to operate as an autonomous subsidiary of Allianz. Following Mr. Gross' departure, Allianz has publicly reiterated their commitment to PIMCO with Jay Ralph, board member and head of asset management at Allianz, by categorically stating, "We have no plans to sell PIMCO." Buck does not at the current time foresee any significant change in the ownership structure of PIMCO as a result of Mr. Gross' departure.

PIMCO's new management team

Mr. Gross is believed to have been a strong leader who ran the organization in an authoritarian manner. This leadership style had often been linked to the departure of other individuals from the firm.

While we view Mr. Gross as a strong investor, we also hold the view of the remaining investment talent at PIMCO highly. The Group CIO, Mr. Ivascyn, and the remaining five CIOs each have outstanding investment track records across a wide range of different products and asset classes. The Board was unanimous in their decision to select Mr. Ivascyn, as they believe he has the strengths required to make a good collaborative leader. It is too early to form an opinion on his abilities as Group CIO, but from our conference calls, it is clear that there will be more of a collaborative approach, with the strategic direction of the firm determined on more of a consensus basis than by a named individual. PIMCO has stated that they have no intention to add to the leadership team in the near future.

We note that following Mr. El-Erian's departure earlier in the year, members of BGIA met with Mr. Ivascyn and a number of deputy CIOs (these individuals now hold the role of Group CIO and CIO) in both Europe and North America and were broadly impressed by their insight into markets and their approach to investing.

BGIA Updated Rating of PIMCO

The significant changes that have taken place since the start of the year at PIMCO have led us to **place all PIMCO funds on our watchlist** pending clarification on any potential fall-out from Mr. Gross' departure **and issue a "sell" recommendation for PIMCO Total Return**. We also note that Mr. Gross was one of the main contributors to PIMCO's internal investment committee meetings, and in our future research of PIMCO strategies, we will seek to identify any significant shifts in the risk profile (and appetite) of the investment committee following Mr. Gross' departure.

We note that the funds that have historically been managed by Mr. Gross (e.g. Total Return and Unconstrained Bond) are likely going forward to be managed materially differently by the new portfolio management teams. We also note that it is highly likely that these funds could suffer significant redemption pressures from clients in the coming months which may in the short term lead to pressure on investment performance.

The Total Return Fund

We have downgraded this fund in our internal research listing and recommend selling the fund and the related separate account strategies. The following factors have contributed to our sell recommendation for Total Return:

1. We anticipant significant negative cash flows from the fund that may put pressure on investment performance results.

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2. The fund's management style will be changing from a single manager following a top-down/macro approach to a management team where top-down themes will be deemphasized to some degree.
3. There is uncertainty regarding how the new process will be implemented and how the new team will work together and function.
4. Significant changes to the management structure, anticipated client redemptions, and effort to retain clients may pose distractions to the firm's investment professionals in the near term. We also note that many senior individuals within PIMCO will be moving into new roles at the firm.

We rated Mr. Gross highly, and he had amassed an impressive long term performance record in this strategy. He is to be replaced as portfolio manager by three of the firms CIOs. Scott Mather, who previously managed PIMCO's Global Aggregate Bond Fund, is the named day-to-day manager of The Total Return Fund with Mark Kiesel and Mihir Wohar providing support. We have met with all three portfolio managers over time and regard each of them very highly. We also expect that PIMCO will remain a very large and deeply-talented organization. While we may ultimately recommend reinvesting in the PIMCO Total Return strategy in the future, at this time, we believe the more prudent approach is to allow PIMCO time to demonstrate leadership continuity under a new management structure, stabilize client cash flows, and establish a new investment process on the Total Return strategy. We note that the departure of a high profile individual such as Mr. Gross from a firm has historically led to significant asset outflows across the wider firm. That said, the Total Return Fund is a highly liquid fund that should be able to navigate significant redemption requests (prior to Mr. Gross' departure, the Total Return Fund had seen outflows of approximately $25 billion in 2014 alone). PIMCO has indicated that the Total Return fund possesses adequate liquidity to meet daily redemptions. However, it is possible that sustained or increased redemption requests by investors may lead PIMCO to re-evaluate that commitment to daily liquidity. As such, we will continue to monitor PIMCO's activities.

Other PIMCO Funds

Mr. Gross was also the named interim portfolio manager on PIMCO's Unconstrained Bond Fund. Mr. Gross assumed these responsibilities while the previous PM, Chris Dialynas, was on sabbatical. Mr. Dialynas is set to return to PIMCO in the coming months, though following Mr. Gross' departure, PIMCO has appointed a new portfolio management team for the product, which includes senior investors Saumil Parikh, Mohsen Fahmi, and Chris Ivascyn. Given the changes in the portfolio management team, we have added this fund along with all other PIMCO funds to our watchlist, but we will be reviewing Unconstrained Bond more closely and will have an updated recommendation within the next two weeks.

We appreciate that as a strong macro thinker, Mr. Gross had an influence on the secular house view of PIMCO. His loss, alongside the departure of Mr. El-Erian earlier in the year, has led us to weaken our view on the overall strength of the macro output produced by PIMCO. This secular view is incorporated in the construction of all PIMCO funds as part of the investment process; however, for asset classes that are more bottom-up in nature, the incorporation of top-down views is much reduced. Therefore, we are not recommending a change to our existing rating on these funds.

In the short term, we recognize that there is the possibility of large outflows of client assets from PIMCO beyond those managed directly by Mr. Gross. Retail clients where investment horizons can typically be shorter (and can make decisions based on short term market sentiment) together with investors who specifically follow Mr. Gross may seek to disinvest their holdings in PIMCO assets quickly. Disinvestments on a large scale that are not balanced by inflows have a direct

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impact on the liquidity of mutual funds with the severity of these liquidity issues dependent on the asset class each fund is invested in.

Where clients hold PIMCO products that may be negatively impacted by heavy flows, we advise clients to consider these funds on a case-by-case basis to determine if the holdings are suitably liquid given this risk.

Conclusions

Overall, our opinion is that over the medium to long term, PIMCO will recover from Mr. Gross' departure. Losing an individual that we rated highly is seldom a positive outcome; however, we have confidence in the new structure at PIMCO, which is made up of talented, long tenured individuals who have demonstrated their success at managing funds and generating strong risk-adjusted returns. As a result, we do not recommend clients change their existing exposures with PIMCO except as noted above; however, we will not recommend PIMCO for new mandates until we see a sustained period of stability within the firm.

For the Total Return Fund in particular, we have downgraded the fund from a "Buy" to a "Sell." Please note that this recommendation is based upon a standalone investment only viewpoint. We recognize that a client's other investments, as well as communication or operational requirements, are significant factors to be considered in deciding upon the best course of action and the timing of that action.

Our manager research team will continue to monitor PIMCO at a firm level, as well as for issues specific to funds directly impacted by this news. We have scheduled a number of follow up meetings with key individuals at PIMCO in the next six months and will continue to assess how Mr. Gross' departure impacts morale at the firm and investment performance. If there are any specific concerns you would like us to raise on your behalf, please let us know. We will keep you up to date with any further changes at PIMCO and changes in our research view.

We will follow up with you to discuss this and potential next steps. If you need additional information, please let me know.

Sincerely,

Donald R. Eibsen, CFA
Principal
Buck Global Investment Advisors

Jonathan P. Slinger, CFA
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