

Opportunities in EM for Insurers

23 March 2021

IMPORTANT NOTICE

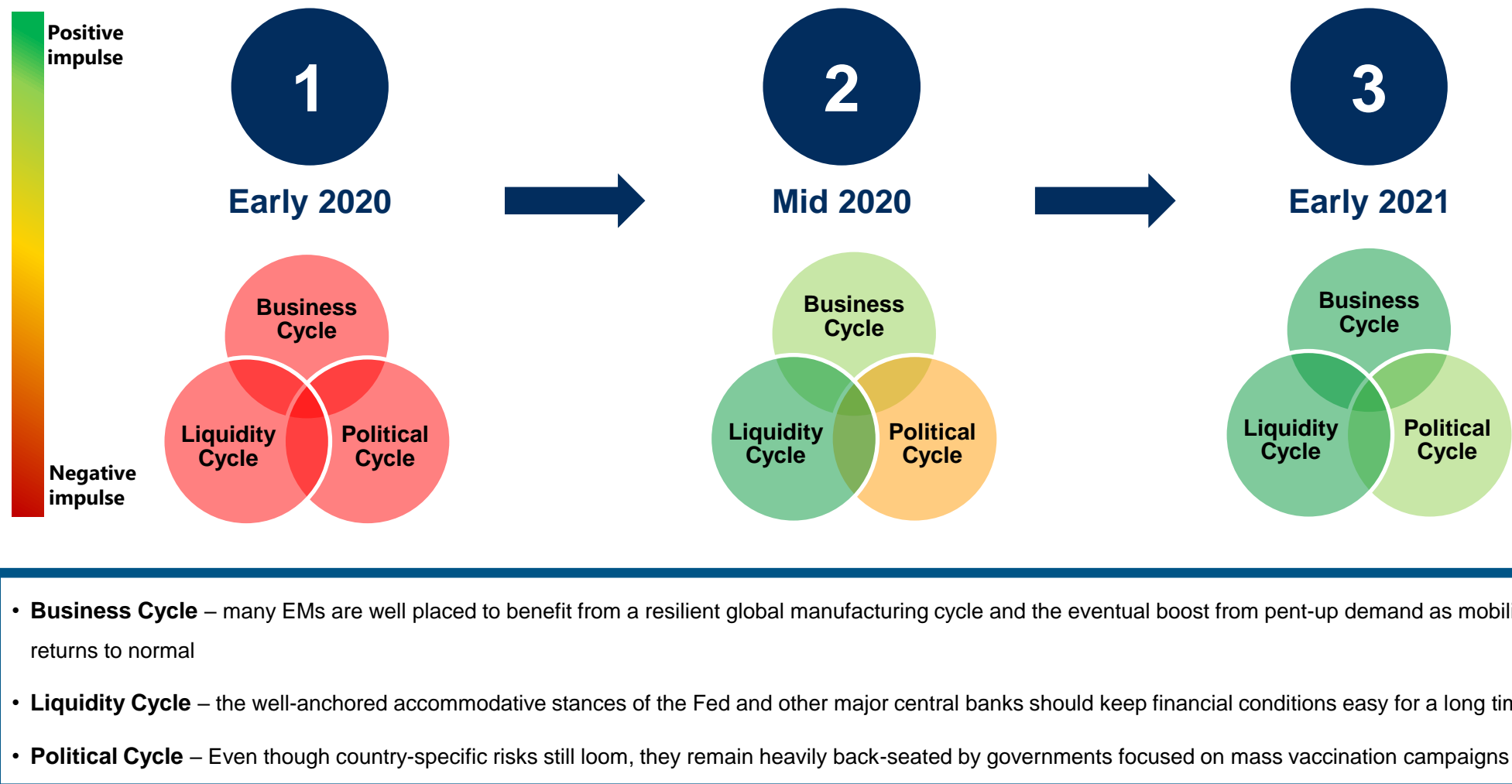
Please note that the following contains the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

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Global top-down factors have turned favorable

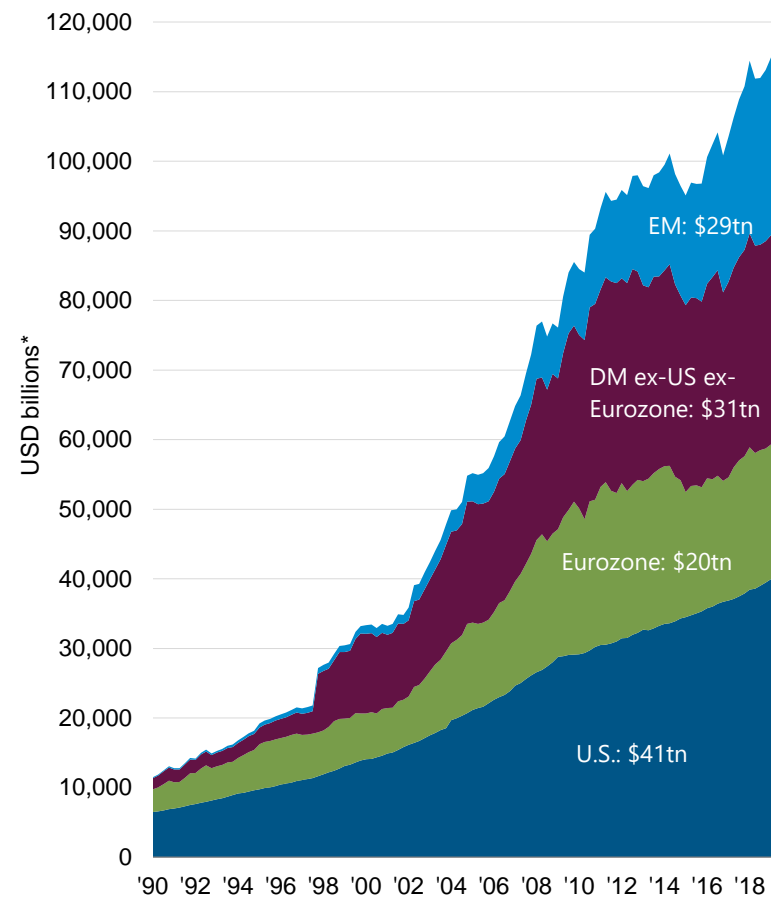
PIMCO’s global top-down factors framework for asset markets



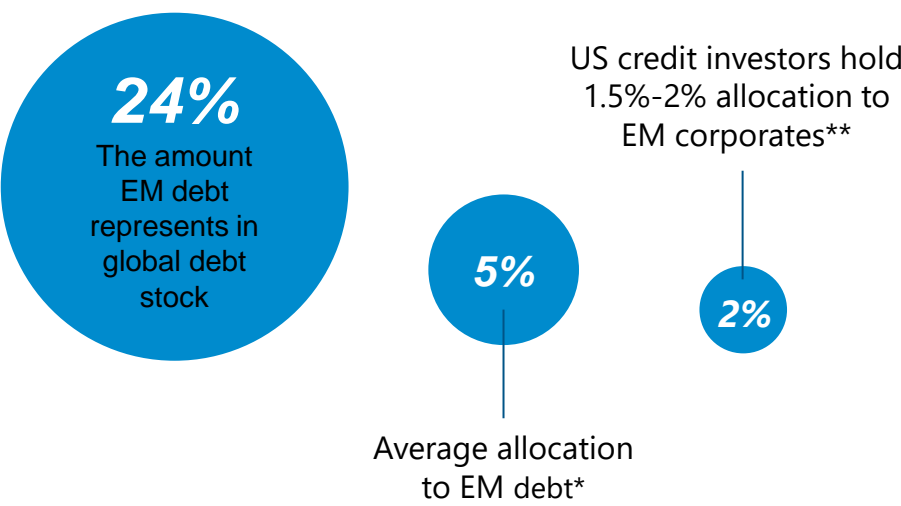
As of 31 December 2020. SOURCE: PIMCO. For illustrative purposes only.
The continued long term impact of COVID-19 on credit markets and global economic activity remains uncertain as events such as development of treatments, government actions, and other economic factors evolve. The views expressed are as of the date recorded, and may not reflect recent market developments.
Refer to Appendix for additional investment strategy, outlook, and risk information

Despite its size, the asset class is off the radar of many investors

A rapidly rising proportion of the global bond market..



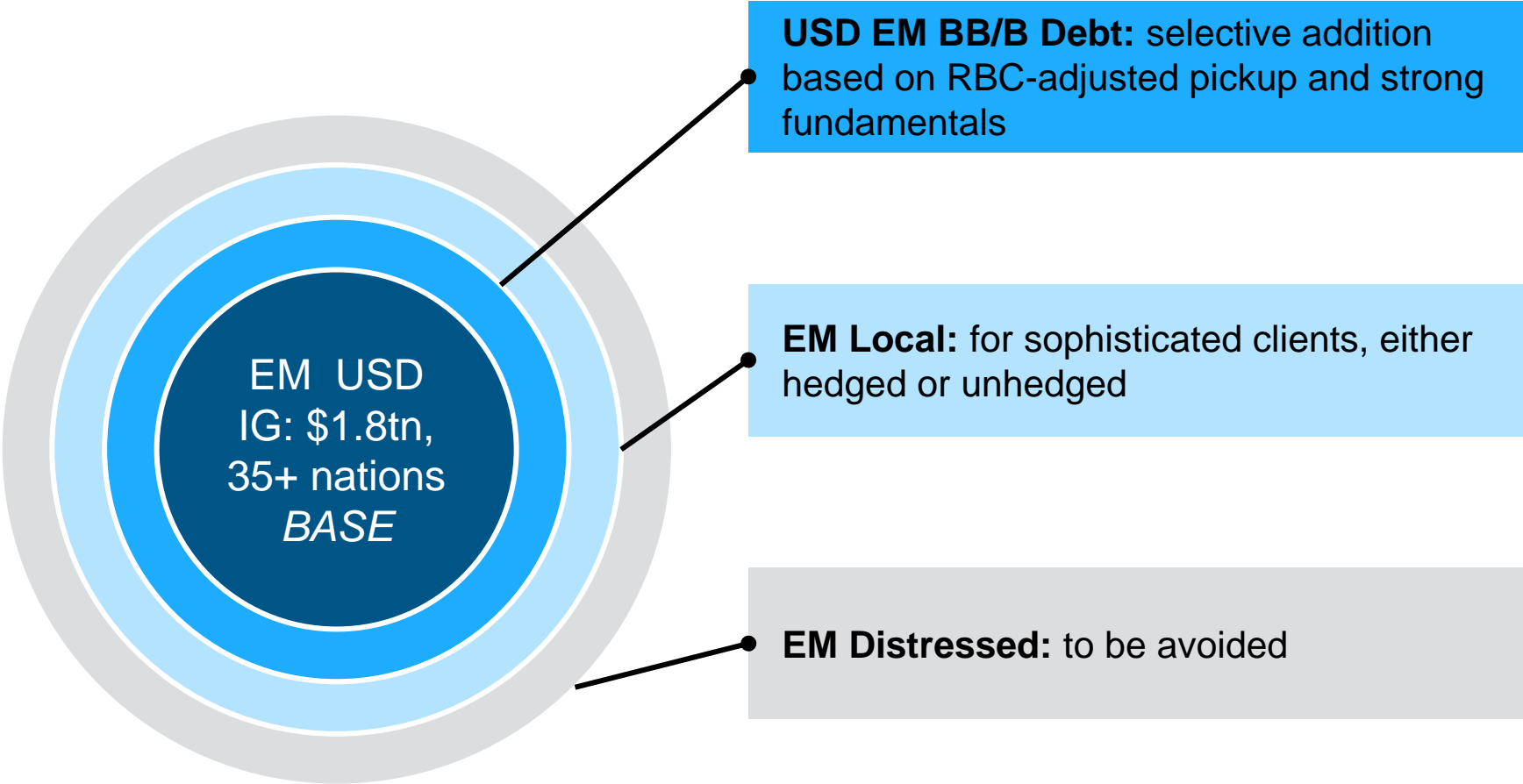
...and one that is substantially under-allocated to as a fixed income asset class



As of 31 December 2020. Global bond market data is as of 31 December 2019.
SOURCE: PIMCO, Haver, Bloomberg, Mercer European Asset Allocation Survey 2020, JP Morgan.
*28% of European pension plans have allocations to EM, out of these the average allocation to EM is 5%. Based on Mercer Survey as of June 2020.
**JP Morgan estimates that US HY investor holdings of EM corporates are at 1.47%, while US IG investors hold nearly 2% of their fixed income AUM in EM corporate bonds. This translates to as much as 10% of EM corporate bonds outstanding.
Refer to Appendix for additional index, investment strategy and risk information.

Where should insurers consider going within EM?

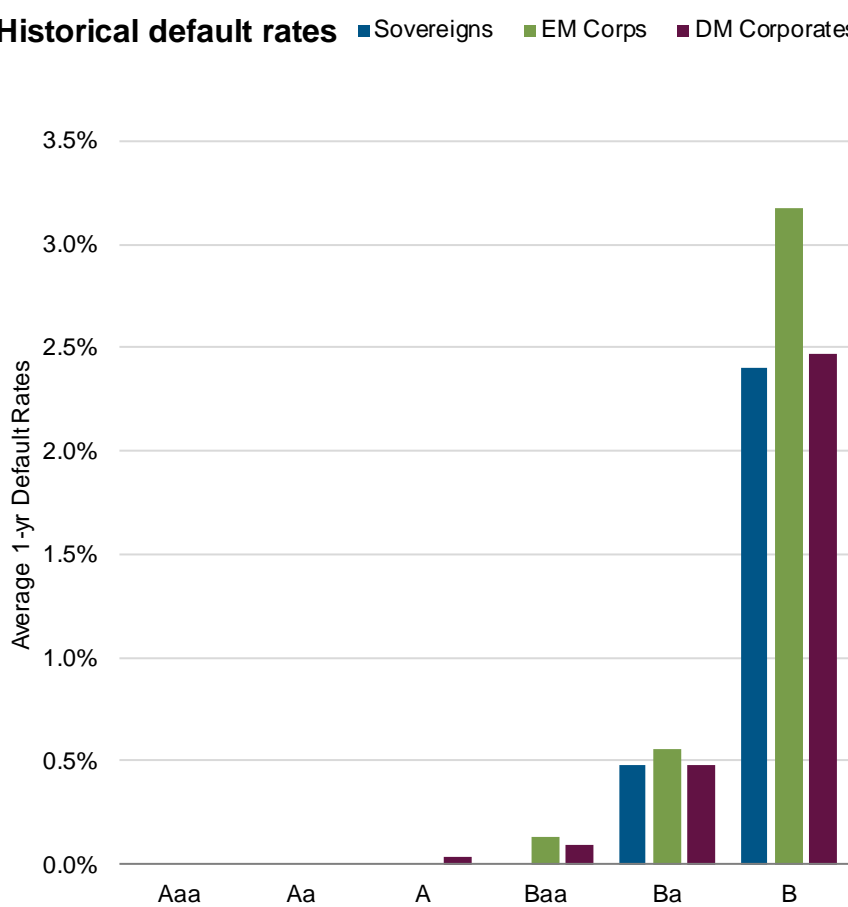
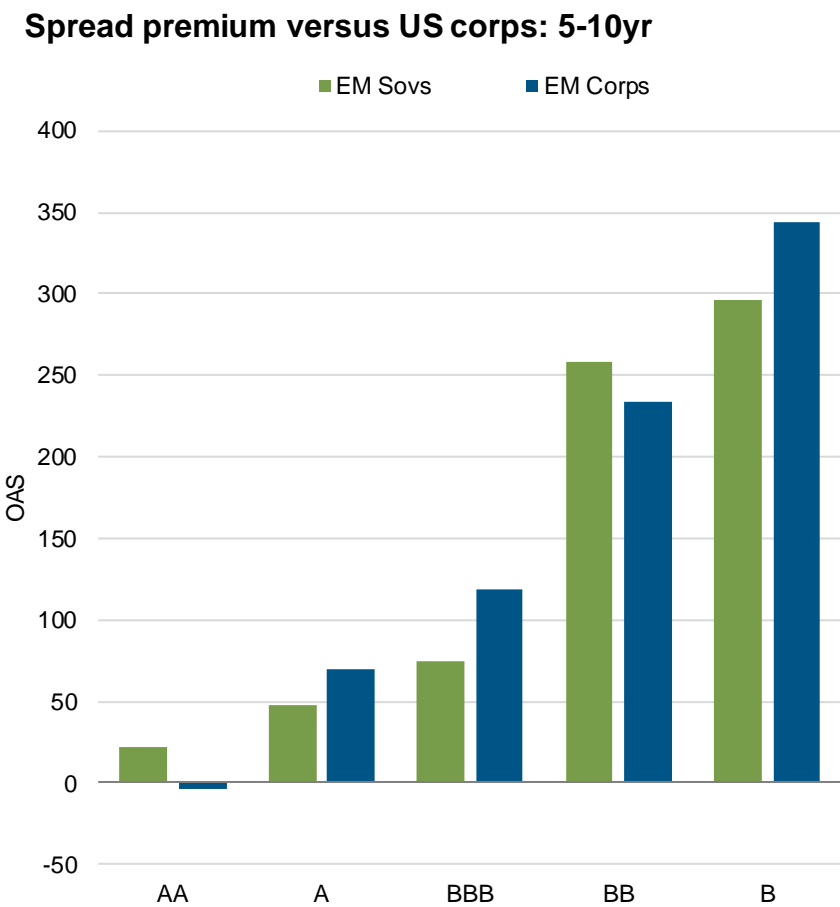
USD-denominated, IG debt is the natural home but it can be augmented



For illustrative purposes only.
There can be no assurance that the investment approach outlined above will produce the desired results or achieve any particular level of returns.
Refer to Appendix for additional credit quality, investment strategy, outlook and risk information.

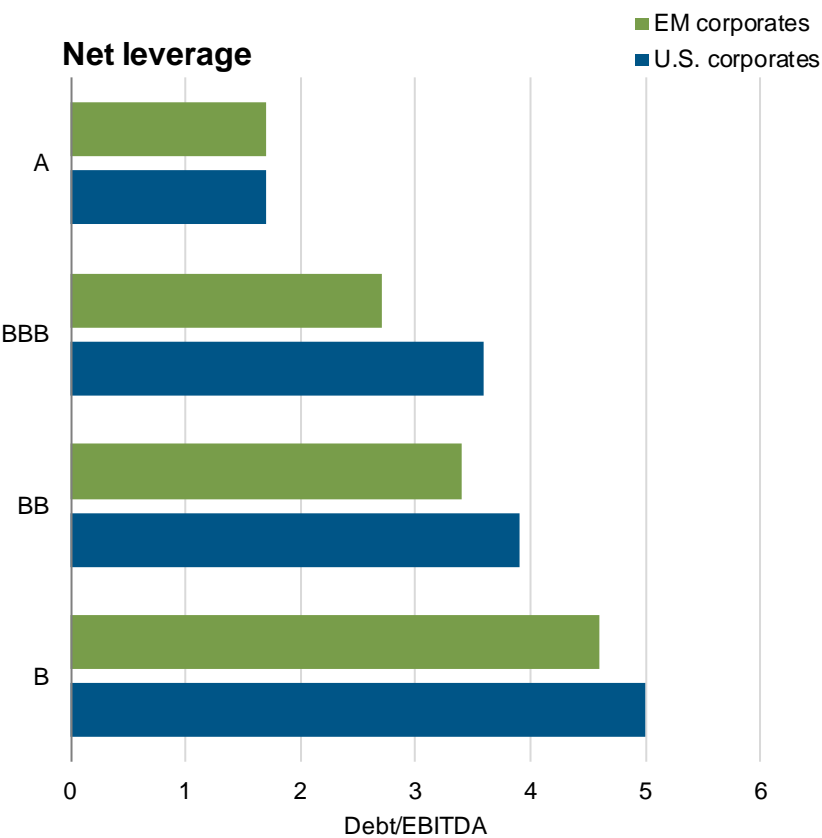
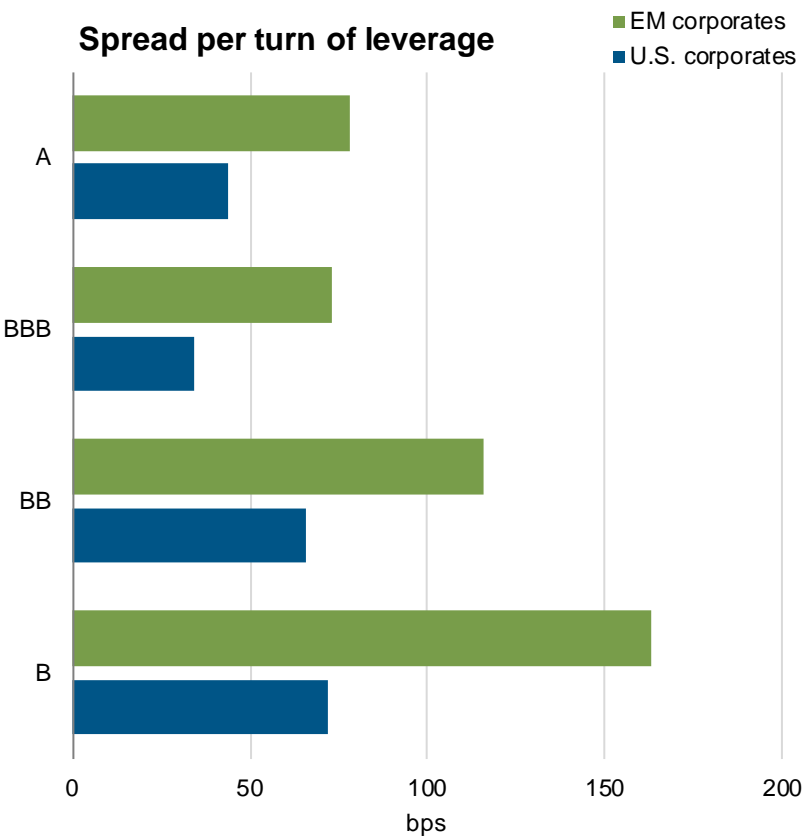
USD-denominated EM: relatively attractive and not as risky as often thought

Wider spread premiums and lower default rates



LHS chart as of 14 January 2021. Proxies used: EM Corps – JPM CEMBI Broad Diversified; EM Sovs – JPM EMBI Global Diversified; US Corps – iBoxx USD Liquid Investment Grade Index & iBoxx USD Liquid High Yield Index.
RHS chart as of 31 December 2020.
Source: PIMCO, Moody's, JPMorgan.
For illustrative purposes only. Refer to Appendix for additional credit quality, index, investment strategy, OAS and risk information.

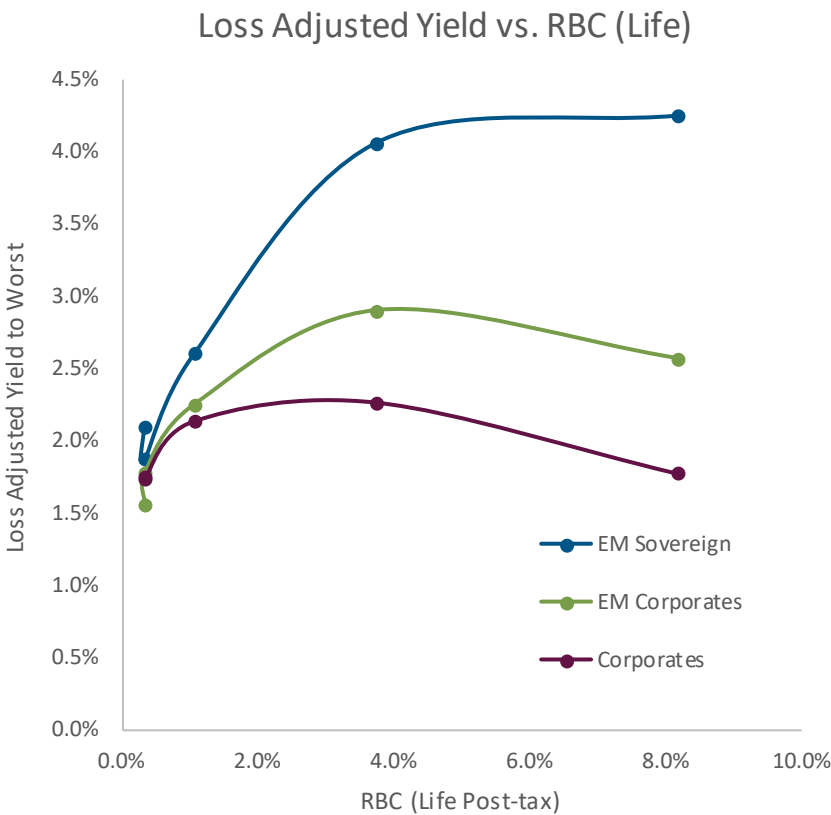
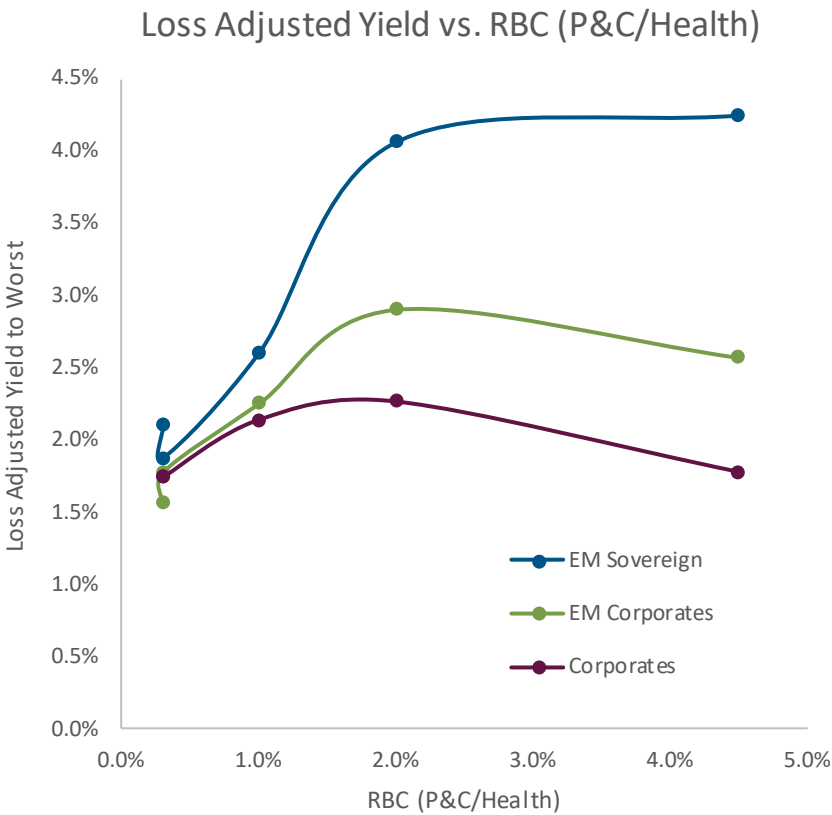
Meanwhile, EM corporates continue to exhibit stronger fundamentals than comparable DM peers



As of 31 December 2020. SOURCE: Bloomberg, BofA Merrill Lynch, PIMCO
Refer to Appendix for additional index, investment strategy and risk information

Insurance Capital Considerations:

Loss Adjusted Yield vs. Risk-Based Capital Charges



As of 28 February 2021. Source: PIMCO, Moodys, JPMorgan, Bloomberg, NAIC, S&P.
Hypothetical example for illustrative purposes only.
 *Loss adjusted yield to worst reflects an adjustment for the probability of default and the assume recovery rate associated with a default. Estimated Loss is the probability of default multiplied by the recovery rate which is 40%. Loss adjusted yield: $YTW * (1 \text{ Prob of Def}) - (\text{Estimated Loss})$. Provided by PIMCO.
 Index Proxies: EM Sovereigns – JPM EMBI Global; EM Corporates – JPM CEMBI Div Broad; US Corp AA – BBG BC US Corp AA; US Corp A – ICE BofA Corp A; US Corp BBB – BBG BC US Corp BBB; US Corp BB – BBG BC Ba HY; US Corp B – BBG BC B HY.
Capital Charge Methodology: We use the underlying composition and quality profile of each index to estimate a capital charge. Capital charges only consider equity and credit risk and do not incorporate interest rate risk or other components.
 PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns.
 Refer to Appendix for additional credit quality, hypothetical example, index, investment strategy, risk and tax information.

Low correlations with both interest rate and credit products

USD-denominated EM asset classes are highlighted

10-YEAR CORRELATIONS, MONTHLY														
	JPM EMBI GLOBAL	JPM ELMI+ UNHEDGED	JPM GBI-EM GLOBAL DIV UNHEDGED	JPM CEMBI DIV	U.S. TREASURY	BAGG	HIGH GRADE	HIGH YIELD	U.S. TIPS*	FOREIGN HEDGED	FOREIGN UNHEDGED	S&P 500 TOTAL RETURN	EM EQUITY	BLOOMBERG COMMODITY INDEX
JPM EMBI GLOBAL	1.00													
JPM ELMI+ UNHEDGED	0.71	1.00												
JPM GBI-EM GLOBAL DIV UNHEDGED	0.82	0.93	1.00											
JPM CEMBI DIV	0.93	0.71	0.79	1.00										
U.S. TREASURY	0.05	-0.24	-0.06	-0.07	1.00									
BAGG	0.46	0.08	0.27	0.38	0.88	1.00								
HIGH GRADE	0.77	0.37	0.53	0.79	0.39	0.77	1.00							
HIGH YIELD	0.80	0.65	0.68	0.88	-0.25	0.20	0.68	1.00						
U.S. TIPS*	0.56	0.28	0.45	0.53	0.62	0.81	0.73	0.38	1.00					
FOREIGN HEDGED	0.30	-0.07	0.11	0.23	0.69	0.76	0.65	0.07	0.53	1.00				
FOREIGN UNHEDGED	0.62	0.71	0.72	0.56	0.26	0.49	0.55	0.47	0.58	0.31	1.00			
S&P 500 TOTAL RETURN	0.55	0.60	0.55	0.64	-0.41	-0.06	0.39	0.77	0.14	-0.14	0.31	1.00		
EM EQUITY	0.70	0.87	0.83	0.76	-0.28	0.09	0.48	0.76	0.33	-0.07	0.59	0.74	1.00	
BLOOMBERG COMMODITY INDEX	0.54	0.66	0.61	0.56	-0.33	-0.07	0.23	0.65	0.21	-0.21	0.48	0.53	0.64	1.00

As of 31 December 2020. SOURCE: PIMCO, JPMorgan, Bloomberg, Barclays, BofA Merrill Lynch, Morgan Stanley. * Treasury Inflation Protected Treasuries (TIPS).
U.S. Treasury is represented by the Citigroup U.S. Treasury Index; BAGG is the Barclays U.S. Aggregate Index; high grade is represented by the Barclays U.S. Credit Investment Grade Index; high yield is represented by the BofA Merrill Lynch High Yield Master II Index; U.S. TIPS is represented by the Barclays U.S. TIPS Index; foreign hedged is represented by the JPMorgan GBI Global Ex-U.S. Hedged Index; foreign unhedged is represented by the JPMorgan Non-U.S. Government Bond Index Unhedged; EM equity is represented by MSCI Emerging Markets Total Return Net Index.
Refer to Appendix for additional correlation, index, investment strategy and risk information.

Appendix

Past performance is not a guarantee or a reliable indicator of future results.

CHARTS

Charts are provided for illustrative purposes and are not indicative of the past or future performance of any PIMCO product.

CORRELATION

The correlation of various indexes or securities against one another or against inflation is based upon data over a certain time period. These correlations may vary substantially in the future or over different time periods that can result in greater volatility.

CREDIT QUALITY

The credit quality of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody's, and Fitch respectively.

FORECAST

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. There is no guarantee that results will be achieved.

HYPOTHETICAL EXAMPLE

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

Appendix

INDEX DESCRIPTIONS

Bloomberg Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bloomberg Barclays U.S. Credit Index is an unmanaged index comprised of publicly issued U.S. corporate and specified non-U.S. debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. This index was formerly known as the Bloomberg Barclays Credit Investment Grade Index.

Bloomberg Barclays U.S. TIPS Index is an unmanaged market index comprised of all U.S. Treasury Inflation-Protected Securities rated investment grade (Baa3 or better), have at least one year to final maturity, and at least \$500 million par amount outstanding.

The BofA Merrill Lynch High Yield Master II Index is an unmanaged index consisting of U.S. dollar denominated bonds that are rated BB1/BB+ or lower, but not currently in default.

The JPMorgan Emerging Markets Bond Index Global (EMBIG) is an unmanaged index which tracks the total return of U.S.-dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady Bonds, loans, Eurobonds, and local market instruments

The JPMorgan Corporate Emerging Markets Bond Index Diversified (CEMBI) is a uniquely weighted version of the CEMBI index. It limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding. The CEMBI Diversified results in well-distributed, more balanced weightings for countries included in the index. The countries covered in the CEMBI Diversified are identical to those covered by the CEMBI.

JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged) is a comprehensive global local emerging markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure.

The JPMorgan Government Bond Index- Emerging Markets Global Diversified (GBI-EM Global Div) tracks local currency government bonds issued by emerging markets

The JPMorgan Government Bond Indices Global ex-US Index Hedged in USD is an unmanaged index representative of the total return performance in U.S. dollars of major non-U.S. bond markets

The JPMorgan Non-U.S. Government Bond Index is an independently maintained and published index composed of non-U.S. government bonds with maturities of one year or more.

It is not possible to invest directly in an unmanaged index.

INVESTMENT STRATEGY

There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

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OUTLOOK

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OAS

The Option Adjusted Spread (OAS) measures the spread over a variety of possible interest rate paths. A security's OAS is the average return an investor will earn over Treasury returns, taking all possible future interest rate scenarios into account. The OAS is the net spread over the swap curve that will on average be earned if the security is held to maturity.

Appendix

PORTFOLIO STRUCTURE

Portfolio structure is subject to change without notice and may not be representative of current or future allocations

RISK

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. 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 low interest rate environments increase this risk. 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. **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.

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VALUATION

The terms “cheap” and “rich” as used herein generally refer to a security or asset class that is deemed to be substantially under- or overpriced compared to both its historical average as well as to the investment manager's future expectations. There is no guarantee of future results or that a security's valuation will ensure a profit or protect against a loss.

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Mr. Luciano is an executive vice president and an account manager in PIMCO's U.S. financial institutions group (FIG) in the New York office. He is responsible for developing and delivering customized investment management solutions to insurance companies and banks. Mr. Luciano is a founding member and global chair of PIMCO PRIDE, contributing to the firm's inclusion and diversity initiative. He also serves on the grant review committee of the PIMCO Foundation. Prior to joining PIMCO in 2012, he was with Citigroup in their financial institutions investment banking division. He has 16 years of investment experience and holds a dual master's degree in global finance from New York University's Leonard N. Stern School of Business and Hong Kong University of Science and Technology. He also holds an undergraduate degree from New York University's Stern School of Business.