PIMCO

Global Investors Series plc

December 2018

Market and Performance Review

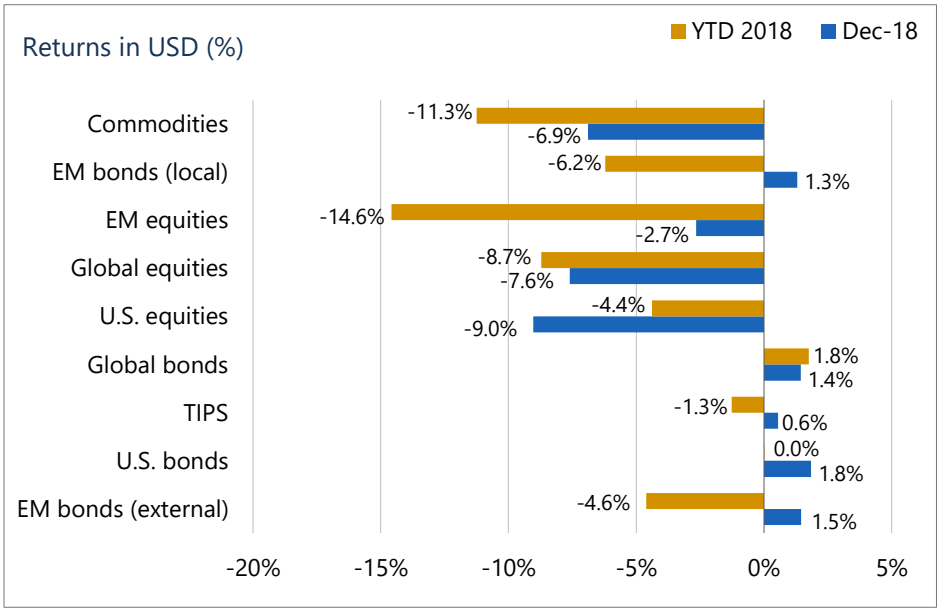
Global investors experienced a wild rollercoaster ride in the final few weeks of the year – risk assets took a dive in December, with U.S. equities down ~10% despite a rally near month-end. Both the Dow and the S&P 500 saw their worst performing December since 1931, and core interest rates headed lower as investors flocked to safety. In the U.S., President Trump surprised the world by ordering a complete withdrawal of U.S. forces from Syria. Across the Atlantic, France also faced challenges. The nation saw weeks of violent "yellow vest" protests where tens of thousands took to the streets to protest against everything from rising fuel costs to the planned tax hike. Neighboring Great Britain saw a leader in jeopardy as the government abandoned its plan for a 'meaningful vote' on the Brexit withdrawal treaty given Theresa May's likely defeat. Finally, in the Middle East, Qatar announced that it will leave OPEC in January. Over the decades, the cartel has withstood wars and sanctions so the country's decision to leave speaks volumes about the intensity of the regional fallout.

A company of Allianz

NO SANTA CLAUS RALLY FOR EQUITIES IN DECEMBE

Global investors experienced a wild rollercoaster ride in the final few weeks of the year. U.S. and global equities took a deep dive in light of political uncertainty and social unrest. Commodities also faced a difficult environment, while bonds benefited from risk-off sentiment.

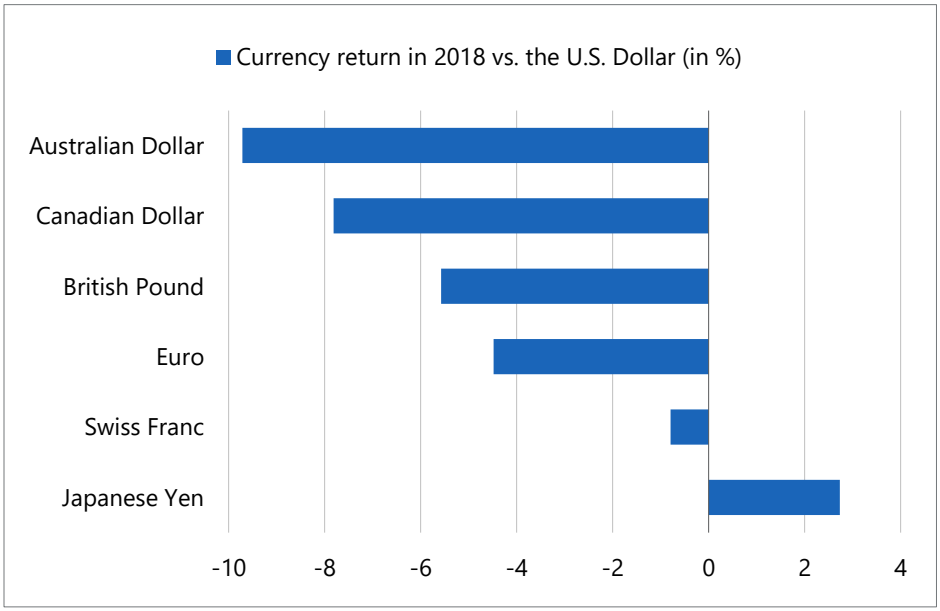
Equities and commodities sold off in the final weeks of the year



Source: Bloomberg, PIMCO as of 31 December 2018. EM equities represented by MSCI EM Index; Global Equities represented by MSCI World Index; U.S. equities represented by S&P 500; EM bonds (local) represented by JPM GBI-EM Global Div Unhedged; EM bonds (external) represented by JPM EMBI Global; U.S. bonds represented by Bloomberg Barclays U.S. Aggregate Index; TIPS represented by Bloomberg Barclays U.S. TIPS Index; Global bonds represented by Bloomberg Barclays Global Aggregate USD Hedged; Commodities represented by Bloomberg Commodity TR Index. Returns in USD (%).

The Japanese Yen is the only G-10 currency that appreciated versus the greenback in 2018 as investors fled to safety towards the end of the year. The British Pound and Euro faced political headwinds, while the Australian and Canadian Dollar suffered from global trade war tensions and plunging commodity prices.

Year of the Japanese Yen

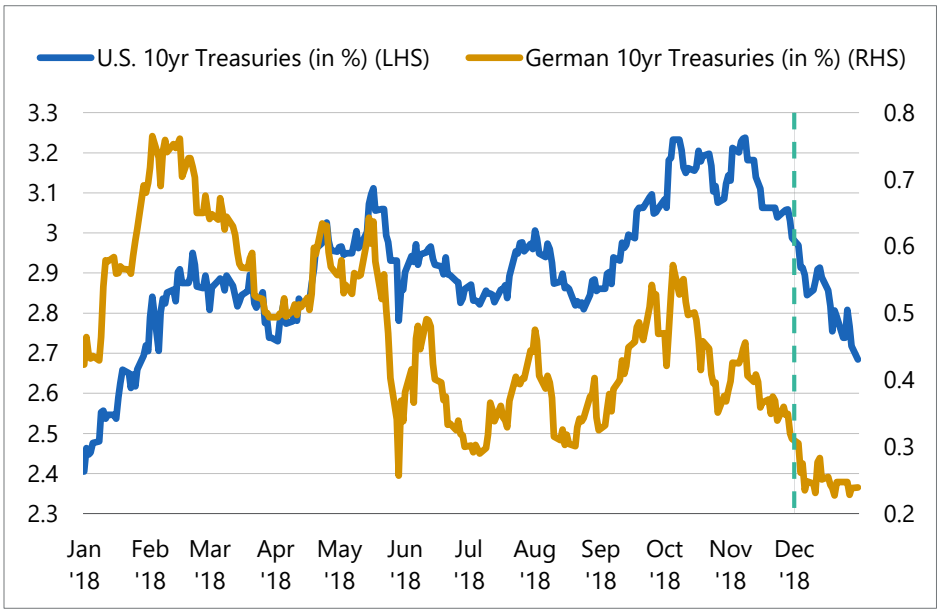


Source: Bloomberg as of 31 December 2018

CORE RATES RALLIED ONCE AGAIN AMID INCREASED VOLATILIT

Global bond markets enjoyed their best month in more than a year, as rising concerns over the global economy and political risks in the U.S. and Europe sent investors in search of safe haven assets.

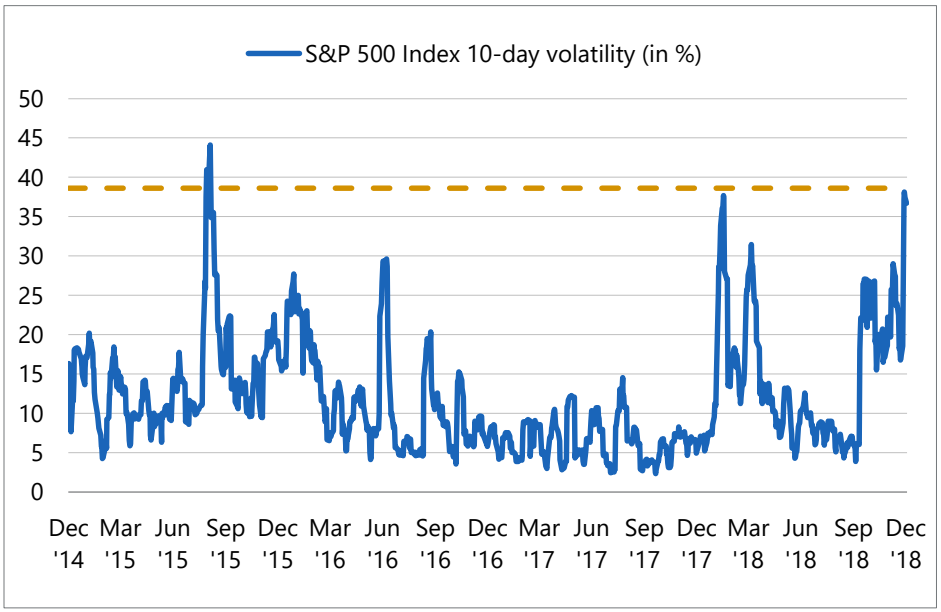
High quality governments bonds rallied...



Source: Bloomberg as of 31 December 2018

The 10-day volatility of the S&P 500 index has risen to the highest level since 2015. According to Bloomberg, the S&P 500 experienced on 26 December its largest upward reversal since May 2010. The U.S. equity index erased a 2.8% drop and turned it into a 0.9% gain during the afternoon session.

...amid higher volatility in equity markets

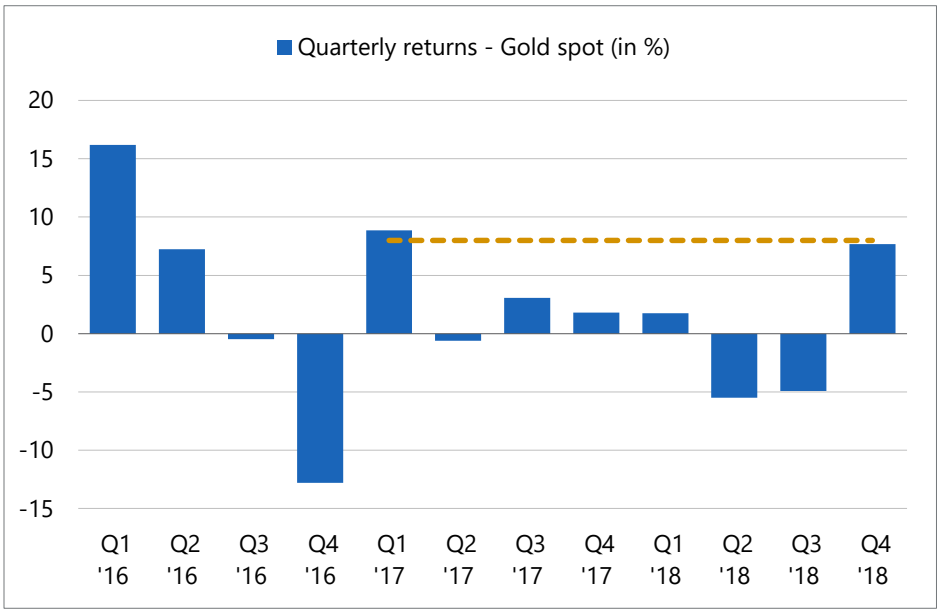


Source: Bloomberg as of 31 December 2018

DESPITE A POSITIVE MONTH FOR GOLD, THE BLOOMBERG COMMODITIES INDEX DECLINED SHARP

Gold notes its best quarter in almost two years …

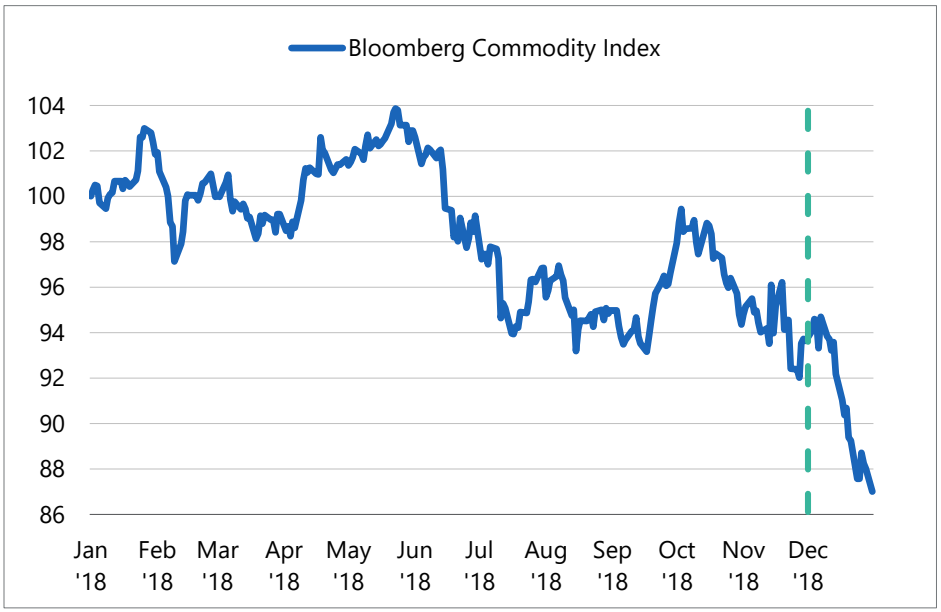
Amid volatility in equity markets, gold returned 7.69% over Q4, marking the precious metal's best quarter since March 2017.



Source: Bloomberg as of 31 December 2018

…while the broader commodities market accelerated its sell-off in 2018

The Bloomberg Commodity Index, with gold as its main constituent, continued to fall in December due to sharp declines in the value of natural gas and crude oil. The energy related commodities performed poorly on the back of anticipated weaker demand in a potential slowdown of the global economy, outweighing the positive performance of gold.



Source: Bloomberg as of 31 December 2018

PIMCO GIS INCOME FUND

Performance (% net of fees)	Dec '18	YTD	1-yr	3-yr	5-yr	10-yr	SI
Fund	0.92	0.21	0.21	5.23	5.17	-	6.08
Benchmark	1.84	0.01	0.01	2.06	2.52	-	1.70

SOURCE: PIMCO. As of 31 December 2018.

Past performance is not a guarantee or a reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future. All periods longer than one year are annualised.

PIMCO GIS Income Fund, Institutional, Accumulation, USD. Fund incepted on: 30 November 2012.

Benchmark: Bloomberg Barclays U.S. Aggregate Index. Benchmark is shown for performance comparison purposes only.

MAIN PERFORMANCE DRIVERS (DEC'18)

Note: contributor and detractors are in absolute terms

CONTRIBUTORS

- Holdings of U.S. duration
- Holdings of Australian duration
- Exposure to a basket of emerging market currencies
- Exposure to U.S. cash rate

DETRACTORS

- Holdings of high yield and investment grade corporate debt
- Exposure to securitized credit
- Hedge against Japanese duration
- Holdings of U.S. dollar denominated emerging market debt

MAIN PERFORMANCE DRIVERS (2018)

Note: contributor and detractors are in absolute terms

CONTRIBUTORS

- Holdings of U.S. duration
- Long U.S. dollar bias versus developed market currencies
- Exposure to securitized credit
- Exposure to U.S. cash rate

DETRACTORS

- Exposure to high yield and investment grade corporate debt
- Exposure to a basket of emerging market currencies
- Holdings of emerging market debt
- Hedge against Japanese duration

POSITIONING AND OUTLOOK

- **Interest Rate Strategies** –The Fund continues to emphasize high quality countries that we view as having strong balance sheets, such as Australia. We remain concentrated in the intermediate portion of the yield curve where we see the most attractive opportunities. The Fund increased its U.S. duration throughout 2018 as rates recalibrated higher. While we do see value in US rates, we remain cautious on our overall duration positioning. We hold a short position to Japanese duration, as it provides a hedge to global rates recalibrating higher. Additionally, we have a short to U.K. duration based on our view of a softer than anticipated Brexit.
- **Mortgages** – PIMCO views non-Agency mortgage-backed securities favorably due to their attractive yields and downside risk profile. We hold Agency MBS and senior tranches of CMBS positions as the sector provides "safe spread*" along with downside risk profile in the event of a flight to quality. We remain focused on maintaining flexibility and having a high level of liquidity in the portfolio – we do this by taking exposure to the CMBS market via CMBX.
- **ABS** – PIMCO views Asset-Backed Securities (ABS) as an attractive source of high quality spread. We prefer securities that benefit from government support and favorable long-term supply-demand technicals, such as student loans.
- **IG Corporates** – The Fund remains focused on investing in high quality, loss-remote sectors such as investment grade credit. In IG corporates, the Fund is opportunistically seeking names that offer attractive risk-adjusted returns, including financials and bank debt.
- **High Yield** – We are cautious about global growth and attempt to protect against downside risk in our exposure to credit sectors. The fund has been emphasizing senior secured bonds and shorter-dated credits. Within cash bonds we prefer senior secured bonds as they have historically had a higher recovery rate, even in periods of economic stress.
- **Emerging Markets** – The Fund plans to retain exposure to corporate and quasi-sovereign bonds in select countries with strong initial conditions and high quality balance sheets such as Mexico, Brazil and Russia. We also hold modest exposure to local EM rates, primarily in Mexico, as diversifying sources of duration.
- **Currency** – Currency positions will continue to be small in order to minimize the impact on the portfolio's income stream. We remain tactical in our currency position which is overall very limited, holding a long U.S. dollar position versus DM currencies as a way of expressing our views on relative growth and the path of rates. We are also tactically long a basket of EM currencies as we believe they are attractively priced and offer additional diversification.
- **Strategic Liquidity**– The Fund holds a strategic liquidity allocation (cash and U.S. Treasuries) in order to maintain a high level of overall portfolio liquidity and provide additional flexibility to potentially deploy capital opportunistically.

*"Safe spread" is defined as sectors that we believe are most likely to withstand the vicissitudes of a wide range of possible economic scenarios. All investments contain risk and may lose value.

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Share value can go up as well as down and any capital invested in the Fund may be at risk. The Fund may invest in non-U.S and non-Eurozone securities which involve potentially higher risks including currency fluctuations and political or economic developments. These may be enhanced when investing in emerging markets. Funds that invest in high-yield, lower-rated securities, will generally involve greater volatility and risk to principal than investments in higher-rated securities. The Fund may use derivatives for hedging or as part of its investment strategy which may involve certain costs and risks. Portfolios investing in derivatives could lose more than the principal amount invested. For more details on the fund's potential risks, please read the Key Investor Information Document.

A word about risk: 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. **Equities** may decline in value due to both real and perceived general market, economic, and industry conditions. **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.

For risks associated with a particular Fund, please refer to the Fund's prospectus.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

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