

# NFJ Investment Group LLC

2100 Ross Avenue, Suite 700  
Dallas, TX 75201

## Form ADV Part 2A Brochure

August 8, 2013

This brochure provides information about the qualifications and business practices of NFJ Investment Group LLC (“NFJ Investment Group”). If you have any questions about the contents of this brochure, please contact us at (800) 768-3219 and/or [nfj-general-office@nfjinv.com](mailto:nfj-general-office@nfjinv.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about NFJ Investment Group also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). NFJ Investment Group is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

**ITEM 2. SUMMARY OF MATERIAL CHANGES**

This brochure dated August 8, 2013 is a revised document prepared according to the SEC's requirements and rules. As such, material changes to this document from the version dated January 1, 2013 are as follows:

NFJ introduced a new investment strategy, Emerging Markets Value. A brief description of the new investment strategy can be seen on page 13.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

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#### ITEM 4. ADVISORY BUSINESS

NFJ Investment Group LLC (“NFJ Investment Group”) is a Dallas, Texas based investment management company, which is a wholly owned subsidiary of Allianz Global Investors U.S. LLC (“AllianzGI US”), a wholly owned subsidiary of Allianz Global Investors U.S. Holdings LLC. NFJ Investment Group commenced discretionary investment management services on February 1, 1989.

NFJ Investment Group provides investment management services across a broad range of primarily equity assets including domestic and non-U.S. securities. NFJ Investment Group provides discretionary and non-discretionary investment management or sub-advisory services to institutional clients and non-institutional clients principally through separate accounts and a variety of commingled funds (including SEC registered open-end investment companies (“Mutual Funds”) and SEC registered closed-end investment companies (“Closed-End Funds”), other commingled funds which are not registered with the SEC (“Non-Registered Commingled Funds”), and non-U.S. funds such as SICAVs or others that are marketed in multiple jurisdictions under the UCITS directive), which may be sponsored or established by affiliates of NFJ Investment Group or by unaffiliated third parties.

The following are the primary elements of the investment management services typically provided by NFJ Investment Group. Such services may vary depending on the nature of the investment advisory relationship as described herein.

- (i) Formulation with the client of appropriate investment objectives and restrictions;
- (ii) Application of stock screening process to determine the relative attractiveness of individual stocks within certain quality constraints;
- (iii) Construction of client portfolios utilizing stocks which are determined to be most attractive by the screening process which concentrates on low valuations and/or dividend yields. A specific sell discipline is in place;
- (iv) If authorized, implementation of the investment strategy by execution of portfolio transactions as needed;
- (v) The continual monitoring of the account for the purpose of reviewing its performance and controlling its adherence to strategy and objectives; and
- (vi) Furnishing reports to the client concerning account activity, strategy and performance.

In addition, NFJ Investment Group may from time to time determine to tailor its advisory services to the individual needs of its clients. Clients may submit reasonable guidelines or restrictions on investments in certain securities or security types to be adhered to by NFJ Investment Group. When selecting securities and determining amounts, NFJ Investment Group observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to NFJ Investment Group in writing.

#### Separate Accounts

For separate account clients, NFJ Investment Group provides investment management services for the assets placed under its supervision. Investment advice is furnished on either a discretionary basis, where the client authorizes NFJ Investment Group to make all investment decisions for the account, or on a non-discretionary basis, where NFJ Investment Group makes recommendations to the client but all investment decisions are made by the client and may or may not be implemented by the client.

### **Managed Account/Wrap-Fee Programs**

NFJ Investment Group also provides non-discretionary sub-advisory services in the form of investment models and recommendations AllianzGI US, which participates as an investment adviser in managed account/wrap-fee programs (i.e., programs in which a client pays a program sponsor or broker a single “wrap-fee” for advisory services, certain brokerage services, monitoring of the investment adviser’s performance and custodial services or some combination of these or other services; (the “Programs”) sponsored by unaffiliated broker-dealers (the “Program Sponsors”). As the investment adviser to the Program Sponsor or Direct Client (as defined below), AllianzGI US is responsible for providing investment management services directly to the Programs and has ultimate decision making and discretionary authority with respect to the securities to be purchased or sold for a Program client’s or Direct Client’s account.

AllianzGI US offers the investment expertise of its affiliated asset managers (including NFJ Investment Group) and certain unaffiliated asset managers, which act as sub-advisers with respect to certain investment styles, to selected Program Sponsors and a limited number of clients who do not participate in a Program (“Direct Clients”). Under the Programs, the Program Sponsor permits its clients to take part in a Program by choosing an investment adviser from a list of participating investment advisers that are screened by the Program Sponsor. The wrap client accounts are typically subject to a minimum investment of \$100,000 (or more, depending on the investment strategy) and are administered and serviced primarily by the Program Sponsor, which, in most cases is also registered as an investment adviser.

AllianzGI US typically enters into a wrap program investment management agreement with the Program Sponsors (or in the case of a Direct Client, an Agreement with such Direct Client). As a sub-adviser to AllianzGI US, NFJ Investment Group has entered into an investment sub-advisory agreement with AllianzGI US, (the “NFJ Sub-advisory Agreement”).

Wrap fee clients invested in products for which AllianzGI US is providing investment management services should also refer to the AllianzGI US Form ADV Part 2 for further information. NFJ Investment Group does not act as a sponsor of any Program.

### **Investment Model Delivery to Unaffiliated Third Parties**

NFJ Investment Group may also act as a non-discretionary sub-adviser by providing an investment model to unaffiliated third parties (each a “Model Receiver”) which may manage accounts participating in, or sponsor, Programs.

In this case, NFJ Investment Group would typically enter into an investment sub-advisory agreement with the Model Receiver. The Model Receiver would normally have entered into an investment management or sub-advisory agreement with the Program Sponsor.

Pursuant to the investment sub-advisory agreement entered into by NFJ Investment Group and the Model Receiver, NFJ Investment Group would provide investment recommendations to the Model Receiver for one or more of its investment strategies. The Model Receiver has the ultimate decision making authority and discretionary responsibility for determining which securities are to be purchased and sold for the clients participating in the Programs.

As noted above, wrap-fee clients should consult the Program Sponsor’s brochure for the specific fees and features applicable to their program as well as the Form ADV of the primary, discretionary investment manager.

### **Registered Investment Companies**

NFJ Investment Group also serves as sub-adviser to certain Mutual Funds and Closed-End Funds sponsored or advised by its affiliates and unaffiliated advisers. In particular, NFJ Investment Group acts as a sub-adviser to certain funds of the Allianz Funds ("Allianz Funds"), an open-end registered investment company (advised by an affiliate, Allianz Global Investors Fund Management LLC), and certain unaffiliated funds (collectively, with Allianz Funds, "Funds"). NFJ Investment Group may also act as a non-discretionary sub-adviser to Mutual Funds by providing investment recommendations to the Mutual Fund's adviser which may or may not implement such investment recommendations in its discretion.

### **Non-Registered Commingled Funds**

NFJ Investment Group may also provide investment management or sub-advisory services to commingled funds, that are established by affiliates or unaffiliated third parties, which are not registered under the Securities Act of 1933 or the Investment Company Act of 1940, as amended (the "Investment Company Act"). A minimum account size may be applicable for participation in a Non-Registered Commingled Fund. Additional information concerning these funds is included in the relevant fund's offering documents. Please see Item 10 for additional information.

As of December 31, 2012, NFJ Investment Group managed \$36,645,780,300 (USD) in client assets, including \$27,345,948,788 on a discretionary basis and \$9,299,831,512 on a non-discretionary basis.

## **ITEM 5. FEES AND COMPENSATION**

### **Separate Accounts**

NFJ Investment Group's investment management fees for separate accounts are set forth in the client's investment management agreement (the "Agreement"). Agreements generally provide that either NFJ Investment Group or the client may terminate the Agreement by giving advance written notice to the other party. In certain cases, the client may terminate the Agreement at any time, for any reason without penalty, upon written notice, and in particular, the client may terminate the Agreement within 5 business days after entering into the Agreement without penalty. However, generally, the client has the right to cancel NFJ Investment Group's services upon 30 days' written notice during which period NFJ Investment Group's investment management fees are earned and retained. Except as otherwise agreed, upon termination, clients are responsible for payment of the pro-rata portion of fees through the termination date. In the event a client has paid fees in advance for the quarter and terminates prior to the end of such quarter, NFJ Investment Group will refund the client the portion of fees paid from the date of termination to the end of such quarter.

In general, NFJ Investment Group's fees are based on its standard fee schedule that is in effect at the time the Agreement is entered into. Investment management fees may also be negotiated with clients and therefore may vary from the standard fee schedule. For comparable services, other investment advisers may charge higher or lower fees than those charged by NFJ Investment Group. The standard fee schedule may be modified from time to time and existing client relationships may have a different fee schedule; however some of the Agreements entered into by NFJ Investment Group with institutional clients allow NFJ Investment Group to apply a revised fee schedule to such clients' accounts after giving written notice of such fee schedule revisions.

Investment management fees under NFJ Investment Group's current standard fee schedule are calculated as a percentage of assets under management and may be subject to a specified minimum annual fee and/or a specified minimum account size.

Fees are generally charged quarterly in arrears based on the ending market value of the account (including, without limitation, cash and cash equivalents and accrued dividends and interest) as of the last business day of the quarter. As a result, clients may pay investment management fees with respect to cash and cash equivalents both to NFJ Investment Group as well as to the adviser of any cash management vehicle utilized by the client in connection with the client's account. Fees may also be charged quarterly in advance based on the market value of the account at the beginning of the quarter. In the event that an account is opened on a date other than the first day of a calendar quarter, the client will be charged fees for the first quarter on a pro-rata basis from the date of inception of the account to the last day of the quarter. Unless otherwise specifically agreed to with a client, the ending market value of an account for purposes of calculating fees will be determined by NFJ Investment Group applying the same valuation procedures and methods which it uniformly uses in its quarterly appraisals of investment management accounts. For certain accounts, a portion of NFJ Investment Group's fee may be paid to an affiliate for client servicing activities. Clients are typically billed for fees incurred.

NFJ Investment Group's current standard fee schedules for new separate accounts are as follows:

Unless otherwise indicated, fees and minimums are shown in U.S. Dollars.

#### Mid-Cap Value, Mid-Cap Value 100, Dividend Value, Large-Cap Value, and All-Cap Value

0.85% - first \$25,000,000  
0.55% - next \$25,000,000  
0.40% - next \$50,000,000  
0.35% - excess over \$100,000,000  
Minimum annual fee - \$212,500

#### Small-Cap Value

1.00% of assets under management  
Minimum annual fee - \$250,000

#### International Value and Global Dividend Value

0.85% - first \$25,000,000  
0.75% - next \$25,000,000  
0.60% - next \$50,000,000  
0.45% - excess over \$100,000,000  
Minimum annual fee \$212,500

#### International Small Cap Value

1.00% - first \$50,000,000  
0.85% - next \$50,000,000  
0.70% - excess over \$100,000  
Minimum annual fee \$250,000

### Emerging Markets Value

0.95% - first \$50,000,000  
0.90% - next \$50,000,000  
0.85% - excess over \$100,000  
Minimum annual fee \$237,500

### Managed Account/Wrap-Fee Programs Sub-Advisory Fees

Generally, the Program Sponsor will pay a portion of the wrap-fee received from the Program client to AllianzGI US for investment management services provided to the Program Sponsor/wrap client. Direct Clients pay AllianzGI US a fee in accordance with their Agreements with AllianzGI US. When NFJ Investment Group acts as a sub-adviser to AGI Managed Accounts with respect to managed/wrap accounts or Direct Client accounts, NFJ Investment Group will be compensated for the investment management services it provides by AllianzGI US out of the fees it receives. NFJ Investment Group's and AllianzGI US' compensation from the Program Sponsors and Direct Clients vary, but it is generally between 0.15% and 0.50% of assets under management in the respective Program or Direct Client account. Generally, fees are payable quarterly in advance.

Wrap-fee clients typically receive a brochure detailing the wrap-fee program from the Program Sponsor prior to their selection of NFJ Investment Group as sub-adviser. Fees and features of each program offered by the various Program Sponsors vary and therefore, wrap-fee clients should consult the Program Sponsor's brochure for the specific fees and features applicable to their program.

### Investment Model Delivery to Unaffiliated Third Parties Fees

Generally, the Model Receiver will pay a portion of the fee it receives from the Program Sponsor to NFJ Investment Group. NFJ Investment Group would normally expect such fees to be generally within the same range as fees described under "Managed Account/Wrap-Fee Programs-Investment Sub-advisory Fees" although such fees may be higher or lower. Fees may be payable quarterly in arrears or in advance.

### Registered Investment Companies Sub-Advisory Fees

The fees NFJ Investment Group receives for sub-advisory services provided to Funds are separately negotiated between NFJ Investment Group and the unaffiliated or affiliated investment adviser and/or Fund. Fees may be performance-based, but typically are based on a percentage of assets under management. Clients invested in a Fund sub-advised by NFJ Investment Group should refer to the Fund's Prospectus for a listing of the applicable advisory and sub-advisory fees.

### Non-Registered Commingled Funds – Fees

The fees NFJ Investment Group receives for investment management or sub-advisory services provided to commingled funds are separately negotiated between NFJ Investment Group and the unaffiliated third party manager and/or the commingled fund. Clients invested in a commingled fund should refer to the fund's offering documents for additional information about the fees and expenses of the fund.

### Other Fees and Expenses

On behalf of its separate account clients and Fund clients, NFJ Investment Group may invest in Funds, exchange-traded funds ("ETFs"), and other pooled investment vehicles. When NFJ



Investment Group invests client assets in these investment vehicles, unless otherwise agreed and where permitted by applicable law, the client will bear its proportionate share of fees and expenses as an investor in the investment vehicle in addition to NFJ Investment Group's investment advisory or sub-advisory fees. The investment vehicle's prospectus, offering documents or other disclosure document contains a description of its fees and expenses.

In addition, NFJ Investment Group may invest client assets or recommend that clients invest in shares or other interests in certain funds to which NFJ Investment Group or its related persons provide investment advice or other services, and from which NFJ Investment Group and its affiliates receive advisory, administrative and/or distribution fees. To the extent that NFJ Investment Group invests client assets in an affiliated fund, NFJ Investment Group may, depending on the arrangement with the Program Sponsor or separate account client and any legal requirements, waive investment advisory fees on the assets invested in such investment company, credit the account for the fees paid by the Fund to NFJ Investment Group's related persons, avoid or limit the payment of duplicative fees to NFJ Investment Group and its related persons through other means, or charge fees both at the investment company level and separate account level. To the extent that fees and expenses incurred by any Fund purchased for the client's account are in addition to certain of the expenses covered by the managed account/wrap account fee, NFJ Investment Group and its affiliates may receive additional economic benefit when a client account is invested in such fund, and a conflict of interest may exist.

Investors in Funds advised or sub-advised by NFJ Investment Group will not be advisory clients of NFJ Investment Group (with respect to their investment in the fund), and NFJ Investment Group will not provide investment advice or recommendations with respect to the merits and suitability of the particular investment and investment decision for the particular investor. Investors in such Funds are encouraged to consult their own financial, tax and legal advisors regarding such decisions.

NFJ Investment Group's clients generally will incur brokerage and other transaction costs. Program clients should review all materials available from a third party sponsor concerning the program, sponsor and the program's terms, conditions and fees. Additional information about NFJ Investment Group's brokerage practices and brokerage costs can be found under Item 12.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

### **Performance-Based Fees**

Although NFJ Investment Group generally calculates its fixed advisory fees as a percentage of assets under management, NFJ Investment Group may also enter into a performance fee arrangement with a client pursuant to individualized negotiations with such client. NFJ Investment Group will structure performance fee arrangements in accordance with applicable law, including Rule 205-3 under the Advisers Act. Performance-based fee arrangements may create an incentive for an Adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

### **Side-By-Side Management**

NFJ Investment Group may manage funds registered under the Investment Company Act and other accounts with fixed management fees ("fixed fee accounts") along side other clients, including hedge funds, with performance based fees ("performance fee accounts"). There are potential conflicts of interest that arise due to the side-by-side management of fixed fee accounts with

performance fee accounts as there may be an incentive to favor the performance fee accounts over the fixed fee accounts in the allocation of investment opportunities. NFJ Investment Group has designed and implemented side-by-side policies and procedures to ensure that all clients are treated fairly and equitably, and to prevent this conflict from influencing the allocation of investment opportunities among clients. In addition, pursuant to NFJ Investment Group's trade allocation policy, accounts are treated in a non-preferential manner, such that allocations are not based upon account performance, fee structure or portfolio manager preference.

#### **ITEM 7. TYPES OF CLIENTS**

NFJ Investment Group may generally provide portfolio management services to individuals, high net worth individuals, corporations, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered mutual funds, private investment funds, trust programs, sovereign funds, non-U.S. funds, affiliated or non-affiliated registered investment advisers, insurance companies, foreign, state and local governments, supranational organizations, religious organizations, variable annuity plans, variable insurance trusts, collective investment trusts, other trusts and pooled vehicles, retirement plans, and other U.S. and international institutions.

#### **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

The following are descriptions of NFJ Investment Group's significant investment strategies including methods of analysis for each strategy. NFJ Investment Group reserves the right to limit the availability of any particular strategy at any given time based on factors including asset class capacity, pre-existing relationships, minimum account sizes, fees and distribution channels. In addition, NFJ Investment Group may develop other investment strategies from time to time and manage portfolios according to a client's specific investment guidelines, thus, strategies may vary by client account. Certain strategies may be available only in certain channels or through a purchase of shares of Funds. The descriptions of the investment strategies and risks below are qualified in their entirety by the information provided by NFJ Investment Group or the investment advisers for a given Fund or Program to their advisory clients, included in a Fund's prospectus and Statement of Additional Information or other official offering documentation, or included in or provided with any Program disclosure statement. Prior to investing in any Fund, please review the relevant prospectus or offering memorandum for important information. It should be noted that investing in securities involves risk of loss that clients should be prepared to bear.

For each investment strategy listed, NFJ Investment Group applies a fundamental research process which may include financial analysis of a company's balance sheet, cash flow statement, historical earnings and dividends, as well as other fundamental metrics.

##### **NFJ All-Cap Value**

This strategy seeks long-term growth of capital and income. The portfolio managers use a value investing style focusing on companies with low valuations across a broad range of industry groups. This strategy normally invests a significant portion of its assets in common stocks that the portfolio managers expect will generate income (for example, by paying dividends). This strategy will normally have some exposure to small, medium and large capitalization companies, although the portfolio manager reserves the flexibility to vary this strategy's relative weightings to each

capitalization range based on a number of factors. This strategy will normally seek to maintain approximately 35-50 stocks.

#### **NFJ Dividend Value**

This strategy seeks long-term growth of capital and income. The portfolio managers use a value investing style focusing on companies with low valuations across a broad range of industry groups. This strategy normally invests a significant portion of its assets in common stocks that the portfolio managers expect will generate income (for example, by paying dividends). This strategy will also invest a significant portion of its assets in common stocks of companies with market capitalizations greater than \$2 billion (USD). This strategy will normally seek to maintain approximately 40-60 stocks. Investable universe includes ADRs.

#### **NFJ International Value**

This strategy seeks long-term growth of capital and income. The portfolio managers use a value investing style focusing on companies with low valuations across a broad range of industry groups. This strategy seeks to achieve its investment objective by investing in approximately 40-60 stocks of non-U.S. companies (up to 50% of which may constitute emerging markets securities), a significant portion of which the portfolio managers expect will generate income (for example, by paying dividends). Investable universe includes ADRs and foreign ordinaries with an associated ADR.

#### **NFJ Large-Cap Value**

This strategy seeks long-term growth of capital and income. This strategy seeks to achieve its investment objective by normally investing in approximately 40-80 of the 400 largest publicly traded companies (in terms of market capitalization) in the United States. The portfolio managers use a value investing style focusing on companies with low valuations across a broad range of industry groups. This strategy normally invests a significant portion of its assets in common stocks that the portfolio managers expect will generate income (for example, by paying dividends).

#### **NFJ Mid-Cap Value**

This strategy seeks long-term growth of capital and income. This strategy primarily invests in common stocks of companies with medium market capitalizations. This strategy currently defines the medium market capitalization companies as those companies in the bottom 800 of the 1,000 largest North American companies (in terms of market capitalization) that are publicly traded on U.S. securities markets. Investable universe includes ADRs. The portfolio managers use a value investing style focusing on companies with low valuations across a broad range of industry groups. This strategy normally invests a significant portion of its assets in common stocks that the portfolio managers expect will generate income (for example, by paying dividends). This strategy normally holds approximately 35 to 50 stocks.

#### **NFJ Small-Cap Value**

This strategy seeks long-term growth of capital and income. This strategy invests primarily in common stocks of companies with market capitalizations between approximately \$100 million and \$3.5 billion (USD). The portfolio managers use a value investing style focusing on companies with low valuations across a broad range of industries. This strategy normally invests a significant portion of its assets in common stocks that the portfolio managers expect will generate income (for example, by paying dividends). Accounts invested in the Small Cap Value strategy normally hold approximately 100 stocks. NFJ Investment Group also manages a similar Small Cap Broad strategy.

Accounts invested in the Small Cap Broad strategy normally hold approximately 100 to 150 stocks. The Small Cap Value investable universe includes ADRs, whereas the Small Cap Broad investable universe includes ADRs and foreign ordinaries. NFJ Investment Group also manages a Small Cap Concentrated strategy, which follows a process similar to the Small Cap Broad strategy, but typically holds approximately 30 – 35 stocks. The holding sizes are targeted at 3% equally-weighted. The Small-Cap Concentrated strategy is currently offered only to managed account/wrap-fee program accounts managed by AllianzGI US.

#### **NFJ Global Dividend Value**

This strategy seeks long-term growth of capital and income. This strategy seeks to achieve this objective by normally investing in common stocks of US and non-US companies with market capitalizations in excess of \$1 billion (USD). The portfolio managers use a value investing style focusing on companies with low valuations across a broad range of industries. This strategy normally invests a significant portion of its assets in common stocks that the portfolio managers expect will generate income (for example, by paying dividends). This strategy normally holds approximately 40-60 stocks. Investable universe includes ADRs and foreign ordinaries with an associated ADR.

#### **NFJ Mid Cap Value 100**

This strategy seeks long-term growth of capital and income. This strategy primarily invests in common stocks and other equity securities of companies with small to medium market capitalizations (between \$2 billion and \$17.5 billion). The portfolio managers use a value investing style focusing on companies with low valuations across a broad range of industry groups. This strategy normally invests a significant portion of its assets in common stocks that the portfolio managers expect will generate income (for example, by paying dividends). This strategy may invest up to 25% of its assets in non-U.S. securities, without limit in ADRs.

#### **NFJ International Small Cap Value**

This strategy seeks long-term growth of capital and income. This strategy invests primarily in common stocks of companies with market capitalizations between approximately \$500 million and \$5.0 billion (USD). The portfolio managers use a value investing style focusing on companies with low valuations across a broad range of industry groups. This strategy seeks to achieve its investment objective by investing in approximately 125-200 stocks of non-U.S. companies (up to 20% of which may constitute emerging markets securities), a significant portion of which the portfolio managers expect will generate income (for example, by paying dividends). Investable universe includes ADRs and foreign ordinaries.

In addition to the types of investments listed above, NFJ Investment Group may also recommend to its clients, or may invest its client assets in other types of investments including investment trusts including real estate investment trusts (“REITs”), and master limited partnerships.

Furthermore, NFJ Investment Group may invest in securities that trade on a U.S. exchange and also on a non-U.S. exchange (“Dually-Listed Securities”). Dually-Listed Securities may be purchased and/or sold by NFJ Investment Group on one or both of such exchanges (i.e., the non-U.S. exchange and the U.S. exchange) on which the Dually-Listed Security trades, but, in any case, the Dually-Listed Security will be treated as a security traded on a U.S. exchange for purposes of client investment guidelines and restrictions (including prospectus requirements).

### NFJ Emerging Markets Value

This strategy seeks long-term capital appreciation. This strategy primarily invests in equity securities of companies that are domiciled in or tied economically to countries with emerging securities markets – that is, countries with securities markets which are, in the opinion of the portfolio managers, less sophisticated than more developed markets in terms of participation by investors, analyst coverage, liquidity and regulation. This may be achieved by investing in ADRs and other depositary receipts, in addition to direct investments in the securities of non-US issuers. This strategy may also invest in derivative instruments such as participatory notes.

The following important information pertaining to material risks should be considered when investing in these strategies:

### Equity Securities Risk

Equity securities represent an ownership interest, or the right to acquire an ownership interest, in an issuer. Equity securities may take the form of shares of common stock of a corporation, membership interests in a limited liability company, limited partnership interests, or other forms of ownership interests. Equity securities also include, among other things, preferred stocks, convertible securities and warrants. The value of a company's equity securities may fall as a result of factors directly relating to that company, such as decisions made by its management or lower demand for the company's products or services. The value of an equity security may also fall because of factors affecting not just the company, but also companies in the same industry or in a number of different industries, such as increases in production costs. The value of a company's equity securities may also be affected by changes in financial markets that are relatively unrelated to the company or its industry, such as changes in interest rates or currency exchange rates or adverse circumstances involving the credit markets. In addition, because a company's equity securities rank junior in priority to the interests of bond holders and other creditors, a company's equity securities will usually be more vulnerable than its bonds and other debt to actual or perceived changes in the company's financial condition or prospects. To the extent a strategy invests in equity-related instruments it will also be subject to these risks.

### Value Investing Risk

Certain of the strategies may invest in equity securities of companies that NFJ Investment Group's portfolio managers believe are selling at a price lower than their true value (value securities). Companies that issue value securities may have experienced adverse business developments or may be subject to special risks that have caused their securities to be out of favor. If a portfolio manager's assessment of a company's prospects is wrong, or if the market does not recognize the value of the company, the price of its securities may decline or may not approach the value that the portfolio manager anticipates.

### Smaller Company Risk

The general risks associated with investing in equity securities and liquidity risk are particularly pronounced for securities of companies with smaller market capitalizations. These companies may have limited product lines, markets or financial resources or they may depend on a few key employees. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities, and their values may fluctuate more sharply than other securities. They may also trade in the over-the-counter market or on a regional exchange, or may otherwise have limited liquidity. Companies with medium-sized market capitalizations also have substantial exposure to these risks.

### Market Risk

The market price of securities owned in a strategy may go up or down, sometimes rapidly or unpredictably. To the extent a strategy invests substantially in equity securities, a principal risk of investing in the strategy is that the investments in its portfolio will decline in value due to factors affecting securities markets generally or particular industries or sectors represented in those markets. The values of securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, adverse changes to credit markets or adverse investor sentiment generally. They may also decline due to factors that disproportionately affect a particular industry, group of related industries or sector, such as labor shortages or increased production costs and competitive conditions within an industry or sector. The market price of fixed income securities, as well as equity securities and other types of investments, may decline due to changes in interest rates or other factors affecting the applicable markets generally. Equity securities generally have greater price volatility than fixed income securities. During a general downturn in securities markets, multiple asset classes may decline in value simultaneously.

### Non-U.S. Investment Risk

A strategy that invests in non-U.S. securities may experience more rapid and extreme changes in value than strategies that invest exclusively in securities of U.S. issuers or securities that trade exclusively in U.S. markets. The securities markets of many non-U.S. countries are relatively small, with a limited number of companies representing a small number of industries. Additionally, issuers of non-U.S. securities are often not subject to the same degree of regulation as U.S. issuers. Reporting, accounting and auditing standards of non-U.S. countries differ, in some cases significantly, from U.S. standards. Also, nationalization, expropriation or confiscatory taxation, currency blockage, market disruption, political changes, security suspensions or diplomatic developments could adversely affect a strategy's investments in a non-U.S. country. In the event of nationalization, expropriation or other confiscation, a strategy could lose its entire investment in non-U.S. securities. To the extent that a strategy invests a significant portion of its assets in a particular currency or geographic area, the strategy will generally have more exposure to regional economic risks, including weather emergencies and natural disasters, associated with non-U.S. investments. For example, because certain of the strategies may invest more than 25% of their assets in particular countries, these strategies may be subject to increased risks due to political, economic, social or regulatory events in those countries. Adverse developments in certain regions can also adversely affect securities of other countries whose economies appear to be unrelated. In addition, a strategy's investments in non-U.S. securities may be subject to withholding and other taxes imposed by countries outside the U.S., which could reduce the return on an investment.

### Management Risk

Each strategy is subject to management risk because it is an actively managed investment portfolio. NFJ Investment Group will apply investment techniques and risk analyses in making investment decisions for the strategies, but there can be no guarantee that these will produce the desired results. The strategies are also subject to the risk that deficiencies in the internal systems or controls of a service provider will cause losses for the strategies or hinder operations. For example, trading delays or errors (both human and systemic) could prevent a strategy from purchasing a security expected to appreciate in value. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to NFJ Investment Group in connection with managing the



strategies and may also adversely affect the ability of the strategies to achieve their investment objectives.

#### Concentration Risk

Focusing investments in a small number of issuers, industries, foreign currencies or regions increases risk. This may be due to changes in the value of a single security or the impact of a single economic, political or regulatory occurrence. Some of those issuers also may present substantial credit or other risks. Certain strategies may be subject to increased risk to the extent they focus their investments in securities denominated in a particular foreign currency or in a narrowly defined geographic area outside the United States. Similarly, a strategy that focuses its investments in a certain type of issuer is particularly vulnerable to events affecting such type of issuer. Also, a strategy may have greater risk to the extent it invests a substantial portion of their assets in a group of related industries (or “sectors”). The industries comprising any particular sector and investments in a particular foreign currency or in a narrowly defined geographic area outside the United States may share common characteristics, are often subject to similar business risks and regulatory burdens, and react similarly to economic, market, political or other developments.

#### Emerging Markets Risk

Strategies that invest in non-U.S. securities may experience more rapid and extreme changes in value than strategies that invest exclusively in securities of U.S. issuers or securities that trade exclusively in U.S. markets. See “Non-U.S. Investment Risk.” Non-U.S. investment risk may be particularly high to the extent that a strategy invests in emerging market securities, that is, securities of issuers tied economically to countries with developing economies. These securities may present market, credit, currency, liquidity, legal, political, technical and other risks different from, or greater than, the risks of investing in developed countries. In addition, the risks associated with investing in a narrowly defined geographic area (discussed under “Non-U.S. Investment Risk” and “Concentration Risk”) are generally more pronounced with respect to investments in emerging market countries. A strategy may also be subject to this risk if it invests in derivatives or other securities or instruments whose value or returns are related to the value or returns of emerging market securities.

#### Currency Risk

Strategies that invest directly in foreign (non-U.S.) currencies, or in securities that trade in, or receive revenues in, foreign currencies, or in derivatives that provide exposure to foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or non-U.S. governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, an account’s exposure to foreign currencies, including investments in foreign currency-denominated securities, may reduce the returns of the account.

#### Liquidity Risk

Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing a sale of such illiquid securities at an advantageous time or price, or possibly requiring the disposition of other investments at unfavorable times or prices in order to satisfy a strategy’s obligations. Investment strategies that involve securities of companies with smaller market

capitalizations, non-U.S. securities, Rule 144A securities, derivatives or securities with substantial market and/or credit risk tend to have the greatest exposure to liquidity risk. Additionally, the market for certain investments may become illiquid under adverse market or economic conditions independent of any specific adverse changes in the conditions of a particular issuer. In such cases, a strategy, due to limitations on investments in illiquid securities and the difficulty in purchasing and selling such securities or instruments, may be unable to achieve its desired level of exposure to a certain issuer or sector.

#### REIT Risk

To the extent that a strategy invests in real estate investment trusts (REITs), it will be subject to the risks associated with owning real estate and with the real estate industry generally. These include difficulties in valuing and disposing of real estate, the possibility of declines in the value of real estate, risks related to general and local economic conditions, the possibility of adverse changes in the climate for real estate, environmental liability risks, the risk of increases in property taxes and operating expenses, possible adverse changes in zoning laws, the risk of casualty or condemnation losses, limitations on rents, the possibility of adverse changes in interest rates and in the credit markets and the possibility of borrowers paying off mortgages sooner than expected, which may lead to reinvestment of assets at lower prevailing interest rates. To the extent a strategy invests in REITs, it will also be subject to the risk that a REIT will default on its obligations or go bankrupt. Investments in REITs could cause a strategy to recognize income in excess of cash received from those securities and, as a result, a strategy may be required to sell portfolio securities, including when it is not advantageous to do so, in order to make required distributions.

#### Turnover Risk

A change in the securities held by in an account is known as “portfolio turnover.” Higher portfolio turnover involves correspondingly greater expenses to an account, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are taxed as ordinary income when distributed to individual clients), and may adversely impact an account’s after-tax returns. The trading costs and tax effects associated with portfolio turnover may adversely affect an account’s performance.

#### Depository Receipt Risk

Certain strategies may invest in securities of non-U.S. companies in the form of ADRs. ADRs are negotiable certificates issued by a U.S. financial institution that represent a specified number of shares in a foreign stock and trade on a U.S. national securities exchange, such as the New York Stock Exchange. The securities underlying an ADR are usually denominated or quoted in currencies other than the U.S. Dollar. As a result, changes in foreign currency exchange rates may affect the value of a portfolio's investment. Generally, when the U.S. Dollar rises in value against a foreign currency, a security denominated in that currency loses value because the currency is worth fewer U.S. Dollars. In addition, because the underlying securities of ADRs trade on foreign exchanges at times when the U.S. markets are not open for trading, the value of the securities underlying the ADRs may change materially at times when the U.S. markets are not open for trading.

#### Additional Disclosure – “Foreign” Securities:

From time to time, NFJ Investment Group accepts investment mandates from its clients that either require, to varying degrees, investment in “foreign” securities or that restrict such investments. Sometimes different geographical terms are used for these purposes (e.g., “non-U.S. securities”,



“European” securities, “emerging markets,” etc.). The globalization and integration of the world economic system and related financial markets have made it increasingly difficult to define issuers geographically. Accordingly, and unless otherwise specifically agreed to in writing with individual clients, NFJ Investment Group intends to construe geographic terms such as “foreign,” “non-U.S.,” “European” and “emerging markets” in the manner that affords to NFJ Investment Group the greatest flexibility in seeking to achieve the investment objective(s) of its investment advisory clients. Specifically, in circumstances where the investment advisory mandate is to invest (a) exclusively in “foreign securities,” “non-U.S. securities,” “international securities,” “European securities,” “emerging markets” (or similar directions) or (b) at least some percentage of the client’s assets in foreign securities, etc., NFJ Investment Group will take the view that a security meets this description so long as the issuer of a security is tied economically to the particular country or geographic region indicated by words of the relevant investment mandate (the “Relevant Language”). For these purposes the issuer of a security is deemed to have that tie if:

- (i) the issuer is organized under the laws of the country or a country within the geographic region suggested by the Relevant Language or maintains its principal place of business in that country or region; or
- (ii) the securities are traded principally in the country or region suggested by the Relevant Language; or
- (iii) the issuer, during its most recent fiscal year, derived at least 50% of its revenues or profits from goods produced or sold, investments made, or services performed in the country or region suggested by the Relevant Language or has at least 50% of its assets in that country or region.

In addition, NFJ Investment Group intends to look through private and registered investment companies for these purposes and to treat derivative securities (e.g., equity linked notes) by reference to the underlying security. Conversely, if the investment advisory mandate limits the percentage of assets that may be invested in “foreign securities,” etc. or prohibits such investments altogether, NFJ Investment Group may categorize securities as “foreign,” etc. only if the security possesses all of the attributes described above in clauses (i), (ii) and (iii).

#### **ITEM 9. DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client’s or prospective client’s evaluation of or the integrity of NFJ Investment Group.

#### **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Certain of NFJ Investment Group’s officers and portfolio managers are registered representatives of NFJ Investment Group’s affiliated broker-dealer, Allianz Global Investors Distributors LLC.

NFJ Investment Group is a wholly owned subsidiary of AllianzGI US and direct subsidiary of Allianz Global Investors U.S. Holdings LLC, each a Delaware limited liability company, the parent company of five assets managers in the U.S. Allianz Global Investors U.S. Holdings LLC is a wholly owned subsidiary of Allianz Asset Management of America L.P., a Delaware limited liability company. Allianz Asset Management of is indirectly owned by Allianz SE, a diversified global financial

institution. Through this ownership structure and through other entities owned by NFJ Investment Group's direct and indirect owners, NFJ Investment Group has various financial industry affiliations, some of which are described below. As a result of NFJ Investment Group's investment management activities and the investment management and other business activities of the firms' affiliates and its and their officers and employees in the financial markets, NFJ Investment Group may, from time to time, be precluded under applicable law from buying a particular security for client accounts or selling all or a portion of a security position held in client accounts. While NFJ Investment Group believes that the inability to buy or sell a particular security is unlikely to occur, it could have a detrimental effect on client accounts.

NFJ Investment Group is directly or indirectly related to a number of SEC-registered broker-dealers, including Allianz Global Investors Distributors LLC and Allianz Life Financial Services, LLC. Allianz Global Investors Distributors LLC is a limited-purpose broker-dealer which serves as the distributor and principal underwriter to certain funds affiliated with NFJ Investment Group and funds for which NFJ Investment Group provides advisory or subadvisory services. See below for additional information regarding Allianz Global Investors Distributors LLC.

NFJ Investment Group is related to a number of SEC-registered investment advisers through common ownership or otherwise, including but not limited to Allianz Global Investors Fund Management LLC, Allianz Global Investors US LLC, and Pacific Investment Management Company LLC. NFJ Investment Group is also related to a number of non-U.S. investment advisers, through common ownership or otherwise, including (but not limited to) Allianz Global Investors Allianz Global Investors Singapore Limited, Allianz Global Investors Europe GmbH, , Allianz Global Investors Luxembourg S.A., and Allianz Global Investors France S.A. NFJ Investment Group may act as sub-adviser to accounts advised by certain of the related non-U.S. advisers. Clients' fees are allocated between the NFJ Investment Group and the non-U.S. affiliate with reference to relevant U.S. and non-U.S. tax laws and considerations based upon the types of services provided in the relevant jurisdiction.

### **Arrangements with Affiliates**

NFJ Investment Group may enter into relationships with affiliated investment advisers including investment management or sub-advisory arrangements which may be on a discretionary or non-discretionary basis whereby NFJ Investment Group acts as the sub-adviser. The affiliated investment adviser may act as the investment adviser for: (a) affiliated Mutual Funds or Closed-End Funds, (b) an unaffiliated client or (c) in connection with managed accounts/wrap programs or similar programs that are sponsored by various financial intermediaries and, in particular, as described in Item 4, as a sub-adviser to AGI Managed Accounts in connection with Programs and other accounts it manages or sub-advises.

NFJ Investment Group may, from time to time, manage assets for Allianz SE and other direct and indirect equity holders in Allianz Asset Management of America L.P. NFJ Investment Group may also provide investment management services to affiliated insurance companies, including insurance companies owned or controlled by Allianz SE. These amounts may from time to time be material to NFJ Investment Group's investment advisory business.

NFJ Investment Group acts as the sub-adviser to an affiliated family of Mutual Funds called the Allianz Funds. The Allianz Funds are open-ended management investment companies whose shares are registered under the Securities Act of 1933, as amended, and which are registered themselves under the Investment Company Act. The Allianz Funds are advised by Allianz Global

Investors Fund Management LLC, a wholly owned subsidiary of Allianz Global Investors U.S. Holdings LLC. Please see Item 4 for additional information.

Certain employees of the NFJ Investment Group are associated with Allianz Global Investors Distributors LLC. These employees, who may be involved with sales, marketing and investment management of the Allianz Funds, are registered representatives of Allianz Global Investors Distributors LLC. The Allianz Funds may pay an investment management or administrative fee to NFJ Investment Group in addition to Allianz Global Investors Distributors LLC receiving sales commissions or distribution fees from NFJ Investment Group or an affiliate, including 12b-1 fees, loads or contingent deferred sales charges.

NFJ Investment Group acts as the sub-adviser to affiliated Closed-End Funds including the equity portion of the NFJ Dividend, Interest & Premium Strategy Fund, which is an investment company whose shares are registered under the Securities Act of 1933 and which is itself registered under the Investment Company Act. This Closed-End Fund is advised by Allianz Global Investors Fund Management LLC. NFJ Investment Group and its affiliates may advise various other independent (non-affiliated) mutual funds.

Certain clients may have established custodial or sub-custodial arrangements with non-U.S. banks or other financial institutions that are affiliated or related to NFJ Investment Group or its affiliates. However, there are no such relationships that would provide advisory personnel with possession of or access to client assets such as would make NFJ Investment Group a custodian of its client assets.

NFJ Investment Group may delegate investment management-related responsibilities (such as client servicing activities) to its affiliates and may pay a portion of its investment management fee to such affiliates.

Certain corporate services such as information technology, business systems, human resources, legal and finance are provided to NFJ Investment Group by Allianz Asset Management of America L.P. and/or AllianzGI US LLC. In certain instances, NFJ Investment Group may utilize the trading desk(s) of AllianzGI US LLC to facilitate transactions for its clients. This activity is described in greater detail in Item 12 below.

### **Additional Compensation**

#### **Amounts Received by NFJ Investment Group**

As noted above, NFJ Investment Group acts as a sub-adviser to its affiliate, AllianzGI US, in connection with AllianzGI US' management of managed accounts/wrap fee clients. NFJ Investment Group receives a fee from AllianzGI US (rather than the Program Sponsors or managed accounts/wrap program accounts). Similarly, when NFJ Investment Group provides investment management services to a registered investment company or other entity pursuant to a sub-advisory agreement, NFJ Investment Group receives its investment management fees from the primary adviser for the entity in many instances.

#### **Amounts Paid by NFJ Investment Group**

NFJ Investment Group and its affiliates have compensated, and may continue to compensate affiliated and unrelated third parties for client referrals in accordance with Rule 206(4)-3 under the Advisers Act. The compensation paid to any such third party will typically consist of a cash payment stated as a percentage of the NFJ Investment Group investment advisory fee or the referred amount

of assets under management, but may also include cash payments determined by other methods. In addition, for certain accounts, a portion of NFJ Investment Group's fee may be paid to an affiliate for client servicing activities.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

NFJ Investment Group has adopted a Code of Ethics ("Code") pursuant to Rule 204A-1 under the Advisers Act. NFJ Investment Group's officers, employees, and associated persons (collectively, "Employees") are required to follow the Code, which sets out standards of conduct and helps NFJ Investment Group detect and prevent potential conflicts of interest. The Code covers personal securities transactions of all Employees and their family members (as defined in the Code), which includes most persons sharing the same household as the Employee. Although the Code permits Employees to trade in securities for their own accounts, Employees are required to follow the Code, which contains preclearance procedures, reporting requirements, and other provisions that restrict trading by Employees. In some circumstances, Employees may trade in securities for their own accounts that are recommended to and/or purchased by our clients. In these circumstances, there is a possibility that the Employee may benefit from market activity within a client account. Employee trading is monitored for compliance with the Code. Any Employee who violates the Code may be subject to penalties, including, but not limited to: a letter of caution, warning, recertification of the Code, disgorgement of profits, suspension of trading privileges, or suspension, and under certain circumstances termination of employment and/or referral to governmental authorities. Employees are required to annually certify compliance with the Code. NFJ Investment Group will provide clients and prospective clients with a copy of the Code upon request.

### **Participation or Interest in Client Transactions**

NFJ Investment Group itself does not, in its capacity as a principal, knowingly or intentionally buy securities for itself from, or sell securities it owns to, any of its clients. NFJ Investment Group generally limits transactions on behalf of its clients with or through any affiliated company. Affiliated transactions include executing client transactions through a broker-dealer or counterparty that is affiliated, directly or indirectly, with NFJ Investment Group. Affiliated investments include an investment by NFJ Investment Group on behalf of clients in the securities of Allianz SE or one of its affiliates. In addition, the Employee Retirement Income Security Act of 1974 ("ERISA") and the Investment Company Act impose limitations on NFJ Investment Group's ability to purchase securities in an underwriting if an affiliated broker-dealer is the manager or member of the underwriting or selling syndicate. NFJ Investment Group has a general policy to avoid transactions executed through affiliated brokers-dealers. However, if consistent with fiduciary obligation, applicable law, and client guidelines, NFJ Investment Group may use affiliated broker-dealers to effect transactions in client accounts. NFJ Investment Group generally prohibits investments in securities issued by Allianz SE and its affiliates.

### **Interests in Issuers or Recommended Securities**

NFJ Investment Group may recommend that its clients purchase or sell, or use its discretion to effect a buy or sell for its clients, securities for which NFJ Investment Group or its affiliates may be a sponsor, adviser or sub-adviser with respect to the issuer of such securities. In addition, NFJ Investment Group may also recommend that its clients effect or use its discretion to effect a transaction in securities in which NFJ Investment Group, its affiliates or their personnel may have

an ownership or management interest and may receive a direct or indirect benefit, as a selling shareholder, return of capital or otherwise, from the purchase by NFJ Investment Group's clients in such offerings. In connection with these relationships, NFJ Investment Group may receive an investment management fee in its capacity as investment adviser or sub-adviser. In addition, Allianz Global Investors Distributors LLC and/or other affiliated broker-dealers may receive certain amounts associated with administrative fees, 12b-1 fees, loads or contingent deferred sales charges. Please see Item 10 for additional information.

NFJ Investment Group and its affiliates also may invest client assets in securities of companies that compensate NFJ Investment Group's affiliated broker-dealers for investment banking and other services. NFJ Investment Group's portfolio managers will not take any such compensation into consideration when determining whether to purchase or sell such a security. In addition, client portfolios may include the securities of companies in which its affiliated broker-dealers make a market or in which NFJ Investment Group or its affiliates, its officers and Employees and its affiliated broker-dealers or other related persons and their officers or employees have positions. In the course of providing the services discussed herein, NFJ Investment Group, its Employees or its affiliates may come into possession of material, nonpublic information that might affect its ability to buy, sell, or hold a security for a client account. Information barrier policies and insider trading policies address such situations. NFJ Investment Group and its Employees will be prohibited from using such information to buy or sell securities until such information has been disclosed to the public or is no longer material.

#### **Other Conflicts of Interest Matters**

NFJ Investment Group or one of its related persons may, for its own account, buy or sell securities or other instruments that NFJ Investment Group has purchased or sold for its clients. Additionally, NFJ Investment Group may purchase or sell for clients securities in which it or related persons have a financial interest. NFJ Investment Group's related persons may issue recommendations on securities held by NFJ Investment Group's client portfolios that may be contrary to the investment activities of NFJ Investment Group. Please refer to the description of NFJ Investment Group's Code of Ethics above. In the ordinary course of business, NFJ Investment Group or related persons may establish "seeded" funds for the purpose of developing new investment strategies and products. These "seeded" funds may be in the form of registered investment companies, private funds such as partnerships or limited liability companies or separate accounts established by NFJ Investment Group or an affiliate and may initially be funded ("seeded") by NFJ Investment Group, Employees of NFJ Investment Group or an affiliate of NFJ Investment Group. These "seeded" funds may invest in the same securities as client accounts. NFJ Investment Group or a related person may, from time to time, make a proprietary investment in pooled investment vehicles that may also include client assets managed by NFJ Investment Group or another unaffiliated entity. NFJ Investment Group will receive proportional returns associated with its investment. In addition, NFJ may receive direct or indirect fees.

#### **Participation or Interest in Personal Trading – Client Trading**

NFJ Investment Group permits its Employees to engage in personal securities transactions, and to purchase and sell securities that may be suitable for investment by client accounts. Personal securities transactions may raise potential conflicts of interest with the interests of NFJ Investment Group's clients. Accordingly, NFJ Investment Group's Employees and persons associated with NFJ Investment Group are required to follow the Code and the policies and procedures of NFJ Investment Group (the "Policies"). The Code and the Policies are designed to ensure that the

personal securities transactions, activities and interests of the Employees of NFJ Investment Group will not interfere with making decisions in the best interest of advisory clients while, at the same time, allowing Employees to invest for their own accounts.

Employees deemed to be “Access Persons” under the Code are subject to certain blackout periods, whereby they may not purchase or sell securities (except for securities considered to be exempted or otherwise permitted under the Code) if, at the time of pre-clearance (i) there is a pending buy or sell order on the relevant trading desk for a client in the same security or an equivalent security; or (ii) the same security or an equivalent security has been purchased or sold by a client during the blackout period set forth under the Code.

Certain employees who make or participate in making recommendations on securities, as well as certain employees in a control relationship with NFJ Investment Group or its affiliates and who may obtain information concerning securities recommendations are considered “Investment Persons” under the Code. Investment Persons are subject to more restrictive trading prohibitions than those described above. In addition, certain related persons of NFJ Investment Group may be subject to greater restrictions than those applicable to Investment Persons under the Code.

## **ITEM 12. BROKERAGE PRACTICES**

### **Brokerage Discretion**

Generally, NFJ Investment Group receives full discretion from its clients to choose broker-dealers through whom transactions may be executed. Some clients may, however, direct NFJ Investment Group to only use a designated broker-dealer(s), while other clients suggest that NFJ Investment Group use a designated broker-dealer(s) subject to NFJ Investment Group’s ability to obtain best execution when executing a transaction with such designated broker-dealer(s).

When exercising its brokerage discretion, NFJ Investment Group maintains an Approved Broker List from which it selects broker-dealers to execute brokerage transactions. The Approved Brokers are generally evaluated annually by the portfolio managers and analysts to identify the research services provided by, or to be provided by, the Approved Brokers. Approved Brokers are also evaluated by NFJ traders for quality of execution. In addition, Compliance performs certain compliance reviews of each broker-dealer proposed for addition to the Approved Broker List and continues to monitor each broker-dealer on the Approved Broker List periodically.

When selecting a broker-dealer from the NFJ Approved Broker List, it is NFJ Investment Group’s policy, consistent with investment considerations, to seek the most favorable net results under the circumstances based on the information available at the time. Such considerations take into account factors such as price, size of order (including the broker-dealer’s ability to effect the transaction where a large block is involved)/market impact and commission. NFJ Investment Group will also take into account a broker-dealer’s ability to discover and access markets that will yield the best price and execution. NFJ Investment Group will also consider, among others, factors such as the broker-dealer’s trading and execution, clearing and settlement capabilities, past history of prompt and reliable execution of client trades, financial stability, reputation, operational efficiency, maintenance of client confidentiality, depth of services (including research and coverage), access to markets and access to capital to accommodate trades.

Negotiated commissions take into account the difficulty involved in execution, the time taken to conclude the transaction, the extent of the broker-dealer’s commitment, if any, of its own capital



and the amount involved in the transaction. As more fully described below, negotiated commissions may also take into account whether or not soft dollars are generated or research services are provided by a broker-dealer.

In the selection of broker or dealers, NFJ Investment Group does not adhere to any rigid formulas but weighs a combination of the factors described above based on the information available at the time of the trade under the current circumstances. The overriding objective in the selection of broker-dealers is their ability to secure the best possible execution of orders taking into account all of the foregoing factors. “Best execution” is not synonymous with the lowest brokerage commission. Consequently, in a particular transaction a client may pay a brokerage commission in excess of that which another broker-dealer might have charged for executing the same transaction.

#### **Soft Dollars - Research Products and Services**

NFJ Investment Group may place securities transactions on behalf of its clients through broker-dealers that provide NFJ Investment Group with investment research services. Such services provide assistance to NFJ Investment Group in the investment decision-making process (collectively, “Research Products and Services”). Research Products and Services include, but are not limited to, advice as to the value of securities, the advisability of investing in, purchasing or selling securities, financial publications, services providing information regarding the availability of securities and potential buyers or sellers of securities and furnishing analysis and reports concerning issuers, industries, securities, economic and political factors and trends, portfolio strategy, asset allocation, market analysis, portfolio structure, meetings with management representatives of issuers and other analysts. Research Products and Services may also include quotation services, exchange feeds, news feeds, quantitative analytical software and other research-oriented software, communications services related to the execution, clearing and settlement of securities transactions, electronic communications of allocation instructions to broker-dealers and post-trade matching. In recognition of the value of such Research Products and Services that are provided to NFJ Investment Group by a particular broker-dealer, NFJ Investment Group may, consistent with its duty to seek best execution, effect securities transactions which may cause a client to pay such broker-dealer an amount of commission in excess of the amount of commission another broker-dealer would have charged. With respect to these arrangements, NFJ Investment Group intends to comply with the “safe harbor” provided by Section 28(e) of the Securities Exchange Act of 1934, as amended, which permits the use of commissions or “soft dollars” to obtain “brokerage and research” services. Conduct outside of the safe harbor that is afforded by Section 28(e) is subject to applicable standards of fiduciary duty under applicable law and the Advisers Act.

#### **Soft Dollars - Soft Dollar Credits**

In exchange for the direction of commissions to certain broker-dealers, NFJ Investment Group may generate credits (“Soft Dollar Credits”) which may be used by NFJ Investment Group to pay for the Research Products and Services provided by or paid for by such broker-dealers. This may create an incentive for NFJ Investment Group to allocate more commission business to broker-dealers who provide Research Products and Services than to broker-dealers who only effect securities transactions. Soft Dollar Credits may be (i) used to obtain Research Products and Services that are proprietary to, and prepared by, the broker-dealer selected to effect a particular transaction generating the Soft Dollar Credits or third party Research Products and Services prepared or developed by an independent research provider or (ii) allocated to a pool of “credits” as part of a commission sharing arrangement.

### **Proprietary Research Products and Services**

A limited number of broker-dealers included on NFJ's Approved Broker List provide proprietary research services and, when all other factors are generally considered equal, may be selected to effect transactions primarily as a result of such research services. For those broker-dealers only, NFJ Investment Group periodically projects the amount of commission dollars that represents a fair valuation for the proprietary research services NFJ Investment Group expects to receive and the traders use that amount as a minimum target for trading with such broker-dealers. NFJ Investment Group will determine the value of such proprietary Research Products and Services by taking into account the cost of similar services it uses or that are available to the industry.

### **Third Party Research Products and Services**

As noted above, NFJ Investment Group may generate Soft Dollar Credits by trading with a particular broker-dealer and use such Soft Dollar Credits to pay for Research Products and Services that are prepared or developed by independent research providers. NFJ Investment Group monitors the payments requested to be made for third party Research Products and Services relative to the trading commissions paid to the broker-dealer generating such Soft Dollar Credits.

### **Commission Sharing Arrangements**

NFJ Investment Group may, from time to time, request broker-dealers effecting transactions on behalf of its clients to allocate a portion of the commission to a pool of "credits" maintained by the introducing or executing broker-dealer from which the introducing or executing broker-dealer, at NFJ Investment Group's direction, pays independent research providers (which may include other broker-dealers) for Research Products and Services ("Commission Sharing Arrangements"). Commission Sharing Arrangements may be used to pay for both proprietary and third party Research Products and Services. Unlike other soft dollar arrangements, the introducing or executing broker-dealer is not required to have the prior legal obligation to pay for the Research Products and Services. Commission Sharing Arrangements help enable an investment manager to select an appropriate broker-dealer for trade execution regardless of whether or not the broker-dealer prepares or develops the Research Products and Services used by the investment manager. For example, an introducing broker-dealer may offer access to a network of many executing broker-dealers through which an investment manager can trade. Accordingly, instead of paying a broker-dealer for its research by trading with it directly, the investment manager directs the introducing or executing broker-dealer to pay the research provider from the pool of "credits" accumulated. Because Commission Sharing Arrangements help separate the execution decision from the research decision, NFJ Investment Group believes that Commission Sharing Arrangements are another tool that can assist it in seeking to achieve best execution for clients. NFJ Investment Group will determine the value of the Research Products and Services paid for through Commission Sharing Arrangements by taking into account the cost of similar services it uses or that are available to the industry.

### **Soft Dollars - Step-Out Transactions for Research**

NFJ Investment Group may, from time to time, request broker-dealers effecting transactions on behalf of its clients to "step-out" transactions to certain other broker-dealers in order to generate Soft Dollar Credits to pay for Research Products and Services provided by or paid for by such other broker-dealers. Under a "step out" transaction, NFJ Investment Group would instruct the executing broker-dealer to arrange for the designated broker-dealer to handle clearance and settlement of the transaction for a portion of an aggregated trade. The affected clients are assessed a commission



only by the broker-dealer who clears the transaction. The executing broker-dealer receives compensation in the form of commission with respect to the portion of the aggregated trade that was not “stepped out” to the designated broker-dealer.

#### **Soft Dollars - Conflicts of Interest**

To the extent that NFJ Investment Group uses Soft Dollar Credits (including Commission Sharing Arrangements) to obtain Research Products and Services, NFJ Investment Group will be receiving a benefit by reason of the direction of commissions. Any such benefit may offset or reduce certain expenses for which NFJ Investment Group would otherwise be responsible for payment. NFJ Investment Group believes, however, that the acquisition of Research Products and Services provides its clients with benefits by supplementing the research and brokerage services otherwise available to NFJ Investment Group and its clients. The investment research that is provided to NFJ Investment Group by broker-dealers in connection with securities transactions is in addition to and not in lieu of the services required to be performed by NFJ Investment Group itself, and the investment management fee payable by its clients is not reduced as a result of the receipt of such supplemental information. NFJ Investment Group believes that such information is only supplemental to NFJ Investment Group’s own research efforts, because the information must still be analyzed, weighed and reviewed by NFJ Investment Group.

Where NFJ Investment Group receives a Research Product or Service that may also have a non-research use, a potential conflict of interest may arise, since such Research Product or Service may directly benefit NFJ Investment Group even though it arises in connection with the Soft Dollar Credits of NFJ Investment Group’s clients. In such situations, NFJ Investment Group will, on an annual basis, make a reasonable allocation of the cost of any such mixed-use Research Product or Service according to its use. The portion of the Research Product or Service that provides assistance to NFJ Investment Group in the investment decision-making process will be paid for with Soft Dollar Credits while the portion that provides administrative or other non-research assistance will be paid for by NFJ Investment Group.

The research received for a particular client’s brokerage commissions may be used for the benefit of all clients whether or not such clients’ commissions are used to obtain research services. For example, clients which (i) do not permit their brokerage commissions to be used to generate Soft Dollar Credits, (ii) are non-discretionary clients of NFJ Investment Group for which NFJ Investment Group does not have authority to effect transactions or (iii) have instructed NFJ Investment Group to direct all or a portion of their brokerage transactions to a designated broker-dealer may benefit from Research Products and Services even though such clients’ commissions were not used to obtain Research Products and Services. Research Products and Services may also be used by NFJ Investment Group for the benefit of all or a segment of its advisory clients and not specifically for the benefit of the client account or accounts whose transactions generated the allocated commissions that were used for payment of such products or services.

#### **Soft Dollars - Clients Who Prohibit Soft Dollars**

It is important to note that the commission rates paid by client accounts which prohibit the generation of Soft Dollar Credits (“Execution Only Accounts”) are not reduced below the rates paid by client accounts which generate Soft Dollar Credits. Typically, Execution Only Accounts are included in “bunched” trades effected on behalf of all client accounts buying the same security on the same day. Accordingly, notwithstanding the fact that Soft Dollar Credits are not generated from the trades effected for Execution Only Accounts, clients prohibiting Soft Dollar Credits will be paying

the same commission rate paid by other clients included in the bunched trade which, as explained above, may be a higher commission rate than another broker-dealer would have charged.

In addition, any client directed prohibition against generating Soft Dollar Credits from transactions effected for such client's account will apply to third party Research Products and Services only. Research Products and Services that are proprietary to a broker-dealer and bundled with other brokerage services ("Bundled Services") are usually obtained by effecting transactions directly through the particular broker-dealer providing the Bundled Services and not as a result of paying a specified fee (or effecting a minimum volume of trades) as is typical in third party soft dollar arrangements. Therefore, in the case of Bundled Services, there is no practical way to prevent the Execution Only Accounts in a bunched trade from generating Soft Dollar Credits which help NFJ Investment Group gain access to Bundled Services without removing such Execution Only Accounts from the applicable bunched trades. As noted under "Trade Allocations; Aggregation of Orders" below, NFJ Investment Group will normally seek to bunch trades since it believes that bunched trades generally benefit its clients as a whole over time.

#### **Soft Dollars - Soft Dollar Reports**

NFJ Investment Group provides soft dollar reports to clients upon request which typically only include the percent of trades or commissions which generate Soft Dollar Credits for the payment of third party Research Products and Services provided through a soft dollar arrangement with a broker-dealer. Such reports generally do not include commissions paid to a broker-dealer in connection with Bundled Services.

#### **Soft Dollars – Annual Review of Soft Dollars and Soft Dollar Brokers**

New Research Products and Services are approved by the Compliance Department and reported to the Best Execution Committee at its next meeting. Any new mixed-used service is approved by the Compliance Department and also reported to the Best Execution Committee. The Best Execution Committee normally conducts an annual review of soft dollars including a review of the allocation between hard and soft dollars for mixed-use Research Products and Services (which allocation is determined for each mixed-use Research Product and Service only on an annual basis). If a broker-dealer provides NFJ Investment Group Research Products and Services as well as execution, then at least annually, the portfolio managers and analysts will identify the research services provided by (or to be provided by) such broker-dealer. In addition, at least annually, the trading team evaluates the quality of the execution services provided by such broker-dealers. In addition, a limited number of broker-dealers may be selected to effect transactions for clients primarily as a result of proprietary research services provided by them (when all other factors are generally considered equal). For those broker-dealers only, a minimum target for the amount of commission dollars that are appropriate for the proprietary research services expected to be received will be determined by NFJ Investment Group. This minimum target and each service paid through a Commission Sharing Arrangement will be valued taking into account the cost of similar services NFJ Investment Group uses or that are available to the industry and, on an annual basis, reviewed by the Best Execution Committee. Please also see "Brokerage- Soft Dollars- Soft Dollar Credits and Conflicts of Interest" above.

#### **Client Directed Brokerage**

In certain relationships, a client may wish to retain discretion over the broker-dealer selection and perhaps the commission rate for purposes of executing either a portion of the transactions or all of the transactions to be effected by NFJ Investment Group for such client account(s). When a client

instructs NFJ Investment Group to direct a portion of the securities transactions for its account to a designated broker-dealer, the client has made a decision to retain some control over broker-dealer selection and services. In particular, NFJ Investment Group treats the direction as a decision by the client to retain, to the extent of the direction, the discretion that NFJ Investment Group otherwise would be given by the client to select broker-dealers to effect transactions and the other terms of the trade for the client's account. In such cases, the directing client, not NFJ Investment Group, has negotiated the selection of the designated broker-dealer(s), execution quality, and services or other benefits to be received, and it is solely the client's responsibility to satisfy itself concerning the adequacy of all of those arrangements. In some cases, the client may have also negotiated the commissions charged by the designated broker-dealer. A client that is considering a directed brokerage arrangement should consider carefully whether the designated broker-dealer's commissions, execution, clearance and settlement capabilities, and whether any fees or service or other benefits to be paid or provided by the broker-dealer to the client, will be comparable to the terms that NFJ Investment Group or the client could obtain without directed brokerage.

Although NFJ Investment Group understands that clients may have a desire to use brokerage commissions to pay consultants and/or vendors which provide services to the client, as a matter of general policy, NFJ Investment Group seeks to limit the amount of client directed brokerage arrangements because there are potential adverse trading effects in any client-directed brokerage arrangement, including additional costs to the client and adverse effect on account performance.

NFJ Investment Group may wish to take advantage of opportunities to obtain favorable execution from a non-designated broker-dealer for the benefit of accounts that are not restricted from using such a broker-dealer and aggregate such clients' orders. For this and other reasons, NFJ Investment Group may execute trade orders for clients that direct the use of a particular broker-dealer after the completion of trades for other accounts that do not impose such restrictions. This could have potential adverse effects on such later-executed trades because of changes that may occur in the market price for affected securities or other changes, particularly in volatile markets.

Clients have the obligation to comply with any laws and regulations regarding their directed brokerage arrangements, and to disclose any directed brokerage arrangements to any and all other affected persons as appropriate. NFJ Investment Group cannot accept responsibility for any liabilities that a client or any other party may incur as a result of participating in a directed brokerage arrangement initiated by the client.

There are two different types of directed brokerage: client fully directed brokerage and client suggested brokerage.

#### **Client Fully Directed Brokerage**

For clients that provide instructions whereby the client fully retains trading authority that NFJ Investment Group would otherwise have to select broker-dealers and negotiate commissions with such broker-dealers on such client's behalf, NFJ Investment Group will follow the client's direction to use the designated broker-dealer even when it might be able to obtain a more favorable price and execution from another broker-dealer for a transaction on behalf of such client's account. Those clients who direct brokerage should consider the following:

NFJ Investment Group will not negotiate brokerage commissions with respect to transactions executed by the designated broker-dealer for the client's account. Orders for clients that direct brokerage may be placed separately from and after the completion of orders for non-directed

account. To the extent that orders for such client accounts are placed after the orders for other investment management clients, the price of the securities purchased or sold for such client accounts may be adversely affected.

A client that directs brokerage may forego any benefit from savings on execution costs that NFJ Investment Group could obtain for its clients through negotiating volume commission discounts on aggregated transactions. As a result of the foregoing, a client that directs brokerage may not receive best execution on transactions effected through the designated broker-dealer. As a result of these considerations, directed brokerage accounts may not generate returns equal to those of non-directed accounts. In addition, conflicts may arise between the client's interest in receiving best execution on transactions effected for the client's account and NFJ Investment Group's interest in receiving client referrals from the specific broker-dealer.

In general, fully directed client brokerage must be 100% directed to one broker-dealer. NFJ Investment Group requires clients to notify NFJ Investment Group in writing if the client wants to change its designated broker-dealer. In agreeing to follow a client's directed brokerage instruction, NFJ Investment Group understands and is relying on the fact that it is the client's responsibility to ensure that (i) all services provided by the designated broker-dealer will solely benefit the client's account and using the designated broker-dealer is in the best interest of the account taking into consideration the services provided and (ii) the brokerage direction will not conflict with any fiduciary obligations of the persons acting for the client's account and if the account is subject to the provisions of ERISA, such direction will not cause the plan to engage in a prohibited transaction under ERISA.

NFJ Investment Group requires clients who direct brokerage to acknowledge in writing the considerations described above.

### **Client Suggested Brokerage**

For clients that provide NFJ Investment Group with "suggested" brokerage instructions (subject to NFJ Investment Group's obligation to seek best execution), NFJ Investment Group will treat the client's direction to use the designated broker-dealer for their account's securities transactions as a suggestion for the selection of the broker-dealers that NFJ Investment Group would otherwise have the discretion to select and with which NFJ Investment Group would normally negotiate commissions pursuant to the discretionary authority granted to NFJ Investment Group under the investment management agreement with the client. If a client suggests NFJ Investment Group direct a portion of its securities transactions to a designated broker-dealer in return for the broker-dealer providing services directly to the client or paying certain expenses of the client (including any zero cent commission arrangements), NFJ Investment Group will generally limit the suggested brokerage to approximately 30% of total shares executed for the client's account on an annual basis to protect trade execution quality for the directing client as well as other clients (the "NFJ Suggested Brokerage Target") if (i) no specific brokerage allocation targets are set by the client or (ii) the client designates a specific target. The Suggested Brokerage Target is approximately the maximum amount of suggested brokerage that NFJ Investment Group believes it can achieve in most situations while also seeking best execution assuming the brokerage direction is in place for the entire calendar year. NFJ Investment Group will periodically review the NFJ Suggested Brokerage Target to see if circumstances in the market warrant raising or lowering the threshold.

In situations where NFJ Investment Group believes that the designated broker-dealer can provide best execution on a particular securities transaction, NFJ Investment Group will use its best efforts

to meet the client's brokerage selection criteria, up to the NFJ Suggested Brokerage Target. If a client specifies a suggested brokerage target that is greater than the NFJ Suggested Brokerage Target, NFJ Investment Group will use its best efforts to meet the Suggested Brokerage Target and to also accommodate the client's higher suggested direction as feasible. The ability to do so is affected by various factors, including but not limited to cash flow in the account. NFJ Investment Group, however, may not be able to meet the NFJ Suggested Brokerage Target or the client directed suggestion in all cases. If the broker-dealer is an entity with whom NFJ Investment Group typically executes large volumes of securities transactions for its clients, there is an increased likelihood that the client's target may be met.

In the case of both client "directed" and client "suggested" brokerage, NFJ Investment Group may use "step out" transactions in certain circumstances to seek to meet the client's brokerage criteria. As also noted under "Brokerage – Step-Out Transactions for Research" above, in a step-out, NFJ Investment Group would instruct the executing broker-dealer to arrange for the designated broker-dealer to handle clearance and settlement of the transaction for a portion of an aggregated trade. The affected clients are assessed a commission only by the broker-dealer who clears the transaction. The executing broker-dealer receives compensation in the form of commission with respect to the portion of the aggregated trade that was not "stepped out" to the designated broker-dealer. The use of step-out trades can, in some instances, help ensure that clients that seek to direct brokerage are not disadvantaged by the inability to participate in aggregated transactions. However, step-out trades are an accommodation by the executing broker-dealer and therefore, step-out trades will not be available in all circumstances to satisfy requests for directed brokerage.

#### **Trade Allocations; Aggregation of Orders**

NFJ Investment Group's trade allocation policy is designed to ensure fair and equitable allocation of investment opportunities among accounts over time. Accounts are treated in a non-preferential manner, such that allocations are not based upon account performance, fee structure or portfolio manager preference.

Transactions for client accounts may be completed independently of one another or when possible, client orders for the same security may be combined or "bunched" to facilitate best execution, to reduce any instances of competing against any of NFJ Investment Group's orders for other client accounts and to reduce brokerage commissions and other costs. While NFJ Investment Group believes that the ability to bunch trades will in general benefit its clients as a whole over time, in any particular instance, such bunching may result in a less favorable price or execution than might have been obtained if a particular transaction had been effected on an unaggregated basis. NFJ Investment Group generally effects bunched transactions in a manner designed to ensure that no participating client is favored over any other client. Specifically, each client that participates in a bunched transaction will participate at the average share price for all of the transactions in that bunched order. Securities that are purchased or sold in a bunched transaction are generally allocated, when possible, on a pro-rata basis to the participating client accounts in proportion to the size of the order placed for each account. However, NFJ Investment Group may allow a de minimis order to participate in a bunched transaction on a priority, non-pro rata basis if NFJ Investment Group believes that such order, if traded prior to the bunched order, would have been unlikely to affect the market price of the security being traded. NFJ Investment Group may also, prior to or at the same time as effecting a bunched order for a security, trade de minimis orders for that security if NFJ Investment Group believes that such trades are unlikely to affect the market price of the security. This may happen, for example, in the case of rebalancing orders or orders attributable to contributions to an account, but is not limited to such reasons. A de minimis order traded at the

same time as a bunched order may be adversely affected by the bunched order transaction. In addition, in connection with a trade resulting from a client mandated withdrawal, NFJ Investment Group may either allow such trade to participate in a bunched transaction for the sale of a security on a priority, non-pro-rata basis or effect such trade prior to or at the same time as effecting a bunched order for that security. Such a trade which is effected prior to a bunched order or participates in a bunched order on a priority basis could adversely affect the trades implemented or allocated afterwards and such a trade which is effected at the same time as a bunched order could be adversely affected by the bunched order transaction.

Furthermore, NFJ Investment Group may increase or decrease the amount of shares allocated to each account if necessary to avoid purchasing odd-lot or small numbers of shares for particular clients. Additionally, if NFJ Investment Group is unable to fully execute a bunched transaction and therefore determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro-rata basis, NFJ Investment Group may allocate such securities in a manner determined in good faith to be a fair allocation.

### **Allocation of Secondary Offerings**

NFJ Investment Group does not currently purchase securities in IPOs for its clients. However, NFJ Investment Group may invest in securities in secondary offerings. NFJ Investment Group typically allocates shares in secondary offerings on a pro-rata basis across the participating accounts in proportion to the size of the order placed for each participating account. However, in certain circumstances, where there is a limited number of shares available in a secondary offering, NFJ Investment Group may not acquire sufficient shares to prudently allocate a secondary offering across all accounts. In such case, NFJ Investment Group may attempt to obtain additional shares in the open market on the same day to fill its order. If NFJ Investment Group is able to do so, it will aggregate the secondary offering order and the open market trade for purposes of allocating shares on a pro rata basis across the participating accounts and each participating account will be charged the average price of the security and pay for its pro rata share of expenses. Alternatively, in the event NFJ Investment Group has not obtained sufficient shares to prudently allocate a secondary offering across all accounts, NFJ Investment Group may allocate such shares in a manner reasonably designed to ensure that accounts are treated in a fair and equitable manner over time such as the random assignment of such shares to one or more accounts. In addition, certain client accounts, such as the accounts of AGI Managed Accounts' wrap-fee clients and Direct Clients, may be restricted from participating in a secondary offering based on client mandates (i.e., a client which restricts investments in new issues or a client who directs all of the account's securities transactions to a designated broker-dealer). This may also factor into the allocation process.

### **Trade Execution – Discretionary vs. Non-Discretionary**

NFJ may provide non-discretionary investment recommendations to other advisers, including affiliated advisers, who may or may not utilize such recommendations in connection with its management. These advisers may initiate trading based on NFJ's recommendations at the same time NFJ is also trading for its discretionary client accounts. This could result in NFJ's discretionary clients receiving prices that are less favorable than might otherwise have been obtained absent an adviser's trading activity. Because NFJ does not control an adviser's execution of transactions for the adviser's client accounts, NFJ cannot control the market impact of such transactions to the same extent that it would for its discretionary client accounts.



### **Managed Accounts/Wrap-Fee Programs**

As described in Item 4, NFJ Investment Group provides non-discretionary advisory services to AllianzGI US, an affiliated investment adviser, through the delivery of proprietary investment models based on investment style and the composition of the investment portfolios of its discretionary accounts. After receipt of the model, AllianzGI US has discretion how to apply the model to their discretionary and non-discretionary portfolios. When NFJ changes an investment model, this changes the composition of their discretionary accounts. NFJ Investment Group will deliver changes in investment models to AllianzGI US on or around the same time it makes changes to the composition of the investment portfolios of its discretionary accounts. This could result in NFJ Investment Group and AllianzGI US trying to fill orders on identical securities in the market place at the same time.

In the event that NFJ Investment Group acts as a sub-adviser to non-affiliated third parties in connection with managed account/wrap account programs, NFJ will typically agree in writing with the sponsor of such programs that notification of recommendations to such sponsor will be made after the execution of trades for all of NFJ Investment Group discretionary clients and AllianzGI US. It is also possible that NFJ Investment Group and such non-affiliated third parties may agree to a different rotation methodology for notification of recommendations.

### **Use of Affiliate Adviser Trading Desk**

As noted in Item 10, NFJ Investment Group's affiliate adviser AllianzGI US provides certain trading services to NFJ Investment Group. In instances where NFJ Investment Group determines it may be in the best interest of its clients to do so, NFJ Investment Group may send trade orders to AllianzGI US' trading desk(s) to facilitate such transactions. For example, to facilitate orders for securities which trade in the foreign markets, if NFJ Investment Group believes AllianzGI US' traders responsible for trading overnight in such markets may achieve better price and/or execution, NFJ Investment Group may send such orders to AllianzGI US for execution assistance. In such instances, the AllianzGI US traders would work the orders with local non-U.S. (NFJ Investment Group-approved) brokers for execution.

When NFJ Investment Group sends trade orders to AllianzGI US to facilitate on behalf of NFJ Investment Group's clients as described above, a conflict of interest may occur at AllianzGI US in limited instances where an order for AllianzGI US accounts and an order for NFJ Investment Group accounts are open concurrently on the same trading desk in the same name security. Such transactions are handled in accordance with AllianzGI US' trade allocation policies and procedures which are analogous to those of NFJ Investment Group and are designed to achieve fair and equitable allocation of investment opportunities among accounts over time. NFJ Investment Group monitors such trading activities of AllianzGI US to ensure NFJ Investment Group is meeting its obligations including those of best execution and to ensure its clients are being treated fairly and equitably. In addition, employees of AllianzGI US responsible for trading on behalf of NFJ client accounts are considered "Access Persons" under the Allianz Asset Management of America L.P. Code of Ethics, which covers both AllianzGI US and NFJ Investment Group and is described in detail above in Item 11.

## **ITEM 13. REVIEW OF ACCOUNTS**

### **Review of Accounts**

Portfolio managers are primarily responsible for reviewing each of their accounts on a continuous basis. If a client changes its investment objectives or its financial needs change, NFJ Investment Group will review the account to determine if the account's investment strategy needs modification and to review the impact or potential impact on the account. Any significant development affecting the portfolio structure or a security held for the account will also trigger a review. In addition, NFJ Investment Group will conduct a review of potentially affected client holdings when significant domestic or world events occur. In all such instances, accounts are reviewed to determine potential impact on an account's value and whether any modification of strategies is necessary. Please see NFJ Investment Group's Brochure Supplements for a list of NFJ Investment Group's portfolio managers who have primary responsibility for reviewing designated client accounts.

To assist portfolio managers with monitoring client investment guidelines and objectives, NFJ Investment Group has implemented a software package that is designed to automatically detect and prevent breaches of certain client, regulatory and management investment restrictions on a pre-trade (real time) and post-trade basis (daily). Through an interface with NFJ Investment Group's trading system, both pre-trade security transactions and post-trade account holdings are checked against the restrictions coded for its client accounts (including prospectus and statement of additional information requirements). The system also has the ability to automate testing of certain regulatory rules, including the Investment Company Act and the Internal Revenue Code/Subchapter M/Subchapter L. However, not all client or regulatory restrictions can be monitored by the system. Such restrictions are primarily monitored by the applicable portfolio manager.

The Compliance Department of NFJ Investment Group reviews the pre-trade activity and post-trade portfolio compliance results for all NFJ Investment Group client accounts on a daily basis. Compliance testing of post-trade holdings is run via an overnight scheduler and the results are reviewed daily by the Compliance Department and, where necessary, investment personnel. Any potential violation that is detected will be brought to the prompt attention of the portfolio manager (or designated back-up) and if applicable, the client.

### **Reports to Clients**

NFJ Investment Group's separate account clients are provided with quarterly transaction reports and performance summaries. The reports will show all purchases and sales of securities made during the reporting period (market price, total cost/proceeds, original unit cost and realized gain/loss on sales) and include a summary of investments in the portfolio (unit cost, total cost, market price and total market value). In addition, NFJ Investment Group provides certain clients with incremental oral or written reports as agreed upon at the outset of the client relationship. In addition, NFJ Investment Group provides compliance and other reports requested by the Board of Directors of the Mutual Funds and Closed-End Funds it sub-advises.

## **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

NFJ Investment Group may, from time to time, compensate third-party solicitors with respect to solicitation activities in accordance with Rule 206(4)-3 under the Advisers Act. Consequently, persons introducing new client accounts to NFJ Investment Group may receive a portion of the



management fee generated by the account. The portion of the fee paid and the length of time for which such fee is paid will vary on a case by case basis. Such compensation arrangements will be disclosed to NFJ Investment Group clients at the time of solicitation or referral as required by applicable law and regulations.

#### **ITEM 15. CUSTODY**

NFJ Investment Group does not maintain physical custody of client assets. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. NFJ Investment Group urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

#### **ITEM 16. INVESTMENT DISCRETION**

NFJ Investment Group generally receives investment discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. Such authority is typically documented in an advisory or sub-advisory agreement. In all cases, such discretion is exercised in a manner consistent with seeking best execution and the stated investment objectives for the client's account. NFJ Investment Group also generally will receive discretionary authority to determine the brokers used and the commissions paid. In all such relationships, NFJ Investment Group will make investment decisions and direct the execution of all transactions without prior consultation with the client. Investment guidelines and restrictions must be provided NFJ Investment Group in writing.

Certain clients, however, may retain NFJ Investment Group on a non-discretionary basis. When NFJ Investment Group is retained on a non-discretionary basis, it makes recommendations for the client's account but all investment decisions are made by the client and account transactions are executed only in accordance with the applicable investment management agreement.

#### **ITEM 17. VOTING CLIENT SECURITIES**

NFJ Investment Group may be granted by its clients the authority to vote proxies of the securities held in client accounts. To ensure that the proxies are voted in the best interests of its clients, NFJ Investment Group has adopted detailed proxy voting procedures and has guidelines for voting proxies on specific types of issues. NFJ Investment Group typically votes proxies as part of its discretionary authority to manage accounts, unless the client has explicitly reserved the authority for itself. When voting proxies, NFJ Investment Group's primary objective is to make voting decisions solely in the best interests of its clients by voting proxies in a manner intended to enhance the economic value of the underlying portfolio securities held in its clients' accounts.

NFJ Investment Group has adopted written Proxy Policy Guidelines and Procedures (the "Proxy Guidelines") that are reasonably designed to ensure that NFJ Investment Group is voting in the best interest of its clients. The Proxy Guidelines reflect NFJ Investment Group's general voting positions on specific corporate governance issues and corporate actions. NFJ Investment Group has retained an independent third party service provider (the "Proxy Provider") to assist in the proxy voting

process (including the administrative process). The services provided offer a variety of proxy related services to assist in NFJ's handling of proxy voting responsibilities.

The Proxy Guidelines also provide for oversight of the proxy voting process by a Proxy Committee. The Proxy Committee meets at a minimum on a quarterly basis and when necessary to address potential conflicts of interest that can affect how it votes its clients' proxies. For example, NFJ Investment Group may manage a pension plan whose management is sponsoring a proxy proposal relating to a security held in its clients' accounts. In order to ensure that all material conflicts of interest are addressed appropriately while carrying out NFJ Investment Group's obligation to vote proxies, the Proxy Committee is responsible for overseeing a process to identify proxy voting issues that may raise conflicts of interest between NFJ Investment Group and its clients and to resolve such issues. Any deviations from the Proxy Guidelines will be documented and maintained in accordance with Rule 204-2 under the Advisers Act.

The Proxy Committee's duties also include monitoring the outsourcing of voting obligations to the Proxy Provider and NFJ Investment Group's proxy voting recordkeeping practices; developing a process for resolution of voting issues that require a case-by-case analysis; and, to the extent the Proxy Guidelines do not cover potential proxy voting issues, determining a process for voting such issues. The Proxy Committee will review, at least annually, the services provided by the Proxy Provider and all proxy voting processes and procedures and will update or revise them as necessary. To the extent the client instructs NFJ Investment Group to direct voting on a particular issue, the Proxy Committee shall evaluate such request on a case-by-case basis.

In accordance with the Proxy Guidelines, NFJ Investment Group may review additional criteria associated with voting proxies and evaluate the expected benefit to its clients when making an overall determination on how or whether to vote the proxy. NFJ Investment Group may vote proxies individually for an account or aggregate and record votes across a group of accounts, strategy or product. NFJ Investment Group may abstain or refrain from voting a client proxy on behalf of its clients' accounts under certain circumstances. These include when (i) the economic effect on shareholder's interests or the value of the portfolio holding is indeterminable or insignificant; (ii) voting the proxy would unduly impair the investment management process; or (iii) the cost of voting the proxies outweighs the benefits or is otherwise impractical. In addition, NFJ Investment Group may refrain from voting a proxy on behalf of its clients' accounts due to de minimis holdings, de minimis impact on the portfolio, items relating to non-U.S. issuers (such as those described below), timing issues related to the opening/closing of accounts or security lending issues (see below), contractual arrangements with clients and/or their authorized delegates or the failure of a proxy to provide sufficient information to allow for informed decision making. For example, NFJ Investment Group may refrain from voting a proxy of a non-U.S. issuer due to logistical considerations that may have a detrimental effect on the NFJ Investment Group's ability to vote the proxy. These issues may include, but are not limited to: (i) proxy statements and ballots being written in a foreign language, (ii) untimely notice of a shareholder meeting, (iii) requirements to vote proxies in person, (iv) restrictions on non-U.S. person's ability to exercise votes, (v) restrictions on the sale of securities for a period of time in proximity to the shareholder meeting (e.g. share blocking), or (vi) requirements to provide local agents with power of attorney to facilitate the voting instructions. Such proxies are voted on a best-efforts basis.

Registered investment companies that are advised or sub-advised by NFJ Investment Group as well as certain other advisory clients may participate in securities lending programs. Under most securities lending arrangements, securities on loan may not be voted by the lender unless the loan

is recalled prior to the record date for the vote. NEJ Investment Group believes that each client has the right to determine whether participating in a securities lending program enhances returns, to contract with the securities lending agent of its choice and to structure a securities lending program through its lending agent that balances any tension between loaning and voting securities in a manner that satisfies such client. NEJ Investment Group will request that clients notify NEJ Investment Group in writing if the client has decided to participate in a securities lending program. If a client has decided to participate in a securities lending program, NEJ Investment Group will defer to the client's determination and not attempt to seek recalls solely for the purpose of voting routine proxies as this could impact the returns received from securities lending and make the client a less desirable lender in the marketplace. If the client who participates in a securities lending program requests, NEJ Investment Group will use reasonable efforts to request the client recall the loaned securities for voting if NEJ has knowledge that the proxy involves a Material Event (as defined below) affecting the loaned securities.

Material Event for purposes of determining whether a recall of a security is warranted, means a proxy that relates to a merger, acquisition, spin-off or other similar corporate action. The Proxy Committee will review the standard for determination of a Material Event from time to time and will adjust the standard as it deems necessary. NEJ may utilize a Proxy Provider, in its sole discretion, to assist it in identifying and evaluating whether an event constitutes a Material Event.

The ability to timely recall shares for proxy voting purposes is not within the control of NEJ Investment Group and requires the cooperation of the client and its other service providers. Under certain circumstances, the recall of shares in time to be voted may not be possible due to applicable proxy voting record dates, the timing of receipt of information and administrative considerations. Efforts to recall loaned securities are not always effective and there can be no guarantee that any such securities can be retrieved in a timely manner for purposes of voting the securities.

To obtain a copy of the Policy Guidelines or to obtain information on how your account's securities were voted, please contact your account representative at NEJ Investment Group.

#### **ITEM 18. FINANCIAL INFORMATION**

NEJ Investment Group has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

#### **ITEM 19. PRIVACY POLICY**

NEJ Investment Group considers customer privacy to be a fundamental aspect of our relationship with clients. NEJ Investment Group is committed to maintaining the confidentiality, integrity, and security of our current, prospective and former clients' personal information. NEJ Investment Group has developed policies designed to protect this confidentiality, while allowing client needs to be served.

In the course of providing its clients with products and services, NEJ Investment Group may obtain non-public personal information about them. This information may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from the client's transactions, from the client's brokerage or financial advisory firm, financial adviser or consultant, and/or from information captured on our internet web sites.

NFJ Investment Group does not disclose any personal or account information provided by its clients or gathered by it to non-affiliated third parties, except as required or permitted by law or as otherwise described in this Form ADV. NFJ Investment Group may delegate investment management responsibilities to other of its non-investment management affiliates and share information with them to the extent necessary to accomplish these limited purposes. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on client satisfaction, and gathering shareholder proxies. NFJ Investment Group may also retain non-affiliated companies to market its products and enter into joint marketing agreements with other companies. These companies may have access to NFJ Investment Group clients' personal and account information, but are permitted to use the information solely to provide the specific service or as otherwise permitted by law. NFJ Investment Group may also provide clients' personal and account information to their brokerage or financial advisory firm and/or to their financial adviser or consultant.

NFJ Investment Group reserves the right to disclose or report personal information to non-affiliated third parties in limited circumstances where it believes in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect its rights or property, or upon reasonable request by any mutual fund in which the client has chosen to invest. In addition, NFJ Investment Group may disclose information about its clients or their accounts to a non-affiliated third party at the client's request or if the client consents in writing to the disclosure.

NFJ Investment Group may share client information with its affiliates in connection with servicing client accounts or to provide clients with information about products and services that NFJ Investment Group believes may be of interest to them. The information we share may include, for example, client participation in our mutual funds or other investment programs, client ownership of certain types of accounts (such as IRAs), or other data about clients' accounts. NFJ Investment Group affiliates, in turn, are not permitted to share clients' information with non-affiliated entities, except as required or permitted by law.

NFJ Investment Group takes seriously the obligation to safeguard its clients' non-public personal information, and has implemented procedures designed to restrict access to their non-public personal information to its personnel who require that information to provide products or services to them. NFJ Investment Group has established physical, electronic, and procedural safeguards in order to protect its clients' non-public personal information.