

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72937; File No. SR-NYSEArca-2014-89)

August 27, 2014

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Relating to the Listing and Trading of Shares of Eight PIMCO Exchange-Traded Funds under NYSE Arca Equities Rule 8.600

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on August 15, 2014, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to list and trade shares of the following under NYSE Arca Equities Rule 8.600 (“Managed Fund Shares”): PIMCO StocksPLUS<sup>®</sup> Absolute Return Exchange-Traded Fund, PIMCO Small Cap StocksPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund, PIMCO Fundamental IndexPLUS<sup>®</sup> AR Exchange-Traded Fund, PIMCO Small Company Fundamental IndexPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund, PIMCO EM Fundamental IndexPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund, PIMCO International Fundamental IndexPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund, PIMCO EM StocksPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund, and PIMCO International StocksPLUS<sup>®</sup> AR Strategy Exchange-Traded

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<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

Fund (Unhedged). The text of the proposed rule change is available on the Exchange's website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to list and trade shares ("Shares") of the following under NYSE Arca Equities Rule 8.600,<sup>4</sup> which governs the listing and trading of Managed Fund Shares:<sup>5</sup>

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<sup>4</sup> The Commission has previously approved the listing and trading on the Exchange of other actively managed funds under Rule 8.600. See, e.g., Securities Exchange Act Release Nos. 60981 (November 10, 2009), 74 FR 59594 (November 18, 2009) (SR-NYSEArca-2009-79) (order approving Exchange listing and trading of five fixed income funds of the PIMCO ETF Trust); 66321 (February 3, 2012), 77 FR 6850 (February 9, 2012) (SR-NYSEArca-2011-95) (order approving listing and trading of PIMCO Total Return Exchange Traded Fund); 66670 (March 28, 2012), 77 FR 20087 (April 3, 2012) (SR-NYSEArca-2012-09) (order approving listing and trading of PIMCO Global Advantage Inflation-Linked Bond Strategy Fund).

<sup>5</sup> A Managed Fund Share is a security that represents an interest in an investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1) ("1940 Act") organized as an open-end investment company or similar entity that invests in a portfolio of securities selected by its investment adviser consistent with its investment objectives and policies. In contrast, an open-end investment company that issues Investment Company Units, listed and traded on the Exchange under NYSE Arca Equities Rule 5.2(j)(3), seeks to provide investment results that correspond generally to the price and

PIMCO StocksPLUS<sup>®</sup> Absolute Return Exchange-Traded Fund (“StocksPLUS AR Fund”), PIMCO Small Cap StocksPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund (“Small Cap StocksPLUS AR Fund”), PIMCO Fundamental IndexPLUS<sup>®</sup> AR Exchange-Traded Fund (“Fundamental IndexPLUS Fund”), PIMCO Small Company Fundamental IndexPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund (“Small Company Fundamental IndexPLUS Fund”), PIMCO EM Fundamental IndexPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund (“EM Fundamental IndexPLUS Fund”), PIMCO International Fundamental IndexPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund (“International Fundamental IndexPLUS Fund”), PIMCO EM StocksPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund (“EM StocksPLUS Fund”), and PIMCO International StocksPLUS<sup>®</sup> AR Strategy Exchange-Traded Fund (Unhedged) (“International StocksPLUS Fund”), each also referred to as a “Fund” and collectively referred to as the “Funds.” The Shares will be offered by PIMCO ETF Trust (the “Trust”), a statutory trust organized under the laws of the State of Delaware and registered with the Commission as an open-end management investment company.<sup>6</sup>

The investment manager to the Funds will be Pacific Investment Management Company LLC (“PIMCO” or the “Adviser”). Research Affiliates, LLC (“Research Affiliates” or the “Sub-Adviser”), will be the sub-adviser with respect to the Fundamental IndexPLUS Fund, Small

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yield performance of a specific foreign or domestic stock index, fixed income securities index or combination thereof.

<sup>6</sup> The Trust is registered under the 1940 Act. On January 27, 2014, the Trust filed an amendment to its registration statement on Form N-1A under the Securities Act of 1933 (15 U.S.C. 77a) (“1933 Act”) and the 1940 Act relating to the Funds (File Nos. 333-155395 and 811-22250) (the “Registration Statement”). The description of the operation of the Trust and the Funds herein is based, in part, on the Registration Statement. In addition, the Commission has issued an order granting certain exemptive relief to the Trust under the 1940 Act. See Investment Company Act Release No. 28993 (November 10, 2009) (File No. 812-13571) (“Exemptive Order”).

Company Fundamental IndexPLUS Fund, EM Fundamental IndexPLUS Fund, and the International Fundamental IndexPLUS Fund. PIMCO Investments LLC will serve as the distributor for the Funds (“Distributor”). State Street Bank & Trust Co. will serve as the custodian and transfer agent for the Funds (“Custodian” or “Transfer Agent”).

Commentary .06 to Rule 8.600 provides that, if the investment adviser to the investment company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser shall erect a “fire wall” between the investment adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such investment company portfolio.<sup>7</sup> In addition, Commentary .06 further requires that personnel who make decisions on the open-end fund’s portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the open-end fund’s portfolio. The Adviser is not registered as a broker-dealer, but is affiliated with a broker-dealer, and will implement a “fire wall” with respect to such broker-dealer affiliate regarding access to information concerning the composition and/or changes to the Funds’ portfolios. The

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<sup>7</sup> An investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (the “Advisers Act”). As a result, the Adviser and its related personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. In addition, Rule 206(4)-7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violations, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

Sub-Adviser is not registered as a broker-dealer or affiliated with a broker-dealer. If PIMCO elects to hire a sub-adviser for a Fund that is also affiliated with a broker-dealer, such sub-adviser will implement a fire wall with respect to such broker-dealer regarding access to information concerning the composition and/or changes to that Fund's portfolio.

In the event (a) the Adviser or Sub-Adviser becomes registered as a broker-dealer or newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement a fire wall with respect to its relevant personnel or its broker-dealer affiliate regarding access to information concerning the composition and/or changes to a portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio.

#### Characteristics of the Funds<sup>8</sup>

According to the Registration Statement, in selecting investments for each Fund, PIMCO will develop an outlook for interest rates, currency exchange rates and the economy, will analyze credit and call risks, and will use other investment selection techniques. The proportion of each Fund's assets committed to investment in securities with particular characteristics (such as quality, sector, interest rate or maturity) will vary based on PIMCO's outlook for the U.S. economy and the economies of other countries in the world, the financial markets and other factors.

With respect to each Fund, in seeking to identify undervalued currencies, PIMCO may consider many factors, including, but not limited to, longer-term analysis of relative interest rates, inflation rates, real exchange rates, purchasing power parity, trade account balances and

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<sup>8</sup> Many of the investment strategies of the Funds are discretionary, which means that PIMCO can decide from time to time whether to use them or not.

current account balances, as well as other factors that influence exchange rates such as flows, market technical trends and government policies. With respect to fixed income investing, PIMCO will attempt to identify areas of the bond market that are undervalued relative to the rest of the market. PIMCO will identify these areas by grouping fixed income investments into sectors such as money markets, governments, corporates, mortgages, asset-backed and international. Sophisticated proprietary software will then assist in evaluating sectors and pricing specific investments. Once investment opportunities are identified, PIMCO will shift assets among sectors depending upon changes in relative valuations, credit spreads and other factors.

#### Fixed Income Instruments

Among other investments described in more detail herein, each Fund may invest in Fixed Income Instruments, which include:

- securities issued or guaranteed by the U.S. Government, its agencies or government-sponsored enterprises (“U.S. Government Securities”);
- corporate debt securities of U.S. and non-U.S. issuers, including convertible securities and corporate commercial paper<sup>9</sup>;
- mortgage-backed and other asset-backed securities<sup>10</sup>;

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<sup>9</sup> With respect to each Fund, while non-emerging markets corporate debt securities (excluding commercial paper) generally must have \$100 million or more par amount outstanding and significant par value traded to be considered as an eligible investment for a Fund, at least 80% of issues of such securities held by a Fund must have \$100 million or more par amount outstanding at the time of investment. See also note 25, infra, regarding emerging market corporate debt securities.

<sup>10</sup> Mortgage-related and other asset-backed securities include collateralized mortgage obligations (“CMOs”), commercial mortgage-backed securities, mortgage dollar rolls, CMO residuals, stripped mortgage-backed securities and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. A to-be-announced (“TBA”) transaction is a method of trading mortgage-backed securities. In a TBA transaction, the buyer and seller agree upon

- inflation-indexed bonds issued both by governments and corporations<sup>11</sup>;
- structured notes, including hybrid or “indexed” securities, and event-linked bonds,<sup>12</sup> subject to a limitation of 20% of a Fund’s total assets invested in such instruments;
- bank capital and trust preferred securities<sup>13</sup>;
- loan participations and assignments,<sup>14</sup> subject to a limitation of 20% of a Fund’s total assets invested in such instruments;
- delayed funding loans and revolving credit facilities;

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general trade parameters such as agency, settlement date, par amount and price. The actual pools delivered generally are determined two days prior to the settlement date.

<sup>11</sup> Inflation-indexed bonds (other than municipal inflation-indexed bonds and certain corporate inflation-indexed bonds) are fixed income securities whose principal value is periodically adjusted according to the rate of inflation (e.g., Treasury Inflation Protected Securities (“TIPS”). Municipal inflation-indexed securities are municipal bonds that pay coupons based on a fixed rate plus the Consumer Price Index for All Urban Consumers (“CPI”). With regard to municipal inflation-indexed bonds and certain corporate inflation-indexed bonds, the inflation adjustment is reflected in the semi-annual coupon payment.

<sup>12</sup> The Funds may obtain event-linked exposure by investing in “event-linked bonds” or “event-linked swaps” or by implementing “event-linked strategies.” Event-linked exposure results in gains or losses that typically are contingent, or formulaically related to defined trigger events. Examples of trigger events include hurricanes, earthquakes, weather-related phenomena, or statistics relating to such events. Some event-linked bonds are commonly referred to as “catastrophe bonds.” If a trigger event occurs, a Fund may lose a portion or its entire principal invested in the bond or notional amount on a swap.

<sup>13</sup> There are two common types of bank capital: Tier I and Tier II. Bank capital is generally, but not always, of investment grade quality. Tier I securities are typically exchange-traded and often take the form of trust preferred securities. Tier II securities are commonly thought of as hybrids of debt and preferred stock. Tier II securities are typically traded over-the-counter, are often perpetual (with no maturity date), callable and, under certain conditions, allow for the issuer bank to withhold payment of interest until a later date. However, such deferred interest payments generally earn interest.

<sup>14</sup> The Funds may invest in fixed- and floating-rate loans, which investments generally will be in the form of loan participations and assignments of portions of such loans.

- bank certificates of deposit, fixed time deposits and bankers' acceptances;
- repurchase agreements on Fixed Income Instruments and reverse repurchase agreements on Fixed Income Instruments<sup>15</sup>;
- debt securities issued by states or local governments and their agencies, authorities and other government-sponsored enterprises ("Municipal Bonds");
- obligations of non-U.S. governments or their subdivisions, agencies and government-sponsored enterprises; and
- obligations of international agencies or supranational entities.

#### Use of Derivatives by the Funds

Each Fund's investments in derivative instruments will be made in accordance with the 1940 Act and consistent with a Fund's investment objective and policies. With respect to each Fund, derivative instruments will include the following: forwards;<sup>16</sup> exchange-traded and over-the-counter ("OTC") options contracts; exchange-traded futures contracts; exchange-traded and OTC swap agreements; exchange-traded and OTC options on futures contracts; and OTC options on swap agreements.<sup>17</sup> Generally, derivatives are financial contracts whose value depends upon,

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<sup>15</sup> A repurchase agreement involves the Fund purchasing a security from a bank or broker-dealer, which agrees to purchase the security at the Fund's cost plus interest within a specified time. Repurchase agreements maturing in more than seven days and which may not be terminated within seven days at approximately the amount at which the Fund has valued the agreements will be considered illiquid securities. Reverse repurchase agreements, which involves the sale of a security by the Fund and its agreement to repurchase the instrument at a specified time and price, are subject to the Fund's limitations on borrowings. The Fund will segregate or " earmark " assets determined to be liquid by PIMCO in accordance with procedures established by the Board to cover its obligations under reverse repurchase agreements.

<sup>16</sup> Forwards are contracts to purchase or sell securities for a fixed price at a future date beyond normal settlement time (forward commitments).

<sup>17</sup> In the future, in the event that there are exchange-traded options on swaps, a Fund may invest in these instruments.



or is derived from, the value of an underlying asset, reference rate or index, and may relate to stocks, bonds, interest rates, currencies or currency exchange rates, commodities, and related indexes. All investment guidelines and limitations stated herein apply to a Fund's aggregate investment exposure to a particular type of investment that is the subject of the guideline or limitation, whether such exposure is obtained through direct holdings or through derivative instruments.<sup>18</sup>

As described further below, each Fund will typically use derivative instruments as a substitute for taking a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate or currency risk. A Fund may also use derivative instruments to enhance returns. To limit the potential risk associated with such transactions, a Fund will segregate or " earmark " assets determined to be liquid by PIMCO in accordance with procedures established by the Trust's Board of Trustees ("Board") and in accordance with the 1940 Act (or, as permitted by applicable regulation, enter into certain offsetting positions) to cover its obligations under derivative instruments. These procedures have been adopted consistent with Section 18 of the 1940 Act and related Commission guidance. In addition, each Fund will include appropriate risk disclosure in its offering documents, including leveraging risk. Leveraging risk is the risk that certain transactions of a Fund, including a Fund's

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<sup>18</sup> Each Fund will seek, where possible, to use counterparties whose financial status is such that the risk of default is reduced; however, the risk of losses resulting from default is still possible. PIMCO's Counterparty Risk Committee evaluates the creditworthiness of counterparties on an ongoing basis. In addition to information provided by credit agencies, PIMCO credit analysts evaluate each approved counterparty using various methods of analysis, including company visits, earnings updates, the broker-dealer's reputation, PIMCO's past experience with the broker-dealer, market levels for the counterparty's debt and equity, the counterparty's liquidity and its share of market participation. According to the Registration Statement, each Fund has adopted procedures that are consistent with Section 18 of the 1940 Act and related Commission guidance, which require that a fund's derivative instruments be fully collateralized by liquid assets of the fund.

use of derivatives, may give rise to leverage, causing the Fund to be more volatile than if it had not been leveraged.<sup>19</sup> Because the markets for certain securities, or the securities themselves, may be unavailable or cost prohibitive as compared to derivative instruments, suitable derivative transactions may be an efficient alternative for a Fund to obtain the desired asset exposure.

The Adviser believes that derivatives can be an economically attractive substitute for an underlying physical security that each Fund would otherwise purchase. For example, a Fund could purchase Treasury futures contracts instead of physical Treasuries or could sell credit default protection on a corporate bond instead of buying a physical bond. Economic benefits include potentially lower transaction costs or attractive relative valuation of a derivative versus a physical bond (e.g., differences in yields).

The Adviser further believes that derivatives can be used as a more liquid means of adjusting portfolio duration as well as targeting specific areas of yield curve exposure, with potentially lower transaction costs than the underlying securities (e.g., interest rate swaps may have lower transaction costs than physical bonds). Similarly, money market futures can be used to gain exposure to short-term interest rates in order to express views on anticipated changes in central bank policy rates. In addition, derivatives can be used to protect client assets through selectively hedging downside (or “tail risks”) in each Fund.

Each Fund also can use derivatives to increase or decrease credit exposure. Index credit default swaps (CDX) can be used to gain exposure to a basket of credit risk by “selling protection” against default or other credit events, or to hedge broad market credit risk by “buying protection.” Single name credit default swaps (CDS) can be used to allow a Fund to increase or decrease exposure to specific issuers, saving investor capital through lower trading costs. A Fund

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<sup>19</sup> To mitigate leveraging risk, the Adviser will segregate or “earmark” liquid assets or otherwise cover the transactions that may give rise to such risk.

can use total return swap contracts to obtain the total return of a reference asset or index in exchange for paying a financing cost. A total return swap may be much more efficient than buying underlying securities of an index, potentially lowering transaction costs.<sup>20</sup>

The Adviser believes that the use of derivatives will allow each Fund to selectively add diversifying sources of return from selling options. Option purchases and sales can also be used to hedge specific exposures in the portfolio, and can provide access to return streams available to long-term investors such as the persistent difference between implied and realized volatility. Option strategies can generate income or improve execution prices (i.e., covered calls).

#### StocksPLUS AR Fund- Principal Investments

According to the Registration Statement, the Fund will seek total return which exceeds the total return of its benchmark, the S&P 500 Index (the “S&P 500”).<sup>21</sup>

The Fund will seek to achieve its investment objective by investing, under normal circumstances,<sup>22</sup> in S&P 500 derivatives backed by a portfolio of Fixed Income Instruments that are managed using an absolute return approach. In seeking total return exceeding that of the S&P 500, or as part of the Fund’s absolute return strategy relative to fixed income investing, the Fund

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<sup>20</sup> The Adviser will evaluate the creditworthiness of swaps counterparties on an ongoing basis. In addition to information provided by credit agencies, the Adviser’s analysts will evaluate each approved counterparty using various methods of analysis, which may include evaluation of the counterparty’s liquidity in the event of default, the broker-dealer’s reputation, the Adviser’s past experience with the broker-dealer and disciplinary history and its share of market participation.

<sup>21</sup> The S&P 500 Index is composed of 500 selected common stocks that represent approximately two-thirds of the total market value of all U.S. common stocks.

<sup>22</sup> With respect to each of the Funds, the term “under normal circumstances” includes, but is not limited to, the absence of extreme volatility or trading halts in the fixed income markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; or force majeure type events such as a systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

may invest in derivative instruments, subject to applicable law and any other restrictions described herein. S&P 500 derivatives may be purchased with a small fraction of the assets that would be needed to purchase S&P 500 securities directly, so that the remainder of the Fund's assets may be invested in Fixed Income Instruments.

The Fund will typically seek to gain long exposure to the S&P 500 in an amount, under normal circumstances, approximately equal to the Fund's net assets, by investing in S&P 500 derivatives. The value of S&P 500 derivatives should closely track changes in the value of the S&P 500. The Fund will normally use S&P 500 derivatives, instead of S&P 500 stocks, to attempt to equal or exceed the daily performance of the S&P 500. Though the Fund will not normally invest directly in S&P 500 stocks, when S&P 500 derivatives appear to be overvalued relative to the S&P 500, the Fund may invest all of its assets in a "basket" of S&P 500 stocks. The Fund may also invest in exchange-traded funds based on the S&P 500, such as Standard & Poor's Depository Receipts. The Fund will seek to remain invested in S&P 500 derivatives or S&P 500 stocks even when the S&P 500 is declining.

Assets not invested in S&P 500 derivatives or S&P 500 stocks may be invested in Fixed Income Instruments. PIMCO will actively manage the Fixed Income Instruments held by the Fund with a view toward enhancing the Fund's total return by using an absolute return approach. The absolute return approach, which applies to the portion of the portfolio not invested in S&P 500 derivatives or S&P 500 stocks, will allow the Fund more discretion with respect to overall sector exposures, non-U.S. exposures and credit quality, both as a function of the strategy's investment guidelines and lack of a fixed income benchmark (i.e., the Fund seeks total return which exceeds that of the S&P 500). The absolute return approach will apply to the fixed income (but not the equity index replicating) strategy of the Fund, subject to an overall portfolio duration

which will normally vary from (negative) 3 years to positive 8 years based on PIMCO's forecast for interest rates.<sup>23</sup>

The Fund may invest in securities and instruments that are economically tied to foreign (non-U.S.) countries.<sup>24</sup>

The Fund may invest in securities denominated in foreign currencies and in U.S. dollar-denominated securities of foreign issuers, subject to applicable limitations set forth herein. With respect to the Fund's absolute return investments, the Fund will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its total assets. With respect to the Fund's absolute return investments, the Fund may invest up to 25% of its total assets in securities and instruments that are economically tied to emerging market countries.<sup>25</sup>

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<sup>23</sup> With respect to each Fund, duration is a measure used to determine the sensitivity of a security's price to changes in interest rates. The longer a security's duration, the more sensitive it will be to changes in interest rates.

<sup>24</sup> PIMCO will generally consider an instrument to be economically tied to a non-U.S. country if the issuer is a foreign government (or any political subdivision, agency, authority or instrumentality of such government), or if the issuer is organized under the laws of a non-U.S. country. In the case of certain money market instruments, such instruments will be considered economically tied to a non-U.S. country if either the issuer or the guarantor of such money market instrument is organized under the laws of a non-U.S. country. With respect to derivative instruments, PIMCO will generally consider such instruments to be economically tied to non-U.S. countries if the underlying assets are foreign currencies (or baskets or indexes of such currencies), or instruments or securities that are issued by foreign governments or issuers organized under the laws of a non-U.S. country (or if the underlying assets are certain money market instruments, if either the issuer or the guarantor of such money market instruments is organized under the laws of a non-U.S. country).

<sup>25</sup> PIMCO will generally consider an instrument to be economically tied to an emerging market country if the security's "country of exposure" is an emerging market country, as determined by the criteria set forth in the Registration Statement. Alternatively, such as when a "country of exposure" is not available or when PIMCO believes the following tests more accurately reflect which country the security is economically tied to, PIMCO may consider an instrument to be economically tied to an emerging market country if the

The Fund may engage in foreign currency transactions on a spot (cash) basis and forward basis<sup>26</sup> and invest in foreign currency futures contracts and exchange-traded and OTC options contracts. The Fund may enter into these contracts to hedge against foreign exchange risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from

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issuer or guarantor is a government of an emerging market country (or any political subdivision, agency, authority or instrumentality of such government), if the issuer or guarantor is organized under the laws of an emerging market country, or if the currency of settlement of the security is a currency of an emerging market country. With respect to derivative instruments, PIMCO will generally consider such instruments to be economically tied to emerging market countries if the underlying assets are currencies of emerging market countries (or baskets or indices of such currencies), or instruments or securities that are issued or guaranteed by governments of emerging market countries or by entities organized under the laws of emerging market countries. PIMCO will have broad discretion to identify countries that it would consider to qualify as emerging markets. In making investments in emerging market securities, the Fund will emphasize those countries with relatively low gross national product per capita and with the potential for rapid economic growth. Emerging market countries are generally located in Asia, Africa, the Middle East, Latin America and Eastern Europe. PIMCO will select the country and currency composition based on its evaluation of relative interest rates, inflation rates, exchange rates, monetary and fiscal policies, trade and current account balances, legal and political developments and any other specific factors it believes to be relevant. While emerging markets corporate debt securities (excluding commercial paper) generally must have \$200 million or more par amount outstanding and significant par value traded to be considered as an eligible investment for each of the Funds, at least 80% of issues of such securities held by a Fund must have \$200 million or more par amount outstanding at the time of investment.

<sup>26</sup> With respect to each of the Funds, a forward foreign currency exchange contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract, would reduce a Fund's exposure to changes in the value of the currency it will deliver and increases its exposure to changes in the value of the currency it will receive for the duration of the contract. Certain foreign currency transactions may also be settled in cash rather than the actual delivery of the relevant currency. The effect on the value of a Fund would be similar to selling securities denominated in one currency and purchasing securities denominated in another currency. A contract to sell a foreign currency would limit any potential gain which might be realized if the value of the hedged currency increases. A Fund will limit its investments in currencies to those currencies with a minimum average daily foreign exchange turnover of USD \$1 billion as determined by the Bank for International Settlements ("BIS") Triennial Central Bank Survey. As of the most recent BIS Triennial Central Bank Survey, at least 52 separate currencies had minimum average daily foreign exchange turnover of USD \$1 billion. For a list of eligible BIS currencies, see [www.bis.org](http://www.bis.org).

one currency to another. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time.

The Fund may, without limitation, seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sale contracts. The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.<sup>27</sup>

#### StocksPLUS AR Fund-- Other (Non-Principal) Investments

With respect to the Fund's absolute return investments, the Fund may invest up to 10% of its total assets in preferred stocks, convertible securities and other equity-related securities.<sup>28</sup>

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<sup>27</sup> Each of the Funds may make short sales of securities to: (i) offset potential declines in long positions in similar securities, (ii) to increase the flexibility of the Fund; (iii) for investment return; and (iv) as part of a risk arbitrage strategy.

<sup>28</sup> Convertible securities are generally preferred stocks and other securities, including fixed income securities and warrants, that are convertible into or exercisable for common stock at a stated price or rate. Equity-related investments may include investments in small-capitalization ("small-cap"), mid-capitalization ("mid-cap") and large-capitalization ("large-cap") companies. With respect to each Fund, a small-cap company will be defined as a company with a market capitalization of up to \$1.5 billion, a mid-cap company will be defined as a company with a market capitalization of between \$1.5 billion and \$10 billion and a large-cap company will be defined as a company with a market capitalization above \$10 billion. Not more than 10% of the net assets of a Fund in the aggregate invested in exchange-traded equity securities shall consist of equity securities, including stocks into which a convertible security is converted, whose principal market is not a member of the Intermarket Surveillance Group ("ISG") or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement. Furthermore, not more than 10% of the net assets of a Fund in the aggregate invested in futures contracts or exchange-traded options contracts shall consist of futures contracts or exchange-traded options contracts whose principal market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

The Fund may invest up to 20% of its total assets in: (i) variable and floating rate securities<sup>29</sup> that are not Fixed Income Instruments and (ii) floaters and inverse floaters that are not Fixed Income Instruments.

The Fund may also invest up to 20% of its total assets in trade claims<sup>30</sup>, privately placed and unregistered securities, and exchange-traded and OTC-traded structured products, including credit-linked securities and commodity-linked notes. The Fund may invest up to 20% of its total assets in Brady Bonds, which are securities created through the exchange of existing commercial bank loans to sovereign entities for new obligations in connection with a debt restructuring. The Fund may invest up to 20% of its total assets in bank loans.

The Fund may, with up to 20% of its total assets, enter into repurchase agreements on instruments other than Fixed Income Instruments, which involve, like repurchase agreements on Fixed Income Instruments mentioned above, the Fund purchasing a security from a bank or broker-dealer that agrees to purchase the security at the Fund's cost plus interest within a specified time. Repurchase agreements maturing in more than seven days and which may not be terminated within seven days at approximately the amount at which the Fund has valued the agreements will be considered illiquid securities. The Fund may also, with up to 20% of its total assets, enter into reverse repurchase agreements on instruments other than Fixed Income

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<sup>29</sup> Variable and floating rate securities pay interest at rates that adjust whenever a specified interest rate changes or that reset on predetermined dates (such as the last day of a month or calendar quarter).

<sup>30</sup> The Fund may purchase trade claims and similar obligations or claims against companies in bankruptcy proceedings. Trade claims are non-securitized rights of payment arising from obligations that typically arise when vendors and suppliers extend credit to a company by offering payment terms for products and services. If the company files for bankruptcy, payments on these trade claims stop and the claims are subject to compromise along with the other debts of the company. Trade claims may be purchased directly from the creditor or through brokers.



Instruments, subject to the Fund’s limitations on borrowings.<sup>31</sup> The Fund will segregate or “ earmark ” assets determined to be liquid by PIMCO in accordance with procedures established by the Board to cover its obligations under reverse repurchase agreements.

#### Investment Limits Applicable to the Fund

The Fund may invest up to 20% of its total assets in “high yield securities” rated B or higher by Moody’s Investors Service, Inc. (“Moody’s”), or equivalently rated by Standard & Poor’s Ratings Services (“S&P”) or Fitch, Inc. (“Fitch”), or, if unrated, determined by PIMCO to be of comparable quality<sup>32</sup> (except that within such limitation, the Fund may invest in mortgage-related securities rated below B).

The Fund may invest up to 20% of its assets in mortgage-related and other asset-backed securities, although this 20% limitation does not apply to securities issued or guaranteed by Federal agencies and/or U.S. government sponsored instrumentalities.

#### Small Cap StocksPLUS AR Fund-- Principal Investments

According to the Registration Statement, the Fund will seek total return which exceeds the total return of its benchmark, the Russell 2000 Index (the “Russell 2000”).<sup>33</sup>

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<sup>31</sup> With respect to each Fund, a reverse repurchase agreement involves the sale of a security by the Fund and its agreement to repurchase the instrument at a specified time and price.

<sup>32</sup> In determining whether a security is of comparable quality, the Adviser will consider, for example, whether the issuer of the security has issued other rated securities; whether the obligations under the security are guaranteed by another entity and the rating of such guarantor (if any); whether and (if applicable) how the security is collateralized; other forms of credit enhancement (if any); the security’s maturity date; liquidity features (if any); relevant cash flow(s); valuation features; other structural analysis; macroeconomic analysis; and sector or industry analysis.

<sup>33</sup> The Russell 2000 Index is composed of 2000 of the smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Fund will seek to achieve its investment objective by investing, under normal circumstances,<sup>34</sup> in Russell 2000 derivatives backed by a portfolio of Fixed Income Instruments that are managed using an absolute return approach. In seeking total return exceeding that of the Russell 2000, or as part of the Fund's absolute return strategy relative to fixed income investing, the Fund may invest in derivative instruments, subject to applicable law and any other restrictions described herein. Russell 2000 derivatives may be purchased with a small fraction of the assets that would be needed to purchase Russell 2000 securities directly, so that the remainder of the Fund's assets may be invested in Fixed Income Instruments.

The Fund will typically seek to gain long exposure to the Russell 2000 in an amount, under normal circumstances, approximately equal to the Fund's net assets, by investing in Russell 2000 derivatives. The value of Russell 2000 derivatives should closely track changes in the value of the Russell 2000. The Fund will normally use Russell 2000 derivatives, instead of Russell 2000 stocks, to attempt to equal or exceed the daily performance of the Russell 2000. Though the Fund will not normally invest directly in Russell 2000 stocks, when Russell 2000 derivatives appear to be overvalued relative to the Russell 2000, the Fund may invest all of its assets in a "basket" of Russell 2000 stocks. The Fund may also invest in exchange-traded funds based on the Russell 2000. The Fund will seek to remain invested in Russell 2000 derivatives or Russell 2000 stocks even when the Russell 2000 is declining.

Assets not invested in Russell 2000 derivatives or Russell 2000 stocks may be invested in Fixed Income Instruments. PIMCO will actively manage the Fixed Income Instruments held by the Fund with a view toward enhancing the Fund's total return by using an absolute return approach. The absolute return approach, which applies to the portion of the portfolio not invested

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<sup>34</sup> See *supra*, note 22.

in Russell 2000 derivatives or Russell 2000 stocks, will allow the Fund more discretion with respect to overall sector exposures, non-U.S. exposures and credit quality, both as a function of the strategy's investment guidelines and lack of a fixed income benchmark (i.e., the Fund seeks total return which exceeds that of the Russell 2000). The absolute return approach will apply to the fixed income component of the Fund, but will not apply to the equity index replicating component of the Fund, subject to an overall portfolio duration which will normally vary from (negative) 3 years to positive 8 years based on PIMCO's forecast for interest rates.<sup>35</sup>

The Fund may invest in securities and instruments that are economically tied to foreign (non-U.S.) countries.<sup>36</sup> The Fund may invest, without limitation, in securities denominated in foreign currencies and in U.S. dollar-denominated securities of foreign issuers. With respect to the Fund's absolute return investments, the Fund will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its total assets. With respect to the Fund's absolute return investments, the Fund may invest up to 25% of its total assets in securities and instruments that are economically tied to emerging market countries.<sup>37</sup>

The Fund may engage in foreign currency transactions on a spot (cash) basis and forward basis and invest in foreign currency futures contracts and exchange-traded and OTC options contracts. The Fund may enter into these contracts to hedge against foreign exchange risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. Suitable hedging transactions may not be available in all circumstances

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<sup>35</sup> See supra, note 23.

<sup>36</sup> See supra, note 24.

<sup>37</sup> See supra, note 25.

and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time.

The Fund may, without limitation, seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sale contracts. The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

#### Small Cap StocksPLUS AR Fund--Other (Non-Principal) Investments

With respect to the Fund's absolute return investments, the Fund may invest up to 10% of its total assets in preferred stocks, convertible securities and other equity-related securities.

The Fund may invest up to 20% of its total assets in: (i) variable and floating rate securities that are not Fixed Income Instruments and (ii) floaters and inverse floaters that are not Fixed Income Instruments.

The Fund may also invest up to 20% of its total assets in trade claims, privately placed and unregistered securities, and exchange-traded and OTC-traded structured products, including credit-linked securities and commodity-linked notes. The Fund may invest up to 20% of its total assets in Brady Bonds. The Fund may invest up to 20% of its total assets in bank loans.

The Fund may, with up to 20% of its total assets, enter into repurchase agreements on instruments other than Fixed Income Instruments. Repurchase agreements maturing in more than seven days and which may not be terminated within seven days at approximately the amount at which the Fund has valued the agreements will be considered illiquid securities. The Fund may also, with up to 20% of its total assets, enter into reverse repurchase agreements on instruments other than Fixed Income Instruments, subject to the Fund's limitations on borrowings. The Fund will segregate or " earmark " assets determined to be liquid by PIMCO in accordance with

procedures established by the Board to cover its obligations under reverse repurchase agreements.

#### Investment Limits Applicable to the Fund

The Fund may invest up to 20% of its total assets in “high yield securities” rated B or higher by Moody’s, or equivalently rated by S&P or Fitch, or, if unrated, determined by PIMCO to be of comparable quality (except that within such limitation, the Fund may invest in mortgage-related securities rated below B).

The Fund may invest up to 20% of its assets in mortgage-related and other asset-backed securities, although this 20% limitation does not apply to securities issued or guaranteed by Federal agencies and/or U.S. government sponsored instrumentalities.

#### Fundamental IndexPLUS Fund – Principal Investments

According to the Registration Statement, the Fund will seek total return<sup>38</sup> which exceeds the total return of its benchmark, the S&P 500. The Fund will seek to achieve its investment objective by investing, under normal circumstances, in derivatives based on a Research Affiliates Fundamental Index (“RAFI”), the Enhanced RAFI<sup>®</sup> US Large (“RAFI Large Company Index”)<sup>39</sup> backed by a portfolio of Fixed Income Instruments, which may be represented by derivatives,

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<sup>38</sup> Total return may consist of both income earned on the Fund’s investments and capital appreciation, if any, arising from increases in the market value of the Fund’s holdings. Capital appreciation of Fixed Income Instruments generally would result from decreases in market interest rates, foreign currency appreciation, or improving credit fundamentals for a particular market sector or security.

<sup>39</sup> The RAFI Large Company Index contains stocks of large U.S. listed companies weighted by the Fundamental Index<sup>®</sup> methodology with additional factors (such as, quality of earnings and economic profitability). The Fundamental Index<sup>®</sup> methodology is a patented indexing approach developed by Research Affiliates. The methodology weights companies by fundamental factors – including sales, cash flows, dividends and book value, with additional screens for quality of earnings, financial distress and other parameters – in an effort to enhance returns.

that are managed using an absolute return approach. In seeking total return exceeding that of the S&P 500, or as part of the Fund's absolute return strategy relative to fixed income investing, the Fund may invest in derivative instruments, subject to applicable law and any other restrictions described herein.

The Fund will use RAFI Large Company Index derivatives in addition to, or in place of, RAFI Large Company Index component securities, in an attempt to equal or exceed the daily performance of the S&P 500. The value of RAFI Large Company Index derivatives should closely track changes in the value of the RAFI Large Company Index. Though the Fund will not normally invest directly in RAFI Large Company Index stocks, when RAFI Large Company Index derivatives appear to be overvalued relative to RAFI Large Company Index stocks, the Fund may invest all of its assets in a "basket" of RAFI Large Company Index stocks. The Fund may also invest in exchange-traded funds. The Fund will seek to remain invested in RAFI Large Company Index derivatives or RAFI Large Company Index stocks even when the RAFI Large Company Index is declining.

The Sub-Adviser will provide investment advisory services in connection with the Fund's use of the RAFI Large Company Index by, among other things, providing PIMCO (or counterparties designated by PIMCO) with a model portfolio reflecting the composition of the RAFI Large Company Index for purposes of developing RAFI Large Company Index derivatives. The Fund will typically seek to gain exposure to the RAFI Large Company Index by investing in total return swap agreements. In a typical swap agreement, the Fund will receive the price appreciation (or depreciation) on the RAFI Large Company Index from the counterparty to the swap agreement in exchange for paying the counterparty an agreed upon fee. Research Affiliates will facilitate the Fund's use of RAFI Large Company Index derivatives by providing

model portfolios of RAFI Large Company Index securities to the Fund's swap counterparties, so that the counterparties can provide total return swaps based on the RAFI Large Company Index to the Fund. If such swap agreements are not available, the Fund may invest in other derivative instruments, "baskets" of stocks, or RAFI Large Company Index component securities to replicate the performance of the RAFI Large Company Index.

The RAFI Large Company Index derivatives may be purchased with a small fraction of the assets that would be needed to purchase the equity securities directly, so that the remainder of the Fund's assets may be invested in Fixed Income Instruments. PIMCO will actively manage the Fixed Income Instruments held by the Fund with a view toward enhancing the Fund's total return utilizing an absolute return approach, which applies to the portion of the portfolio not invested in RAFI Large Company Index derivatives or RAFI Large Company Index stocks, subject to an overall portfolio duration which will normally vary from (negative) 3 years to positive 8 years based on PIMCO's forecast for interest rates.

The Fund may invest in securities and instruments that are economically tied to foreign (non-U.S.) countries.<sup>40</sup> The Fund may invest in securities denominated in foreign (non-U.S.) currencies and in U.S. dollar-denominated securities of foreign (non-U.S.) issuers, subject to applicable limitations set forth herein. With respect to the Fund's absolute return investments, the Fund will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its total assets. With respect to the Fund's absolute return investments, the Fund may invest up to 25% of its total assets in securities and instruments that are economically tied to emerging market countries.

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<sup>40</sup> See supra, note 24.

The Fund may engage in foreign currency transactions on a spot (cash) basis and forward basis<sup>41</sup> and invest in foreign currency futures contracts and options contracts. The Fund may enter into these contracts to hedge against foreign exchange risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time.

The Fund may, without limitation, seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sale contracts. The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

#### Fundamental IndexPLUS Fund – Other (Non-Principal) Investments

With respect to the Fund's absolute return investments, the Fund may invest up to 10% of its total assets in preferred stocks, convertible securities and other equity-related securities.

The Fund may invest up to 20% of its total assets in: (i) variable and floating rate securities that are not Fixed Income Instruments and (ii) floaters and inverse floaters that are not Fixed Income Instruments.

The Fund may also invest up to 20% of its total assets in trade claims, privately placed and unregistered securities, and exchange-traded and OTC-traded structured products, including credit-linked securities and commodity-linked notes. The Fund may invest up to 20% of its total assets in Brady Bonds. The Fund may invest up to 20% of its total assets in bank loans.

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<sup>41</sup> See *supra*, note 26.



The Fund may, with up to 20% of its total assets, enter into repurchase agreements on instruments other than Fixed Income Instruments. Repurchase agreements maturing in more than seven days and which may not be terminated within seven days at approximately the amount at which the Fund has valued the agreements will be considered illiquid securities. The Fund may also, with up to 20% of its total assets, enter into reverse repurchase agreements on instruments other than Fixed Income Instruments, subject to the Fund's limitations on borrowings. The Fund will segregate or " earmark " assets determined to be liquid by PIMCO in accordance with procedures established by the Board to cover its obligations under reverse repurchase agreements.

#### Investment Limits Applicable to the Fund

The Fund may invest up to 20% of its total assets in "high yield securities" rated B or higher by Moody's, or equivalently rated by S&P or Fitch, or, if unrated, determined by PIMCO to be of comparable quality (except that within such limitation, the Fund may invest in mortgage-related securities rated below B).

The Fund may invest up to 20% of its assets in mortgage-related and other asset-backed securities, although this 20% limitation does not apply to securities issued or guaranteed by Federal agencies and/or U.S. government sponsored instrumentalities.

#### Small Company Fundamental IndexPLUS Fund – Principal Investments

According to the Registration Statement, the Fund will seek total return which exceeds the total return of its benchmark, the Russell 2000<sup>®</sup>. The Fund will seek to achieve its investment objective by investing, under normal circumstances, in derivatives based on the Enhanced RAFI<sup>®</sup>

US Small (“RAFI Small Company Index”)<sup>42</sup> backed by a diversified portfolio of Fixed Income Instruments, which may be represented by derivatives, that are managed using an absolute return approach. In seeking total return exceeding that of the Russell 2000, or as part of the Fund’s absolute return strategy relative to fixed income investing, the Fund may invest in derivative instruments, subject to applicable law and any other restrictions described herein.

The Fund will use RAFI Small Company Index derivatives in addition to, or in place of, RAFI Small Company Index stocks, in an attempt to equal or exceed the daily performance of the Russell 2000. The values of RAFI Small Company Index derivatives should closely track changes in the value of the RAFI Small Company Index. Though the Fund will not normally invest directly in RAFI Small Company Index stocks, when RAFI Small Company Index derivatives appear to be overvalued relative to RAFI Small Company Index stocks, the Fund may invest all of its assets in a “basket” of RAFI Small Company Index stocks. The Fund may also invest in exchange-traded funds. The Fund will seek to remain invested in RAFI Small Company Index derivatives or RAFI Small Company Index stocks even when the RAFI Small Company Index is declining.

Research Affiliates will provide investment advisory services in connection with the Fund’s use of the RAFI Small Company Index by, among other things, providing PIMCO (or counterparties designated by PIMCO), with a model portfolio reflecting the composition of the RAFI Small Company Index for purposes of developing RAFI Small Company Index derivatives. The Fund will typically seek to gain exposure to the RAFI Small Company Index by investing in total return swap agreements. In a typical swap agreement, the Fund will receive the

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<sup>42</sup> The RAFI Small Company Index contains stocks of small U.S. listed companies weighted by the Fundamental Index<sup>®</sup> methodology with additional factors (such as, quality of earnings and economic profitability).

price appreciation (or depreciation) on the RAFI Small Company Index from the counterparty to the swap agreement in exchange for paying the counterparty an agreed upon fee. Research Affiliates will facilitate the Fund's use of RAFI Small Company Index derivatives by providing a model portfolio of the RAFI Small Company Index to the Fund's swap counterparties, who in turn are able to provide total return swaps based on the RAFI Small Company Index to the Fund. If such swap agreements are not available, the Fund may invest in other derivative instruments, "baskets" of stocks, or individual securities to replicate the performance of the RAFI Small Company Index.

According to the Registration Statement, the Fund may purchase RAFI Small Company Index derivatives with a fraction of the assets that would be needed to purchase the equity securities directly, so that the remainder of the Fund's assets may be invested in Fixed Income Instruments. PIMCO will actively manage the Fixed Income Instruments held by the Fund with a view toward enhancing the Fund's total return utilizing an absolute return approach, which applies to the portion of the portfolio not invested in Russell 2000 derivatives or Russell 2000 stocks, subject to an overall portfolio duration which will normally vary from (negative) 3 years to positive 8 years based on PIMCO's forecast for interest rates.<sup>43</sup>

The Fund may invest in securities and instruments that are economically tied to foreign (non-U.S.) countries.<sup>44</sup> The Fund may invest in securities denominated in foreign (non-U.S.) currencies and in U.S. dollar-denominated securities of foreign (non-U.S.) issuers, subject to applicable limitations set forth herein. With respect to the Fund's absolute return investments, the Fund will normally limit its foreign currency exposure (from non-U.S. dollar-denominated

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<sup>43</sup> See supra, note 23.

<sup>44</sup> See supra, note 24.

securities or currencies) to 20% of its total assets. With respect to the Fund's absolute return investments, the Fund may invest up to 25% of its total assets in securities and instruments that are economically tied to emerging market countries.<sup>45</sup>

The Fund may engage in foreign currency transactions on a spot (cash) basis and forward basis and invest in foreign currency futures contracts and options contracts. The Fund may enter into these contracts to hedge against foreign exchange risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time.

The Fund may, without limitation, seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sale contracts.

#### Small Company Fundamental IndexPLUS Fund – Other (Non-Principal) Investments

With respect to the Fund's absolute return investments, the Fund may invest up to 10% of its total assets in preferred stocks, convertible securities and other equity-related securities.

The Fund may invest up to 20% of its total assets in: (i) variable and floating rate securities that are not Fixed Income Instruments and (ii) floaters and inverse floaters that are not Fixed Income Instruments. The Fund may also invest up to 20% of its total assets in trade claims, privately placed and unregistered securities, and exchange-traded and OTC-traded structured products, including credit-linked securities and commodity-linked notes. The Fund may invest up to 20% of its total assets in Brady Bonds. The Fund may invest up to 20% of its total assets in bank loans.

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<sup>45</sup> See *supra*, note 25.

The Fund may, with up to 20% of its total assets, enter into repurchase agreements on instruments other than Fixed Income Instruments. Repurchase agreements maturing in more than seven days and which may not be terminated within seven days at approximately the amount at which the Fund has valued the agreements will be considered illiquid securities. The Fund may also, with up to 20% of its total assets, enter into reverse repurchase agreements on instruments other than Fixed Income Instruments, subject to the Fund’s limitations on borrowings. The Fund will segregate or “ earmark ” assets determined to be liquid by PIMCO in accordance with procedures established by the Board to cover its obligations under reverse repurchase agreements.

#### Investment Limits Applicable to the Fund

The Fund may invest up to 20% of its total assets in “high yield securities” rated B or higher by Moody’s, or equivalently rated by S&P or Fitch, or, if unrated, determined by PIMCO to be of comparable quality (except that within such limitation, the Fund may invest in mortgage-related securities rated below B).

The Fund may invest up to 20% of its assets in mortgage-related and other asset-backed securities, although this 20% limitation does not apply to securities issued or guaranteed by Federal agencies and/or U.S. government sponsored instrumentalities.

#### EM Fundamental IndexPLUS Fund – Principal Investments

According to the Registration Statement, the Fund will seek total return which exceeds the total return of its benchmark, the Morgan Stanley Capital International Emerging Markets Index (Net Dividends in USD) (“MSCI EM Index”).<sup>46</sup>

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<sup>46</sup> The MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of 21 emerging markets.

The Fund will seek to achieve its investment objective by investing, under normal circumstances, in derivatives based on the Enhanced RAFI<sup>®</sup> Emerging Markets (“RAFI EM Index”)<sup>47</sup> backed by a diversified portfolio of Fixed Income Instruments, which may be represented by derivatives, that are managed using an absolute return approach. In seeking total return exceeding that of the MSCI EM Index, or as part of the Fund’s absolute return strategy relative to fixed income investing, the Fund may invest in derivative instruments, subject to applicable law and any other restrictions described herein.

The Fund will normally be expected to primarily use RAFI EM Index derivatives, in place of, or in addition to, RAFI EM Index stocks, in an attempt to equal or exceed the daily performance of the MSCI EM Index. The value of RAFI EM Index derivatives should closely track changes in the value of the RAFI EM Index. In addition to or instead of RAFI EM Index swaps, the Fund may invest in other derivative instruments, “baskets” of stocks, individual securities, and exchange-traded funds to maintain emerging markets equity exposure. The Fund may also invest in exchange-traded funds. The Fund will seek to remain invested in RAFI EM Index derivatives or RAFI EM Index stocks even when the RAFI EM Index is declining.

Research Affiliates will provide investment advisory services in connection with the Fund’s use of the RAFI EM Index by, among other things, providing PIMCO (or counterparties designated by PIMCO) with a model portfolio reflecting the composition of RAFI EM Index for purposes of developing RAFI EM Index derivatives. The Fund will typically seek to gain exposure to the RAFI EM Index by investing in total return swap agreements. In a typical swap agreement, the Fund will receive the price appreciation (or depreciation) on the RAFI EM Index

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<sup>47</sup> The RAFI EM Index contains emerging markets companies weighted by the Fundamental Index<sup>®</sup> methodology with additional factors (such as, quality of earnings and economic profitability).

from the counterparty to the swap agreement in exchange for paying the counterparty an agreed upon fee. Research Affiliates will facilitate the Fund's use of RAFI EM Index derivatives by providing model portfolios of RAFI EM Index securities to the Fund's swap counterparties, so that the counterparties can provide total return swaps based on the RAFI EM Index to the Fund.

RAFI EM Index derivatives may be purchased with a fraction of the assets that would be needed to purchase RAFI EM Index equity securities directly, so that the remainder of the assets may be invested in Fixed Income Instruments. PIMCO will actively manage the Fixed Income Instruments held by the Fund with a view toward enhancing the Fund's total return by using an absolute return approach, which applies to the portion of the portfolio not invested in RAFI EM Index derivatives or RAFI EM Index stocks, subject to an overall portfolio duration which will normally vary from (negative) 3 years to positive 8 years based on PIMCO's forecast for interest rates.<sup>48</sup>

The Fund may invest in securities and instruments that are economically tied to foreign (non-U.S.) countries.<sup>49</sup> The Fund may invest, without limitation, in securities denominated in foreign currencies and in U.S.-dollar denominated securities of foreign issuers. With respect to the Fund's absolute return investments, the Fund will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its total assets. With respect to the Fund's absolute return investments, the Fund may invest up to 25% of its total assets in securities and instruments that are economically tied to emerging market countries.<sup>50</sup>

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<sup>48</sup> See supra, note 23.

<sup>49</sup> See supra, note 24.

<sup>50</sup> See supra, note 25.

The Fund may engage in foreign currency transactions on a spot (cash) basis and forward basis and invest in foreign currency futures contracts and exchange traded and OTC options contracts. The Fund may enter into these contracts to hedge against foreign exchange risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time.

The Fund may, without limitation, seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sale contracts. The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

#### EM Fundamental IndexPLUS Fund – Other (Non-Principal) Investments

With respect to the Fund's absolute return investments, the Fund may invest up to 10% of its total assets in preferred stocks, convertible securities and other equity-related securities.

The Fund may invest up to 20% of its total assets in: (i) variable and floating rate securities that are not Fixed Income Instruments and (ii) floaters and inverse floaters that are not Fixed Income Instruments.

The Fund may also invest up to 20% of its total assets in trade claims, privately placed and unregistered securities, and exchange-traded and OTC-traded structured products, including credit-linked securities and commodity-linked notes. The Fund may invest up to 20% of its total assets in Brady Bonds. The Fund may invest up to 20% of its total assets in bank loans.

The Fund may, with up to 20% of its total assets, enter into repurchase agreements on instruments other than Fixed Income Instruments. Repurchase agreements maturing in more than



seven days and which may not be terminated within seven days at approximately the amount at which the Fund has valued the agreements will be considered illiquid securities. The Fund may also, with up to 20% of its total assets, enter into reverse repurchase agreements on instruments other than Fixed Income Instruments, subject to the Fund's limitations on borrowings. The Fund will segregate or " earmark " assets determined to be liquid by PIMCO in accordance with procedures established by the Board to cover its obligations under reverse repurchase agreements.

#### Investment Limits Applicable to the Fund

The Fund may invest up to 20% of its total assets in "high yield securities" rated B or higher by Moody's, or equivalently rated by S&P or Fitch, or, if unrated, determined by PIMCO to be of comparable quality (except that within such limitation, the Fund may invest in mortgage-related securities rated below B).

The Fund may invest up to 20% of its assets in mortgage-related and other asset-backed securities, although this 20% limitation does not apply to securities issued or guaranteed by Federal agencies and/or U.S. government sponsored instrumentalities.

#### International Fundamental IndexPLUS Fund – Principal Investments

According to the Registration Statement, the International Fundamental IndexPLUS Fund will seek total return which exceeds the total return of its benchmark, the Morgan Stanley Capital International Europe, Australasia, Far East Index ("MSCI EAFE Index").

The Fund will seek to achieve its investment objective by investing, under normal circumstances, in derivatives based on the Enhanced RAFI<sup>®</sup> International Large ("RAFI

Developed Index”)<sup>51</sup> backed by a diversified portfolio of Fixed Income Instruments, which may be represented by derivatives, that are managed using an absolute return approach. In seeking total return exceeding that of the MSCI EAFE Index, or as part of the Fund’s absolute return strategy relative to fixed income investing, the Fund may invest in derivative instruments, subject to applicable law and any other restrictions described therein.

The Fund will use RAFI Developed Index derivatives to attempt to equal or exceed the daily performance of the MSCI EAFE Index. The values of RAFI Developed Index derivatives should closely track changes in the value of the RAFI Developed Index. Though the Fund will not normally invest directly in RAFI Developed Index stocks, when RAFI Developed Index derivatives appear to be overvalued relative to the RAFI Developed Index, the Fund may invest all of its assets in a “basket” of RAFI Developed Index stocks. The Fund may also invest in exchange-traded funds. The Fund will seek to remain invested in RAFI Developed Index derivatives even when the RAFI Developed Index is declining.

Research Affiliates will provide investment advisory services in connection with the Fund’s use of the RAFI Developed Index by, among other things, providing PIMCO (or counterparties designated by PIMCO) with a model portfolio reflecting the composition of the RAFI Developed Index for purposes of developing RAFI Developed Index derivatives. The Fund will typically seek to gain exposure to the RAFI Developed Index by investing in total return swap agreements. In a typical swap agreement, the Fund will receive the price appreciation (or depreciation) on the RAFI Developed Index from the counterparty to the swap agreement in exchange for paying the counterparty an agreed upon fee. Research Affiliates will

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<sup>51</sup> The RAFI Developed Index contains stocks of large developed markets ex-U.S. companies weighted by the Fundamental Index<sup>®</sup> methodology with additional factors (such as, quality of earnings and economic profitability).

facilitate the Fund's use of RAFI Developed Index derivatives by providing model portfolios of RAFI Developed Index securities to the Fund's swap counterparties, so that the counterparties can provide total return swaps based on the RAFI Developed Index to the Fund. If such swap agreements are not available, the Fund may invest in other derivative instruments, "baskets" of stocks, or individual securities to replicate the performance of the RAFI Developed Index.

According to the Registration Statement, RAFI Developed Index derivatives may be purchased with a fraction of the assets that would be needed to purchase the RAFI Developed Index equity securities directly, so that the remainder of the assets may be invested in Fixed Income Instruments. PIMCO will actively manage the Fixed Income Instruments held by the Fund with a view toward enhancing the Fund's total return by using an absolute return approach, which applies to the portion of the portfolio not invested in RAFI Developed Index derivatives or RAFI Developed Index stocks, subject to an overall portfolio duration which will normally vary from (negative) 3 years to positive 8 years based on PIMCO's forecast for interest rates.<sup>52</sup>

The Fund may invest in securities and instruments that are economically tied to foreign (non-U.S.) countries.<sup>53</sup> With respect to the Fund's absolute return investments, the Fund may invest, without limitation, in securities denominated in foreign currencies and in U.S.-dollar denominated securities of foreign issuers. With respect to the Fund's absolute return investments, the Fund will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its total assets. With respect to the Fund's absolute return

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<sup>52</sup> See supra, note 23.

<sup>53</sup> See supra, note 24.

investments, the Fund may invest up to 25% of its total assets in securities and instruments that are economically tied to emerging market countries.<sup>54</sup>

The Fund may engage in foreign currency transactions on a spot (cash) basis and forward basis and invest in foreign currency futures contracts and options contracts. The Fund may enter into these contracts to hedge against foreign exchange risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time.

The Fund may, without limitation, seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sale contracts. The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

#### International Fundamental IndexPLUS Fund – Other (Non-Principal) Investments

With respect to the Fund's absolute return investments, the Fund may invest up to 10% of its total assets in preferred stocks, convertible securities and other equity-related securities.

The Fund may invest up to 20% of its total assets in: (i) variable and floating rate securities that are not Fixed Income Instruments and (ii) floaters and inverse floaters that are not Fixed Income Instruments.

The Fund may also invest up to 20% of its total assets in trade claims, privately placed and unregistered securities, and exchange-traded and OTC-traded structured products, including credit-linked securities and commodity-linked notes. The Fund may invest up to 20% of its total assets in Brady Bonds. The Fund may invest up to 20% of its total assets in bank loans.

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<sup>54</sup> See *supra*, note 25.

The Fund may, with up to 20% of its total assets, enter into repurchase agreements on instruments other than Fixed Income Instruments. Repurchase agreements maturing in more than seven days and which may not be terminated within seven days at approximately the amount at which the Fund has valued the agreements will be considered illiquid securities. The Fund may also, with up to 20% of its total assets, enter into reverse repurchase agreements on instruments other than Fixed Income Instruments, subject to the Fund's limitations on borrowings. The Fund will segregate or " earmark " assets determined to be liquid by PIMCO in accordance with procedures established by the Board to cover its obligations under reverse repurchase agreements.

#### Investment Limits Applicable to the Fund

The Fund may invest up to 20% of its total assets in "high yield securities" rated B or higher by Moody's, or equivalently rated by S&P or Fitch, or, if unrated, determined by PIMCO to be of comparable quality (except that within such limitation, the Fund may invest in mortgage-related securities rated below B).

The Fund may invest up to 20% of its assets in mortgage-related and other asset-backed securities, although this 20% limitation does not apply to securities issued or guaranteed by Federal agencies and/or U.S. government sponsored instrumentalities.

#### EM StocksPLUS Fund – Principal Investments

According to the Registration Statement, the Fund will seek total return which exceeds the total return of its benchmark, the MSCI EM Index.

The Fund will seek to achieve its investment objective by investing, under normal circumstances, in MSCI EM Index derivatives, backed by a portfolio of Fixed Income Instruments that are managed using an absolute return approach. In seeking total return

exceeding that of the MSCI EM Index, or as part of the Fund's absolute return strategy relative to fixed income investing, the Fund may invest in derivative instruments, subject to applicable law and any other restrictions described herein.

The Fund will typically seek to gain long exposure to the MSCI EM Index in an amount, under normal circumstances, approximately equal to the Fund's net assets, by investing in MSCI EM Index derivatives. The value of the MSCI EM Index derivatives should closely track changes in the value of the MSCI EM Index. The Fund will normally use MSCI EM Index derivatives, instead of MSCI EM Index stocks, to attempt to equal or exceed the daily performance of the MSCI EM Index. Though the Fund will not normally invest directly in MSCI EM Index stocks, when MSCI EM Index derivatives appear to be overvalued relative to the MSCI EM Index, the Fund may invest all of its assets in a "basket" of MSCI EM Index stocks. The Fund may also invest in exchange-traded funds based on the MSCI EM Index. The Fund will seek to remain invested in MSCI EM Index derivatives or MSCI EM Index stocks even when the MSCI EM Index is declining.

According to the Registration Statement, MSCI EM Index derivatives may be purchased with a small fraction of the assets that would be needed to purchase the MSCI EM Index equity securities directly, so that the remainder of the assets may be invested in Fixed Income Instruments. PIMCO will actively manage the Fixed Income Instruments held by the Fund with a view toward enhancing the Fund's total return by using an absolute return approach, which applies to the portion of the portfolio not invested in MSCI EM Index derivatives or MSCI EM Index stocks, subject to an overall portfolio duration which will normally vary from (negative) 3 years to positive 8 years based on PIMCO's forecast for interest rates.<sup>55</sup>

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<sup>55</sup> See supra, note 23.

The Fund may invest in securities and instruments that are economically tied to foreign (non-U.S.) countries.<sup>56</sup> The Fund may invest in debt and equity securities denominated in foreign (non-U.S.) currencies and in U.S.-dollar denominated securities of foreign (non-U.S.) issuers, subject to applicable limitations set forth herein. With respect to the Fund's absolute return investments, the Fund will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its total assets. With respect to the Fund's absolute return investments, the Fund may invest up to 25% of its total assets in securities and instruments that are economically tied to emerging market countries.<sup>57</sup>

The Fund may engage in foreign currency transactions on a spot (cash) basis and forward basis and invest in foreign currency futures contracts and options contracts. The Fund may enter into these contracts to hedge against foreign exchange risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time.

The Fund may, without limitation, seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sale contracts. The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

#### EM StocksPLUS Fund – Other (Non-Principal) Investments

With respect to the Fund's absolute return investments, the Fund may invest up to 10% of its total assets in preferred stocks, convertible securities and other equity-related securities.

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<sup>56</sup> See supra, note 24.

<sup>57</sup> See supra, note 25.

The Fund may invest up to 20% of its total assets in: (i) variable and floating rate securities that are not Fixed Income Instruments and (ii) floaters and inverse floaters that are not Fixed Income Instruments.

The Fund may also invest up to 20% of its total assets in trade claims, privately placed and unregistered securities, and exchange-traded and OTC-traded structured products, including credit-linked securities and commodity-linked notes. The Fund may invest up to 20% of its total assets in Brady Bonds. The Fund may invest up to 20% of its total assets in bank loans.

The Fund may, with up to 20% of its total assets, enter into repurchase agreements on instruments other than Fixed Income Instruments. Repurchase agreements maturing in more than seven days and which may not be terminated within seven days at approximately the amount at which the Fund has valued the agreements will be considered illiquid securities. The Fund may also, with up to 20% of its total assets, enter into reverse repurchase agreements on instruments other than Fixed Income Instruments, subject to the Fund's limitations on borrowings. The Fund will segregate or " earmark " assets determined to be liquid by PIMCO in accordance with procedures established by the Board to cover its obligations under reverse repurchase agreements.

#### Investment Limits Applicable to the Fund

The Fund may invest up to 20% of its total assets in "high yield securities" rated B or higher by Moody's, or equivalently rated by S&P or Fitch, or, if unrated, determined by PIMCO to be of comparable quality (except that within such limitation, the Fund may invest in mortgage-related securities rated below B).



The Fund may invest up to 20% of its assets in mortgage-related and other asset-backed securities, although this 20% limitation does not apply to securities issued or guaranteed by Federal agencies and/or U.S. government sponsored instrumentalities.

International StocksPLUS Fund – Principal Investments

According to the Registration Statement, the International StocksPLUS Fund will seek total return which exceeds the total return of its benchmark, the MSCI EAFE Net Dividend Index, consistent with prudent investment management.<sup>58</sup>

The Fund will seek to achieve its investment objective by investing, under normal circumstances, in non-U.S. equity derivatives, backed by a portfolio of Fixed Income Instruments that are managed using an absolute return approach. In seeking total return exceeding that of the MSCI EAFE Net Dividend Index, or as part of the Fund's absolute return strategy relative to fixed income investing, the Fund may invest in derivative instruments, subject to applicable law and any other restrictions described herein.

The Fund typically will seek to gain long exposure to the MSCI EAFE Net Dividend Index in an amount, under normal circumstances, approximately equal to the Fund's net assets, by investing in non-U.S. equity derivatives. The value of the equity derivatives should closely track changes in the value of underlying securities or indices. The Fund will normally use equity derivatives, instead of stocks, to attempt to equal or exceed the daily performance of the MSCI EAFE Net Dividend Index. Though the Fund will not normally invest directly in stocks, when equity derivatives appear to be overvalued, the Fund may invest some or all of its assets in stocks. The Fund may also invest in exchange-traded funds. The Fund's equity exposure will not be hedged into U.S. dollars. The Fund will seek to remain invested in equity derivatives and/or

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<sup>58</sup> The MSCI EAFE Net Dividend Index is an unmanaged index of issuers in countries of Europe, Australia, and the Far East.

stocks even when the MSCI EAFE Net Dividend Index is declining. The Fund may invest in non-U.S. equities or non-U.S. equity derivatives that do not comprise the MSCI EAFE Net Dividend Index.

According to the Registration Statement, derivatives may be purchased with a small fraction of the assets that would be needed to purchase the equity securities directly, so that the remainder of the assets may be invested in Fixed Income Instruments. PIMCO will actively manage the Fixed Income Instruments held by the Fund with a view toward enhancing the Fund's total return by using an absolute return approach, which applies to the portion of the portfolio not invested in MSCI EAFE Net Dividend Index derivatives or MSCI EAFE Net Dividend Index stocks, subject to an overall portfolio duration which will normally vary from (negative) 3 years to positive 8 years based on PIMCO's forecast for interest rates.<sup>59</sup>

The Fund may invest in securities and instruments that are economically tied to foreign (non-U.S.) countries.<sup>60</sup> The Fund may invest in securities denominated in foreign currencies and in U.S.-dollar denominated securities of foreign issuers, subject to applicable limitations set forth herein. With respect to the Fund's absolute return investments, the Fund will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its total assets. With respect to the Fund's absolute return investments, the Fund may invest up to 25% of its total assets in securities and instruments that are economically tied to emerging market countries.<sup>61</sup>

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<sup>59</sup> See supra, note 23.

<sup>60</sup> See supra, note 24.

<sup>61</sup> See supra, note 25.

The Fund may engage in foreign currency transactions on a spot (cash) basis and forward basis and invest in foreign currency futures contracts and options contracts. The Fund may enter into these contracts to hedge against foreign exchange risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time.

The Fund may, without limitation, seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sale contracts. The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

#### International Stocks PLUS Fund – Other (Non-Principal) Investments

With respect to the Fund's absolute return investments, the Fund may invest up to 10% of its total assets in preferred stocks, convertible securities and other equity-related securities.

The Fund may invest up to 20% of its total assets in: (i) variable and floating rate securities that are not Fixed Income Instruments and (ii) floaters and inverse floaters that are not Fixed Income Instruments.

The Fund may also invest up to 20% of its total assets in trade claims, privately placed and unregistered securities, and exchange-traded and OTC-traded structured products, including credit-linked securities and commodity-linked notes. The Fund may invest up to 20% of its total assets in Brady Bonds. The Fund may invest up to 20% of its total assets in bank loans.

The Fund may, with up to 20% of its total assets, enter into repurchase agreements on instruments other than Fixed Income Instruments. Repurchase agreements maturing in more than seven days and which may not be terminated within seven days at approximately the amount at

which the Fund has valued the agreements will be considered illiquid securities. The Fund may also, with up to 20% of its total assets, enter into reverse repurchase agreements on instruments other than Fixed Income Instruments, subject to the Fund's limitations on borrowings. The Fund will segregate or " earmark " assets determined to be liquid by PIMCO in accordance with procedures established by the Board to cover its obligations under reverse repurchase agreements.

#### Investment Limits Applicable to the Fund

The Fund may invest up to 20% of its total assets in "high yield securities" rated B or higher by Moody's, or equivalently rated by S&P or Fitch, or, if unrated, determined by PIMCO to be of comparable quality (except that within such limitation, the Fund may invest in mortgage-related securities rated below B).

The Fund may invest up to 20% of its assets in mortgage-related and other asset-backed securities, although this 20% limitation does not apply to securities issued or guaranteed by Federal agencies and/or U.S. government sponsored instrumentalities.

#### Other Investment Limitations of the Funds

According to the Registration Statement, each Fund may invest without limit, for temporary or defensive purposes, in U.S. debt securities, including taxable securities and short-term money market securities, if PIMCO deems it appropriate to do so. If PIMCO believes that economic or market conditions are unfavorable to investors, PIMCO may temporarily invest up to 100% of a Fund's assets in certain defensive strategies, including holding a substantial portion of a Fund's assets in cash, cash equivalents or other highly rated short-term securities, including securities issued or guaranteed by the U.S. government, its agencies or instrumentalities.

Not more than 10% of the net assets of a Fund in the aggregate invested in exchange-traded equity securities shall consist of equity securities, including stocks into which a convertible security is converted, whose principal market is not a member of the ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement. Furthermore, not more than 10% of the net assets of a Fund in the aggregate invested in futures contracts or exchange-traded options contracts shall consist of futures contracts or exchange-traded options contracts whose principal market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

For the purpose of achieving income, each Fund may lend its portfolio securities to brokers, dealers, and other financial institutions, provided that a number of conditions are satisfied, including that the loan is fully collateralized. When a Fund lends portfolio securities, its investment performance will continue to reflect changes in the value of the securities loaned, and a Fund will also receive a fee or interest on the collateral. Cash collateral received by a Fund in securities lending transactions may be invested in short-term liquid Fixed Income Instruments or in money market or short-term mutual funds or similar investment vehicles, including affiliated money market or short-term mutual funds.

According to the Registration Statement, the Funds may invest in, to the extent permitted by Section 12(d)(1)(A) of the 1940 Act, other affiliated and unaffiliated funds, such as open-end or closed-end management investment companies, including other exchange-traded funds, provided that each of a Fund's investment in units or shares of investment companies and other open-end collective investment vehicles will not exceed 10% of that Fund's total assets. Each Fund may invest its securities lending collateral in one or more money market funds to the extent

permitted by Rule 12d1-1 under the 1940 Act, including series of PIMCO Funds, an affiliated open-end management investment company managed by PIMCO.

### Investment Restrictions

Each Fund's investments, including investments in derivative instruments, will be subject to all of the restrictions under the 1940 Act, including restrictions with respect to investments in illiquid securities, that is, the limitation that a fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser.<sup>62</sup> Each Fund will monitor its respective portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of a Fund's net assets are held in illiquid securities. Illiquid securities include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.<sup>63</sup>

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<sup>62</sup> In reaching liquidity decisions, the Adviser may consider the following factors: the frequency of trades and quotes for the security; the number of dealers willing to purchase or sell the security and the number of other potential purchasers; dealer undertakings to make a market in the security; and the nature of the security and the nature of the marketplace trades (e.g., the time needed to dispose of the security, the method of soliciting offers, and the mechanics of transfer).

<sup>63</sup> The Commission has stated that long-standing Commission guidelines have required open-end funds to hold no more than 15% of their net assets in illiquid securities and other illiquid assets. See Investment Company Act Release No. 28193 (March 11, 2008), 73 FR 14618 (March 18, 2008), footnote 34. See also, Investment Company Act Release No. 5847 (October 21, 1969), 35 FR 19989 (December 31, 1970) (Statement Regarding "Restricted Securities"); Investment Company Act Release No. 18612 (March 12, 1992), 57 FR 9828 (March 20, 1992) (Revisions of Guidelines to Form N-1A). A fund's portfolio security is illiquid if it cannot be disposed of in the ordinary course of business within seven days at approximately the value ascribed to it by the fund. See Investment

Each Fund will be diversified within the meaning of the 1940 Act.<sup>64</sup>

Each Fund intends to qualify annually and elect to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code.<sup>65</sup>

No Fund will concentrate its investments in a particular industry, as that term is used in the 1940 Act, and as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction from time to time.<sup>66</sup>

Each of the Funds' investments, including derivatives, will be consistent with that Fund's investment objective and a Fund's use of derivatives may be used to enhance leverage. However, a Fund's investments will not be used to seek performance that is the multiple or inverse multiple (i.e., 2Xs and 3Xs) of the Fund's broad-based securities market index (as defined in Form N-1A).<sup>67</sup>

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Company Act Release No. 14983 (March 12, 1986), 51 FR 9773 (March 21, 1986) (adopting amendments to Rule 2a-7 under the 1940 Act); Investment Company Act Release No. 17452 (April 23, 1990), 55 FR 17933 (April 30, 1990) (adopting Rule 144A under the 1933 Act).

<sup>64</sup> The diversification standard is set forth in Section 5(b)(1) of the 1940 Act (15 U.S.C. 80e).

<sup>65</sup> 26 U.S.C. 851.

<sup>66</sup> See Form N-1A, Item 9. The Commission has taken the position that a fund is concentrated if it invests more than 25% of the value of its total assets in any one industry. See, e.g., Investment Company Act Release No. 9011 (October 30, 1975), 40 FR 54241 (November 21, 1975).

<sup>67</sup> Each Fund's broad-based securities market index will be identified in a future amendment to the Registration Statement following a Fund's first full calendar year of performance.

## Net Asset Value and Derivatives Valuation Methodology for Purposes of Determining Net Asset Value

The NAV of each Fund's Shares will be determined by dividing the total value of the Fund's portfolio investments and other assets, less any liabilities, by the total number of Shares outstanding.

Each Fund's Shares will be valued as of the close of regular trading on the New York Stock Exchange ("NYSE") (normally 4:00 p.m. Eastern time ("E.T.") (the "NYSE Close") on each day NYSE Arca is open ("Business Day"). Information that becomes known to each of the Funds or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a portfolio asset or the NAV determined earlier that day.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available will be valued at market value. Market value will generally be determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services.

Fixed Income Instruments, including those to be purchased under firm commitment agreements/delayed delivery basis, will generally be valued on the basis of quotes obtained from brokers and dealers or independent pricing services. Foreign fixed income securities will generally be valued on the basis of quotes obtained from brokers and dealers or pricing services using data reflecting the earlier closing of the principal markets for those assets. Short-term debt instruments having a remaining maturity of 60 days or less are generally valued at amortized cost, which approximates market value.

As discussed in more detail below, derivatives will generally be valued on the basis of quotes obtained from brokers and dealers or pricing services using data reflecting the earlier closing of the principal markets for those assets. Local closing prices will be used for all



instrument valuation purposes. Foreign currency-denominated derivatives are generally valued using market inputs as of the respective local region's market close.

With respect to specific derivatives:

- Currency spot and forward rates from major market data vendors<sup>68</sup> will generally be determined as of the NYSE Close.
- Exchange traded futures will generally be valued at the settlement price of the exchange.
- A total return swap on an index will be valued at the publicly available index price. The index price, in turn, is determined by the applicable index calculation agent, which generally values the securities underlying the index at the last reported sale price.
- Equity total return swaps will generally be valued using the actual underlying equity at local market closing, while bank loan total return swaps are generally valued using the evaluated underlying bank loan price minus the strike price of the loan.
- Exchange traded non-equity options, index options, and options on futures will generally be valued at the official settlement price determined by the relevant exchange, if available.
- OTC and exchange traded equity options will generally be valued on a basis of quotes obtained from a quotation reporting system, established market makers, or pricing services.

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<sup>68</sup> Major market data vendors may include, but are not limited to: Thomson Reuters, JPMorgan Chase PricingDirect Inc., Markit Group Limited, Bloomberg, Interactive Data Corporation or other major data vendors.

- OTC FX options will generally be valued by pricing vendors.
- All other swaps such as interest rate swaps, inflation swaps, swaptions, credit default swaps, CDX/CDS will generally be valued by pricing services.
- Forwards will generally be valued in the same manner as the underlying securities. Forward settling positions for which market quotes are readily available will generally be valued at market value. Typically, forwards on Fixed Income Instruments will be marked to market daily.

Exchange-traded equity securities will be valued at the official closing price or the last trading price on the exchange or market on which the security is primarily traded at the time of valuation. If no sales or closing prices are reported during the day, equity securities are generally valued at the mean of the last available bid and ask quotation on the exchange or market on which the security is primarily traded, or using other market information obtained from quotation reporting systems, established market makers, or pricing services. Investment company securities that are not exchange-traded will be valued at NAV. Money market instruments, trade claims, privately placed and unregistered securities, structured products and other types of debt securities will generally be valued on the basis of independent pricing services or quotes obtained from brokers and dealers.

If a foreign security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security will be valued at fair value based on procedures established and approved by the Board. Foreign securities that do not trade when the NYSE is open are also valued at fair value.

Securities and other assets for which market quotes are not readily available are valued at fair value as determined in good faith by the Board or persons acting at their direction. The

Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to PIMCO the responsibility for applying the valuation methods. In the event that market quotes are not readily available, and the security or asset cannot be valued pursuant to one of the valuation methods, the value of the security or asset will be determined in good faith by the Valuation Committee of the Board, generally based upon recommendations provided by PIMCO.

Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Fund's securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to PIMCO the responsibility for monitoring significant events that may materially affect the values of the Fund's securities or assets and for determining whether the value of the applicable securities or assets should be re-evaluated in light of such significant events.

When a Fund uses fair value pricing to determine its NAV, securities will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board or persons acting at their direction believe reflects fair value. Fair value pricing may require subjective determinations about the value of a security. While the Trust's policy is intended to result in a calculation of a Fund's NAV that fairly reflects security values as of the time of pricing, the Trust cannot ensure that fair values determined by the Board or persons acting at their direction would accurately reflect the price that a Fund could obtain for

a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by a Fund may differ from the value that would be realized if the securities were sold.

For a Fund's 4:00 p.m. E.T. futures holdings, estimated prices from Reuters will be used if any cumulative futures margin impact is greater than \$0.005 to the NAV due to futures movement after the fixed income futures market closes (3:00 p.m. E.T.) and up to the NYSE Close (generally 4:00 p.m. E.T.). Swaps traded on exchanges such as the Chicago Mercantile Exchange ("CME") or the Intercontinental Exchange ("ICE-US") will use the applicable exchange closing price where available.

Investments initially valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from pricing services. As a result, the NAV of a Fund's Shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed. As a result, to the extent that a Fund holds foreign (non-U.S.) securities, the NAV of a Fund's shares may change when an investor cannot purchase, redeem or exchange Shares.

#### Derivatives Valuation Methodology for Purposes of Determining Portfolio Indicative Value

On each Business Day, before commencement of trading in Fund Shares on NYSE Arca, each Fund will disclose on its website the identities and quantities of the portfolio instruments and other assets held by the Fund that will form the basis for the Fund's calculation of NAV at the end of the Business Day.

In order to provide additional information regarding the intra-day value of shares of the Fund, the NYSE Arca or a market data vendor will disseminate every 15 seconds through the

facilities of the Consolidated Tape Association or other widely disseminated means an updated Portfolio Indicative Value (“PIV”) for each Fund as calculated by an information provider or market data vendor.

A third party market data provider will calculate the PIV for each Fund. For the purposes of determining the PIV, the third party market data provider’s valuation of derivatives is expected to be similar to their valuation of all securities. The third party market data provider may use market quotes if available or may fair value securities against proxies (such as swap or yield curves).

With respect to specific derivatives:

- Foreign currency derivatives may be valued intraday using market quotes, or another proxy as determined to be appropriate by the third party market data provider.
- Futures may be valued intraday using the relevant futures exchange data, or another proxy as determined to be appropriate by the third party market data provider.
- Interest rate swaps may be mapped to a swap curve and valued intraday based on the swap curve, or another proxy as determined to be appropriate by the third party market data provider.
- CDX/CDS may be valued using intraday data from market vendors, or based on underlying asset price, or another proxy as determined to be appropriate by the third party market data provider.

- Total return swaps may be valued intraday using the underlying asset price, or another proxy as determined to be appropriate by the third party market data provider.
- Exchange listed options may be valued intraday using the relevant exchange data, or another proxy as determined to be appropriate by the third party market data provider.
- OTC options may be valued intraday through option valuation models (e.g., Black-Scholes) or using exchange traded options as a proxy, or another proxy as determined to be appropriate by the third party market data provider.
- A third party market data provider's valuation of forwards will be similar to their valuation of the underlying securities, or another proxy as determined to be appropriate by the third party market data provider. The third party market data provider will generally use market quotes if available. Where market quotes are not available, they may fair value securities against proxies (such as swap or yield curves). Each Fund's disclosure of forward positions will include information that market participants can use to value these positions intraday.

#### Disclosed Portfolio

Each Fund's disclosure of derivative positions in the applicable Disclosed Portfolio will include information that market participants can use to value these positions intraday. On a daily basis, the Funds will disclose on the Funds' website the following information regarding each portfolio holding, as applicable to the type of holding: ticker symbol, CUSIP number or other identifier, if any; a description of the holding (including the type of holding, such as the type of swap); the identity of the security, commodity, index or other asset or instrument underlying the

holding, if any; for options, the option strike price; quantity held (as measured by, for example, par value, notional value or number of shares, contracts or units); maturity date, if any; coupon rate, if any; effective date, if any; market value of the holding; and the percentage weighting of the holding in a Fund's portfolio.

#### Impact on Arbitrage Mechanism

For each Fund, the Adviser believes there will be minimal, if any, impact to the arbitrage mechanism as a result of the use of derivatives. Market makers and participants should be able to value derivatives as long as the positions are disclosed with relevant information. The Adviser believes that the price at which Shares trade will continue to be disciplined by arbitrage opportunities created by the ability to purchase or redeem creation Shares at their NAV, which should ensure that Shares will not trade at a material discount or premium in relation to their NAV.

The Adviser does not believe there will be any significant impacts to the settlement or operational aspects of a Fund's arbitrage mechanism due to the use of derivatives. Because derivatives generally are not eligible for in-kind transfer, they will be substituted with a "cash in lieu" amount (as described below) when each Fund processes purchases or redemptions of creation units in-kind.

#### Creations and Redemptions of Shares

According to the Registration Statement, Shares of each of the Funds that trade in the secondary market will be "created" at NAV<sup>69</sup> by "Authorized Participants" only in block-size

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<sup>69</sup> The NAV of each Fund's Shares generally will be calculated once daily Monday through Friday as of the close of trading on the New York Stock Exchange ("NYSE"), generally 4:00 p.m. E.T. (the "NAV Calculation Time") on any Business Day. NAV per Share is calculated by dividing the Fund's net assets by the number of that Fund's Shares

creation units (“Creation Units”) of 100,000 Shares or multiples thereof.<sup>70</sup> Each of the Funds will offer and issue Shares at their NAV per Share generally in exchange for a basket of debt securities held by that Fund (the “Deposit Securities”) together with a deposit of a specified cash payment (the “Cash Component”), or in lieu of Deposit Securities, a Fund may permit a “cash-in-lieu” amount for any reason at the Fund’s sole discretion. Alternatively, a Fund may issue Creation Units in exchange for a specified all-cash payment (“Cash Deposit”) (together with Deposit Securities and Cash Component, the “Fund Deposit”). Similarly, Shares can be redeemed only in Creation Units, generally in-kind for a portfolio of debt securities held by the Funds and/or for a specified amount of cash (collectively, “Redemption Instruments”).

On any given Business Day, purchases and redemptions of Creation Units will be made in whole or in part on a cash basis if an Authorized Participant deposits or receives (as applicable) cash in lieu of some or all of the Fund Deposit or Redemption Instruments, respectively, solely because such instruments are, in the case of the Fund Deposit, not available in sufficient quantity.<sup>71</sup> In determining whether a Fund will be selling or redeeming Creation Units on a cash or in-kind basis, the key consideration will be the benefit which would accrue to Fund investors. In many cases, investors may benefit by the use of all cash purchase orders

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outstanding. For more information regarding the valuation of Fund investments in calculating a Fund’s NAV, see the Registration Statement.

<sup>70</sup> The term “Authorized Participant” refers to a Participating Party (a broker-dealer or other participant in the clearing process through the Continuous Net Settlement System of the National Securities Clearing Corporation (“NSCC”); or a Depository Trust Company (“DTC”) Participant who has executed a Participant Agreement (an agreement with the Distributor and Transfer Agent with respect to creations and redemptions of Creation Unit aggregations).

<sup>71</sup> Such purchase or redemption transactions are “custom orders.” On any given Business Day, if the Fund accepts a custom order, the Adviser represents that the Fund will accept custom orders from all other Authorized Participants on the same basis.



because the Adviser would execute trades rather than market makers, and the Adviser may be able to obtain better execution in bond transactions due to its size, experience and potentially stronger relationships in the fixed income markets.

Except when aggregated in Creation Units, Shares will not be redeemable by the Funds. The prices at which creations and redemptions occur are based on the next calculation of NAV after an order is received. Requirements as to the timing and form of orders are described in the Authorized Participant agreement. PIMCO will make available on each Business Day via the National Securities Clearing Corporation (“NSCC”), prior to the opening of business (subject to amendments) on the Exchange (currently 9:30 a.m., E.T.), the identity and the required amount of each Deposit Security and the amount of the Cash Component (or Cash Deposit) to be included in the current “Fund Deposit”<sup>72</sup> (based on information at the end of the previous Business Day). Shares can be redeemed only in Creation Units, generally in-kind for a portfolio of securities held by a Fund and/or for a specified amount of cash. Creations and redemptions must be made by an Authorized Participant.

Additional information regarding the Trust, the Funds and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings, disclosure policies, distributions and taxes is included in the Registration Statement. All terms relating to the Funds that are referred to but not defined in this proposed rule change are defined in the Registration Statement.

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<sup>72</sup> The Deposit Securities and Cash Component or, alternatively, the Cash Deposit, will constitute the Fund Deposit, which will represent the investment amount for a Creation Unit of each of the Funds.

### Availability of Information

The Trust's website ([www.pimcoetfs.com](http://www.pimcoetfs.com)), which is publicly available prior to the public offering of Shares, will include a form of the prospectus for each of the Funds that may be downloaded. The Trust's website will include additional quantitative information updated on a daily basis, including, for each of the Funds, (1) daily trading volume, the prior Business Day's reported closing price, NAV and mid-point of the bid/ask spread at the time of calculation of such NAV (the "Bid/Ask Price"),<sup>73</sup> and a calculation of the premium and discount of the Bid/Ask Price against the NAV, and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. On each Business Day, before commencement of trading in Shares in the Core Trading Session (9:30 a.m. E.T. to 4:00 p.m. E.T.) on the Exchange, each of the Funds will disclose on the Trust's website the Disclosed Portfolio as defined in NYSE Arca Equities Rule 8.600(c)(2) that will form the basis for the each of the Fund's calculation of NAV at the end of the Business Day.<sup>74</sup>

On a daily basis, the Funds will disclose on the Funds' website the following information regarding each portfolio holding, as applicable to the type of holding: ticker symbol, CUSIP number or other identifier, if any; a description of the holding (including the type of holding, such as the type of swap); the identity of the security, commodity, index or other asset or

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<sup>73</sup> The Bid/Ask Price of each of the Funds will be determined using the mid-point of the highest bid and the lowest offer on the Exchange as of the time of calculation of that Fund's NAV. The records relating to Bid/Ask Prices will be retained by each of the Funds and their service providers.

<sup>74</sup> Under accounting procedures followed by the Funds, trades made on the prior Business Day ("T") will be booked and reflected in NAV on the current Business Day ("T+1"). Accordingly, the Funds will be able to disclose at the beginning of the Business Day the portfolio that will form the basis for the NAV calculation at the end of the Business Day.

instrument underlying the holding, if any; for options, the option strike price; quantity held (as measured by, for example, par value, notional value or number of shares, contracts or units); maturity date, if any; coupon rate, if any; effective date, if any; market value of the holding; and the percentage weighting of the holding in a Fund's portfolio. The website information will be publicly available at no charge.

In addition, a basket composition file, which includes the security names and share quantities, if applicable, required to be delivered in exchange for each of the Funds' Shares, together with estimates and actual cash components, will be publicly disseminated daily prior to the opening of the Exchange via the NSCC. The basket represents one Creation Unit of each of the Funds. The NAV of each of the Funds will normally be determined as of the close of the regular trading session on the Exchange (ordinarily 4:00 p.m. E.T.) on each Business Day. Authorized participants may refer to the basket composition file for information regarding Fixed Income Instruments, and any other instrument that may comprise a Fund's basket on a given day.

Investors can also obtain the Trust's SAI, the Funds' Shareholder Reports, and the Funds' Forms N-CSR and Forms N-SAR, filed twice a year. The Trust's SAI and Shareholder Reports are available free upon request from the Trust, and those documents and the Form N-CSR, Form N-PX and Form N-SAR may be viewed on-screen or downloaded from the Commission's website at [www.sec.gov](http://www.sec.gov). Intra-day and closing price information regarding equity securities traded on a national securities exchange, including common stocks, preferred stocks, securities convertible into stocks, closed-end funds exchange traded funds, and other equity-related securities, will be available from the exchange on which such securities are traded. Intra-day and closing price information regarding Fixed Income Instruments also will be available from major market data vendors. In addition, price information for the debt securities and other financial

instruments held by each of the Funds will be available through major market data vendors.<sup>75</sup> Price information relating to forwards, OTC options and swaps will be available from major market data vendors. Intra-day and closing price information regarding exchange-traded options (including options on futures) and futures will be available from the exchanges on which such instruments are traded. U.S. exchange-traded options quotation and last sale information is available via the Options Price Reporting Authority. Price information regarding money market instruments, trade claims, privately placed and unregistered securities, bank loans and structured products will be available from major market data vendors. Price information regarding other investment company securities will be available from on-line information services and from the website for the applicable investment company security. Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services. Information regarding the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. Quotation and last sale information for the Shares will be available via the Consolidated Tape Association ("CTA") high-speed line. In addition, the PIV, as defined in NYSE Arca Equities Rule 8.600 (c)(3), will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Core Trading Session.<sup>76</sup> The dissemination of the PIV, together with the Disclosed Portfolio, may allow investors to determine an approximate value of the underlying portfolio of each of the Funds on a daily basis and to provide an estimate of that value throughout the trading day.

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<sup>75</sup> Supplementally, major market data vendors may include, but are not limited to: Thomson Reuters, JPMorgan Chase PricingDirect Inc., Markit Group Limited, Bloomberg, Interactive Data Corporation or other major data vendors.

<sup>76</sup> Currently, the Exchange understands that several major market data vendors display and/or make widely available PIV taken from the CTA or other data feeds.

### Trading Halts

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of any of the Funds.<sup>77</sup> Trading in Shares of any of the Funds will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities and/or the financial instruments comprising the Disclosed Portfolio of a Fund; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares will be subject to NYSE Arca Equities Rule 8.600(d)(2)(D), which sets forth circumstances under which Shares of a Fund may be halted.

### Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. Shares will trade on the NYSE Arca Marketplace from 4 a.m. to 8 p.m. E.T. in accordance with NYSE Arca Equities Rule 7.34 (Opening, Core, and Late Trading Sessions). The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in NYSE Arca Equities Rule 7.6, Commentary .03, the minimum price variation ("MPV") for quoting and entry of orders in equity securities traded on the NYSE Arca Marketplace is \$0.01, with the exception of securities that are priced less than \$1.00 for which the MPV for order entry is \$0.0001.

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<sup>77</sup> See NYSE Arca Equities Rule 7.12.

The Shares of each Fund will conform to the initial and continued listing criteria under NYSE Arca Equities Rule 8.600. Consistent with NYSE Arca Equities Rule 8.600(d)(2)(B)(ii), the Funds' Reporting Authority will implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material non-public information regarding the actual components of each Fund's portfolio. The Exchange represents that, for initial and/or continued listing, each Fund will be in compliance with Rule 10A-3<sup>78</sup> under the Act, as provided by NYSE Arca Equities Rule 5.3. A minimum of 100,000 Shares for each Fund will be outstanding at the commencement of trading on the Exchange. The Exchange will obtain a representation from the issuer of the Shares that the net asset value ("NAV") per Share will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.

#### Surveillance

The Exchange represents that trading in the Shares will be subject to the existing trading surveillances, administered by the Financial Industry Regulatory Authority ("FINRA") on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws.<sup>79</sup> The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

The surveillances referred to above generally focus on detecting securities trading outside their normal patterns, which could be indicative of manipulative or other violative activity. When

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<sup>78</sup> 17 CFR 240.10A-3.

<sup>79</sup> FINRA surveils trading on the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA's performance under this regulatory services agreement.

such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations.

FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares, exchange-traded options, equities, futures and options on futures with other markets or other entities that are members of the ISG and FINRA may obtain trading information regarding trading in the Shares, exchange-trade options, equities, futures and options on futures from such markets or entities. In addition, the Exchange may obtain information regarding trading in the Shares, exchange-traded options, equities, futures and options on futures from markets or other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.<sup>80</sup> FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by the Funds reported to FINRA's Trade Reporting and Compliance Engine ("TRACE"). FINRA also can access data obtained from the Municipal Securities Rulemaking Board relating to municipal bond trading activity for surveillance purposes in connection with trading in the Shares.

Not more than 10% of the net assets of a Fund in the aggregate invested in exchange-traded equity securities shall consist of equity securities, including stocks into which a convertible security is converted, whose principal market is not a member of the ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement. Furthermore, not more than 10% of the net assets of a Fund in the aggregate invested in futures contracts or exchange-traded options contracts shall consist of futures contracts or exchange-

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<sup>80</sup> For a list of the current members of ISG, see [www.isgportal.org](http://www.isgportal.org). The Exchange notes that not all components of the Disclosed Portfolio for the Fund may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

traded options contracts whose principal market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

In addition, the Exchange also has a general policy prohibiting the distribution of material, non-public information by its employees.

#### Information Bulletin

Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit (“ETP”) Holders in an Information Bulletin (“Bulletin”) of the special characteristics and risks associated with trading the Shares. Specifically, the Bulletin will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Unit aggregations (and that Shares are not individually redeemable); (2) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (3) the risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated Portfolio Indicative Value will not be calculated or publicly disseminated; (4) how information regarding the PIV and the Disclosed Portfolio is disseminated; (5) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (6) trading information.

In addition, the Bulletin will reference that each of the Funds is subject to various fees and expenses described in the Registration Statement. The Bulletin will discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. The Bulletin will also disclose that the NAV for the Shares will be calculated after 4:00 p.m. E.T. each trading day.



## 2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5)<sup>81</sup> that an exchange have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that the Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in NYSE Arca Equities Rule 8.600. The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares, exchange-traded options, equities, futures and options on futures with other markets or other entities that are members of the ISG and FINRA may obtain trading information regarding trading in the Shares, exchange-trade options, equities, futures and options on futures from such markets or entities. In addition, the Exchange may obtain information regarding trading in the Shares, exchange-traded options, equities, futures and options on futures from markets or other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by the Funds reported to FINRA's TRACE. FINRA also can access data obtained from the Municipal Securities Rulemaking Board relating to municipal bond trading activity for

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<sup>81</sup> 15 U.S.C. 78f(b)(5).

surveillance purposes in connection with trading in the Shares. Not more than 10% of the net assets of a Fund in the aggregate invested in exchange-traded equity securities shall consist of equity securities, including stocks into which a convertible security is converted, whose principal market is not a member of the ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement. Furthermore, not more than 10% of the net assets of a Fund in the aggregate invested in futures contracts or exchange-traded options contracts shall consist of futures contracts or exchange-traded options contracts whose principal market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

With respect to each Fund's absolute return investments, each Fund will limit its investment in securities and instruments economically tied to emerging market countries to 25% of its total assets. With respect to each Fund's absolute return investments, each Fund will limit its investment in "high yield" securities rated B or higher by Moody's, or equivalently rated by S&P or Fitch, or if unrated, determined by PIMCO to be of comparable quality to 20% of its total assets (except that within such limitation, each Fund may invest in mortgage-related securities rated below B). With respect to each Fund's absolute return investments, each Fund will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its total assets. Each Fund may invest up to 20% of its total assets in "high yield securities" rated B or higher by Moody's, or equivalently rated by S&P or Fitch, or, if unrated, determined by PIMCO to be of comparable quality (except that within such limitation, the Fund may invest in mortgage-related securities rated below B). Each Fund may invest up to 20% of its assets in mortgage-related and other asset-backed securities, although this 20% limitation does not apply to securities issued or guaranteed by Federal agencies and/or U.S.

government sponsored instrumentalities. Each Fund may invest up to 20% of its total assets in bank loans. Each Fund's investment in units or shares of investment companies and other open-end collective investment vehicles will not exceed 10% of that Fund's total assets. Each Fund's investment in illiquid securities will not exceed 15% of its net assets. None of the Funds will concentrate its investments in a particular industry.

The proposed rule change is designed to promote just and equitable principles of trade and to protect investors and the public interest in that the Exchange will obtain a representation from the issuer of the Shares that the NAV per Share for each Fund will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time. In addition, a large amount of information is publicly available regarding each of the Funds and the Shares, thereby promoting market transparency. Moreover, the PIV will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Exchange's Core Trading Session. On each Business Day, before commencement of trading in Shares in the Core Trading Session on the Exchange, each of the Funds will disclose on the Trust's website the Disclosed Portfolio that will form the basis for each Fund's calculation of NAV at the end of the Business Day. Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services, and quotation and last sale information will be available via the CTA high-speed line. The Trust's website will include a form of the prospectus for each of the Funds and additional data relating to NAV and other applicable quantitative information. Moreover, prior to the commencement of trading, the Exchange will inform its ETP Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Trading in Shares of the any of the Funds will be halted if the circuit breaker

parameters in NYSE Arca Equities Rule 7.12 have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable, and trading in the Shares will be subject to NYSE Arca Equities Rule 8.600(d)(2)(D), which sets forth circumstances under which Shares of either of the Funds may be halted. In addition, as noted above, investors will have ready access to information regarding each of the Funds' holdings, the PIV, the Disclosed Portfolio, and quotation and last sale information for the Shares.

The proposed rule change is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest in that it will facilitate the listing and trading of additional types of actively-managed exchange-traded products that will enhance competition among market participants, to the benefit of investors and the marketplace. As noted above, the Exchange has in place surveillance procedures relating to trading in the Shares and may obtain information via ISG from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement. The Adviser is not a broker-dealer but is affiliated with a broker-dealer and has implemented a "fire wall" with respect to such broker-dealer regarding access to information concerning the composition and/or changes to each Fund's portfolio. In addition, the Funds' Reporting Authority will implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material non-public information regarding the actual components of each Fund's portfolio.

**B. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act. The Exchange notes that the proposed rule change will facilitate the listing and trading of additional types of actively-managed exchange-traded products that, under normal circumstances, will

invest principally in fixed income securities and that will enhance competition with respect to such products among market participants, to the benefit of investors and the marketplace.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days of such date (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-2014-89 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEArca-2014-89. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549 on official business days between 10 a.m. and 3 p.m. Copies of the filing will also be available for inspection and copying at the NYSE's principal office and on its Internet website at [www.nyse.com](http://www.nyse.com). All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-NYSEArca-2014-89 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>82</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>82</sup> 17 CFR 200.30-3(a)(12).