I.

The United States Securities and Exchange Commission (the “Commission”) deems it appropriate and in the public interest that administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Sections 9(b) and 9(f) of the Investment Company Act of 1940...
against PA Fund Management LLC f/k/a PIMCO Advisors Fund Management LLC, PEA Capital LLC f/k/a PIMCO Equity Advisors LLC, and PA Distributors LLC f/k/a PIMCO Advisors Distributors LLC (collectively, the “Respondents” or the “PIMCO Equity Entities”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the “Offer”) that the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission or in which the Commission is a party, and without admitting or denying the findings, except those findings pertaining to the jurisdiction of the Commission over it and the subject matter of these proceedings, which are admitted, the Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”) as set forth below.

III.

On the basis of this Order and Respondents’ Offer, the Commission finds\(^1\) that:

A. **Summary**

1. This action concerns the negotiated, but undisclosed, market timing agreement between Respondents and a hedge fund allowing the hedge fund to market time several mutual funds that are part of the PIMCO Equity Funds: Multi-Manager Series (“PIMCO Equity Funds” or the “Funds”).\(^2\) Respondents, entrusted with advising and distributing the Funds, represented to investors that the Funds would limit a practice known as market timing. Market timing includes (a) frequent buying and selling of shares of the same mutual fund or (b) buying or selling mutual fund shares in order to exploit inefficiencies in mutual fund pricing. Market timing, while not illegal *per se*, can harm other mutual fund shareholders because it can dilute the value of their shares, if the market timer is exploiting pricing inefficiencies, or disrupt the management of the mutual fund's investment portfolio and can cause the targeted mutual fund to incur costs borne by other shareholders to accommodate frequent buying and selling of shares by

\(^1\) The findings herein are made pursuant to the Respondents’ Offers and are not binding on any other person or entity in this or any other proceeding.

\(^2\) There are two trusts within the PIMCO Complex of Funds, the Multi-Manager Series and the Pacific Investment Manager Series (“PIMS”). Each trust consists of separate mutual funds and has its own separate board of trustees. The PIMS Funds are managed by Pacific Investment Management Company LLC (“PIMCO”), an indirect subsidiary of Allianz-Dresdner Asset Management of America LP. PIMCO and the PIMS Funds are not parties to this proceeding.
the market timer. Consistent with this policy, the Funds actively policed market timing activities and prevented some Fund shareholders from engaging in it. However, without any disclosure to Fund shareholders (and contrary to representations), Respondents executed a secret arrangement with one preferred client to allow market timing in amounts exceeding $4 billion in trading volume.

2. From February 2002 to April 2003, the PIMCO Equity Entities provided “timing capacity” in their equity mutual funds to a market timer, Canary Capital Partners LLC (“Canary”), in return for Canary’s investment of “sticky assets” in a mutual fund and a hedge fund from which PAFM (as to the mutual fund) and PEA (as to both) earned management fees. “Sticky assets” are long-term investments made in exchange for permitting market timing in mutual funds. The prospectuses for the mutual funds failed to disclose that an agreement had been made with this investor to permit timing in the funds in exchange for sticky assets. In addition, the prospectuses gave the misleading impression that the mutual funds discouraged timing.

3. At the height of the agreement, Canary used over $60 million in timing capacity in several different mutual funds and invested $27 million in sticky assets into a mutual fund and a hedge fund. Finally, PEA improperly failed to have written policies designed to prevent the misuse of the Funds’ nonpublic portfolio holdings, and, in fact, PEA disclosed those holdings to the broker-dealer that executed Canary’s trades.

4. Stephen J. Treadway, the former CEO of PAFM and PAD, as well as the former Chairman of the Board of Trustees for the PIMCO Equity Funds: Multi-Manager Series at the time of the arrangement with Canary, approved the market timing arrangement in approximately January 2002. Treadway, however, did not disclose his knowledge of the arrangement to the Board of Trustees until approximately September 2003.

5. Kenneth W. Corba, PEA’s former Chief Executive Officer, negotiated and approved the timing and sticky asset arrangement with Canary. He also managed the PIMCO Growth Fund, which provided $30 million in market timing capacity to Canary, and the PIMCO Select Growth Fund, which received $25 million in sticky assets from Canary.

6. Respondents permitted the arrangement with Canary despite their awareness of the potential harmful effects of timing on mutual funds and despite possessing the ability to detect and prevent timing.

B. Respondents

7. PA Fund Management LLC, f/k/a PIMCO Advisors Fund Management LLC (“PAFM”), a Delaware limited liability company located in New York, New York, is an investment adviser registered with the Commission under the Advisers Act (File No. 801-57798). It is an investment adviser and administrator for the PIMCO Equity Funds: Multi-Manager Series (the “PIMCO Equity Funds” or the “Funds”), a registered investment company comprised of 45 separate investment series or mutual funds. PAFM provides investment supervisory services to the PIMCO Equity Funds, and for these services, the Funds pay PAFM an annual advisory fee consisting of a percentage of average daily net assets held by the Funds.
8. PEA Capital LLC, f/k/a PIMCO Equity Advisors LLC (“PEA”), a Delaware limited liability company located in New York, New York, is an investment adviser registered with the Commission under the Advisers Act (File No. 801-60575). It is the investment sub-adviser for the PEA Growth Fund, PEA Opportunity Fund, PEA Target Fund, PEA Innovation Fund, and several other funds, all of which were part of the PIMCO Equity Funds. In 2002, PEA also served as the sub-adviser for the Select Growth Fund. As the sub-adviser, PEA has full investment discretion and makes all determinations with respect to the investment of a fund’s assets subject to the general supervision of PAFM and the Board of Trustees of the PIMCO Equity Funds. On February 6, 2004, PEA filed a Form ADV with the Commission stating that it had changed its name from PIMCO Equity Advisors LLC to PEA Capital LLC. As of December 31, 2003, accounts managed by PEA had combined assets of approximately $11.3 billion.

9. PA Distributors LLC, f/k/a PIMCO Advisors Distributors LLC (“PAD”), a Delaware limited liability company located in Stamford, Connecticut, is a broker-dealer registered with the Commission under the Exchange Act (File No. 8-41811). PAD serves as the distributor for the PIMCO Equity Funds. PAD also employed individuals responsible for monitoring trading activity to prevent or limit market timing in the PIMCO Equity Funds (the “timing police”).

C. Relevant Entities and Individuals

10. Canary Capital Partners, LLC was, at all relevant times, a domestic hedge fund, and Canary Capital Partners, Ltd. was, at all relevant times, an offshore hedge fund domiciled in Bermuda, managed by an investment adviser, Canary Investment Management, LLC, and its principal, Edward J. Stern (collectively, “Canary”). African Grey Capital Associates LLC was an entity formed by Stern and affiliated with the various Canary entities. Canary has offices in Secaucus, New Jersey and New York, New York.

11. Stephen J. Treadway (“Treadway”), age 56, a resident of New York, New York, was, during the relevant period, the Chief Executive Officer and a Managing Director of PAFM, the Chief Executive Officer and a Managing Director of PAD, and a member of the Board of Trustees for the PIMCO Equity Funds. He served as Chairman of the Board of Trustees for the PIMCO Equity Funds from 1997 until his resignation on May 19, 2004. On July 30, 2004, Treadway resigned from all positions at the PIMCO Equity Entities and all affiliates.

12. Kenneth W. Corba (“Corba”), age 51, a resident of Greenwich, Connecticut, was, during the relevant period, the Chief Executive Officer, Chief Investment Officer, and a Managing Director of PEA. He was also the portfolio manager for the PEA Growth and Select Growth Funds. Corba joined PEA in 1999 and resigned from PEA on April 13, 2004.

D. Facts

1. The Timing Agreement with Canary

13. From 2001 to the present, PAFM and PEA collectively served as the adviser and sub-adviser for certain mutual funds offered by the PIMCO Equity Funds. These funds included
the Growth, Target, Opportunity, Innovation, Select Growth, and Value Funds, among others. In or around October 2002, the Select Growth Fund was merged into the Growth Fund. After this time, the Select Growth Fund ceased to exist.

14. In October 2001, representatives of a registered broker-dealer (the “broker representatives”) were introduced to PEA by a third party trust company. The representatives sought market timing capacity in the PIMCO Equity Funds for their customers.

15. In or around early November 2001, the broker representatives met with Corba and PEA’s former Senior Vice President of Institutional Marketing. At this meeting, which occurred in Corba’s office, the broker representatives stated their interest in arranging for approximately $100 million in trading capacity in the PIMCO Equity Funds at a rate of three to four round-trip exchanges per month. The broker representatives also specified that they only wanted capacity in funds where their client’s investment would consist of 3% or less of the fund value. In exchange for this ability to market time, the broker representatives proposed a long-term investment consisting of 25% of the value of trading capacity into one of the PIMCO Equity Entities’ other investment products.

16. After the meeting with the broker representatives, Corba met with PEA’s managing directors and portfolio managers regarding the proposed arrangement. At this meeting, Corba indicated that PEA was entering into a market timing relationship involving PEA’s growth-type funds (i.e., the Growth, Target, and Innovation Funds).

17. After the meeting with the managing directors and portfolio managers, Corba instructed PEA’s former Senior Vice President of Institutional Marketing to work out an agreement that permitted trading capacity in the PIMCO Equity Growth, Target, and Innovation Funds. The terms of the agreement were that Canary would invest $100 million in the Growth, Target, and Innovation Funds; the assets could be traded in up to four round-trips per month; the amount of money invested in each fund by Canary could not exceed 3% of the fund’s assets; and Canary agreed to make a long-term investment representing 25% of the assets under management into the PIMCO Equity Select Growth Fund.

18. In or about January 2002, Corba met with Treadway to discuss the proposed market timing relationship. At this meeting, Corba told Treadway that a member of a very wealthy and reputable family, Edward Stern, was interested in the PIMCO Equity Funds and in establishing a long-term relationship with PEA. Corba also told Treadway at this meeting that he wanted to get Stern to invest into the Select Growth Fund. Corba further told Treadway that Stern was interested in active trading that could potentially run afoul of the PIMCO Equity Entities’ market timing policies. In describing the proposed arrangement to Treadway, Corba stated that the PIMCO Equity Entities would be informed about Stern’s trades and that Stern would not invest more than 3% into any one of the PEA-managed funds at any one time.

19. Corba needed Treadway’s approval to proceed with the Stern relationship because it involved a significant amount of money and the accommodation of market timing. Corba also needed Treadway’s approval because Treadway was the Chairman of the PIMCO Equity Funds and the PAD “timing police” ultimately reported to Treadway. At the meeting with Corba, Treadway approved the relationship with Stern.
20. In February 2002, Canary executed its first round-trip exchange in the PIMCO Innovation Fund. After the execution of this transaction, however, the portfolio manager for the PIMCO Innovation Fund decided that the Canary timing activity was too disruptive and asked Corba to stop any further trading by Canary in the fund.

21. On or about March 5, 2002, Corba and PEA’s former Senior Vice President of Institutional Marketing met with Stern and the broker representatives at The Racquet Club in New York City and discussed, among other things, the market timing agreement between PEA and Canary. They discussed that the agreement permitted four round-trip exchanges in each fund per month and included a 25% long-term investment in the PIMCO Select Growth Fund. In addition, Stern expressed an interest in obtaining additional capacity in other PIMCO Equity Funds and investing in a PIMCO hedge fund. Corba told Stern about the PIMCO Equity Advisors Horizon Fund LP (the “Horizon Fund”) and, specifically, that it had a good performance record. The Horizon Fund was a hedge fund managed by PEA and focused on small cap growth with assets of $31.1 million as of February 28, 2003.

22. Throughout March 2002, Stern continued to express an interest in obtaining additional capacity in other PIMCO Equity Funds. Corba knew that Stern was disappointed about losing capacity in the Innovation Fund. Corba, therefore, told PEA’s former Senior Vice President of Institutional Marketing that Canary could consider the Opportunity Fund if they were interested but that because it was a much smaller fund the capacity level would not be the same as what they had with the Innovation Fund.

23. On or about March 22, 2002, Stern met with the portfolio manager for the Horizon and Opportunity Funds and PEA’s former Senior Vice President of Institutional Marketing to learn about the Horizon Fund. On March 25, 2002, the former Senior Vice President of Institutional Marketing informed Corba that Canary still wanted to invest in the Innovation and Opportunity Funds as part of the deal. Corba knew that part of the purpose of the long-term investment in the Horizon Fund would be to gain further access to the funds including the Opportunity Fund.

24. Soon after the March 22, 2002 meeting with Stern, Canary invested $2 million in the Horizon Fund on a long-term basis and received $5 million in trading capacity in the Opportunity Fund.

25. PEA received 1% of total assets under management and a performance fee consisting of 20% of the net profits generated by the fund in annual fees from the Horizon Fund. Likewise, PAFM and PEA collectively received an advisory fee of 0.65% of net assets under management for the Opportunity Fund. PAD received compensation based on Canary’s purchases of PIMCO Equity Fund shares.

2. Canary’s Trading in the PIMCO Equity Funds

26. From on or around February 1, 2002 through February 8, 2002, Canary invested $25 million in sticky or long-term assets into the PIMCO Select Growth Fund, which almost doubled the assets of that fund. Between February 4 and February 7, 2002, Canary also placed approximately $60 million into a combination of fixed-income PIMCO Funds. On or around
February 8, 2002, Canary began its timing activities by purchasing approximately $24 million in both the PIMCO Target and Innovation Funds. On February 12, 2002, Corba and Treadway, among others, received an e-mail notification from a member of PAD’s “timing police” regarding the broker representatives’ initial transactions on behalf of the Canary accounts.

27. From on or around February 8, 2002 through April 3, 2002, Canary traded extensively into and out of the PIMCO Target Fund from one of the following funds: PIMCO Total Return Fund, PIMCO Real Return Fund, PIMCO Short-Term Fund, or the PIMCO Low Duration Fund or the PIMCO Money Market (the “fixed-income PIMCO Funds”). The fixed-income PIMCO Funds were advised by Pacific Investment Management Company LLC, an affiliated but separate registered investment adviser, and were not parties to the special Canary arrangement. In fact, in March 2002, the fixed-income PIMCO Funds requested that this trading activity cease and it did cease in the fixed-income PIMCO Funds.

28. From on or around February 8, 2002 through February 21, 2002, Canary also traded in the PIMCO Innovation Fund. The Innovation Fund had an investment strategy, however, that was negatively affected by the extreme inflow and outflow of cash. Thus, after the first round-trip exchange allowed by the Canary arrangement, the portfolio manager for Innovation determined that the market timing activity was disruptive to the fund.

29. As a result of being forced to stop its activities in the Innovation Fund, Canary reduced its total timing capacity in the PIMCO Equity Funds to approximately $60 million. The original agreement linked the amount of money under management as sticky assets to the volume of timing capacity. On or around April 12, 2002, Canary lowered its “sticky asset” investment in the PIMCO Select Growth Fund from $25 million to $20 million to reflect the lower timing capacity Canary received in the PIMCO Equity Funds. On or around this same date, the broker representatives notified Corba and others about the $5 million redemption from the Select Growth Fund. Canary began its timing activities in the PIMCO Growth Fund on or around April 11, 2002.

30. Canary timed the Growth and Target Funds from April 2002 until November 2002. Throughout this period of time, the broker representatives e-mailed Corba and others trade notifications for the purchases and redemptions of the Funds. These notifications demonstrated the frequent trading activities in the Canary accounts.

31. From April 2002 through November 2002, Canary made approximately 28 round-trip exchanges in the Growth Fund. The overall dollar volume of these exchanges was nearly $1.8 billion. From February 2002 through November 2002, Canary made approximately 40 round-trip exchanges in the Target Fund. The overall dollar volume of these exchanges was over $2 billion.

32. Canary also invested $2 million in sticky assets into the Horizon Fund on or around April 1, 2002. Canary then placed $5 million in the Opportunity Fund on or around April 11, 2002, and market timed that account until on or around April 3, 2003. From April 2002 through April 2003, Canary made approximately 40 round-trip exchanges in the Opportunity Fund. The overall dollar volume of these exchanges was approximately $371 million.
3. **The PIMCO Equity Funds’ Disclosures**

33. From 2001 to 2003, the prospectus for the PIMCO Equity Funds, which each of the Respondents had knowledge of, stated that a pattern of exchanges characteristic of market timing strategies may be deemed detrimental to the fund and limited the number of round-trip exchanges available to investors. Specifically, in the November 2001 and February 2002 prospectuses, the PIMCO Equity Funds made the following disclosure regarding market timing:

> The Trust reserves the right to refuse exchange purchases, if, in the judgment of PIMCO Advisors, the purchase would adversely affect a Fund and its shareholders. In particular, a pattern of exchanges characteristic of “market-timing” strategies may be deemed by PIMCO Advisors to be detrimental to the Trust or a particular Fund. Currently, the Trust limits the number of “round trip” exchanges an investor may make. An investor makes a “round trip” exchange when the investor purchases shares of a different PIMCO Fund and then exchanges back into the originally purchased Fund. The Trust has the right to refuse any exchange for any investor who completes (by making the exchange back into the shares of the originally purchased Fund) more than six round trip exchanges in any twelve-month period. Although the Trust has no current intention of terminating or modifying the exchange privilege other than as set forth in the preceding sentence, it reserves the right to do so at any time.

From November 2001 through September 2003, there were only minor changes to this language. The PIMCO Equity Funds’ Statements of Additional Information and Shareholders Guides also made similar disclosures concerning market timing.

34. These disclosures were false and misleading, and Respondents knew they were false and misleading as a result of the secret market timing arrangement they entered into with Canary. None of the prospectuses disclosed that selected shareholders could make long-term investments in some PIMCO investment vehicles in order to obtain the right to market time PIMCO equity mutual funds. Treadway signed the PIMCO Equity Funds’ registration statements that were filed with the Commission.

35. PAD froze nearly 400 accounts in 2002 because of market timing or frequent trading in those accounts. From January 2003 through October 2003, PAD sent 104 warning letters to registered representatives, prohibited 67 registered representatives from selling PIMCO Equity Funds, and froze 317 accounts.

36. In fact, in furtherance of the stated policy, PAD prevented some shareholders from performing exchanges based on the policy articulated in the prospectus. PAD monitored the trading patterns in the PIMCO Equity Funds and, in so doing, was able to identify some market timers. When PAD identified market timers, it sent letters to them warning that they could not use PIMCO Equity Funds to execute market timing strategies. Specifically, these
letters stated that frequent transactions violated prospectus policies and were detrimental to the Funds and harmful to shareholders. As a further measure, PAD instructed the transfer agent for the PIMCO Equity Funds to block or freeze trades in market timers’ accounts.

37. PAD maintained a log listing broker-dealers and registered representatives identified as market timers. On the log, PAD identified the market timer and the action taken to deter that entity from continuing to time the PIMCO Equity Funds, including whether a warning letter was sent, the account was frozen, or the account was closed.

38. In at least one communication with a broker-dealer, PAD interpreted the prospectus disclosure as a strict prohibition against market timing.

39. Contrary to the disclosures in its prospectuses and to shareholders, the PIMCO Equity Entities allowed Canary to engage in a practice of market timing in exchange for long-term investments in a PIMCO equity mutual fund and a hedge fund. Specifically, as described above, the PIMCO Equity Entities allowed Canary to make approximately 108 round-trip exchanges from February 2002 to April 2003 pursuant to Canary’s special timing arrangement.

4. The Adverse Effects of Market Timing on the PIMCO Equity Funds

40. In May 2002, PAFM advised the Board of Trustees for the PIMCO Equity Funds, including Treadway, of the adverse impact that market timers had on mutual funds. The negative impacts were threefold: (1) increased trading and brokerage costs; (2) disruption of portfolio management activities; and (3) additional capital gains that increased shareholders’ tax liabilities. After receipt of this advice, the Board of Trustees imposed a redemption fee on short-term exchanges in certain classes of fund shares to, among other things, reimburse the shareholders for costs of market timing and create a disincentive for market timing activity. The Board of Trustees did not impose a similar fee on the retail class of shares used by Canary in its special arrangement. These redemption fees became effective on June 10, 2002.

41. At a June 20, 2002 Board of Trustees meeting, Treadway received authority to impose redemption fees on the class of shares used by Canary (on a temporary basis prior to the September board meeting) if he believed such action was in the best interests of the shareholders. However, these redemption fees were not imposed on that class of shares until February 2004.

42. As discussed above, Treadway, the Chairman of the Board of Trustees for the PIMCO Equity Funds at the time, had approved the market timing arrangement with Canary prior to PAFM’s advice to the Board of Trustees. Treadway, however, did not disclose the arrangement to the Board of Trustees during the time these redemption fees were being considered. In fact, Treadway did not disclose his knowledge of the arrangement to the Board of Trustees until approximately September 2003.

43. Moreover, the Canary trading was the type of market timing that PAD prohibited for other investors because of potential detriment to the Funds. In fact, when Canary tried to market time through Cockatoo Capital -- a Canary entity without a special arrangement -- PAD sent out a warning letter stating that the frequency of transactions violated prospectus policies and was detrimental to the fund and its shareholders.
5. **The PIMCO Equity Entities Eventually Terminate the Canary Relationship**

44. Both Treadway and Corba received warning signals concerning Canary’s trading activities soon after approving the Canary relationship. On March 25, 2002, PEA’s former Senior Vice President of Institutional Marketing forwarded to Corba a March 10, 2002 e-mail exchange between Canary and the former Senior Vice President of Institutional Marketing, which provided an early indication to Corba that Canary’s frequent trading activity was problematic.

45. On April 26, 2002, Corba, Treadway, and others received an e-mail from a member of PAD’s “timing police” stating that one of the Canary accounts had already executed five round-trip exchanges in the Target Fund for the month of April. The e-mail further stated that the Canary accounts “tend[ed] to divide the movement of shares (in or out of the fund[s]) across a couple of days thereby increasing the number of individual transactions hitting the account[s].” In response to this e-mail, Treadway instructed a senior PAD officer to formulate a “more precise and limiting definition of what constitutes 4 round trips.”

46. On April 29, 2002, the same member of PAD’s “timing police” sent an e-mail to the broker representatives, Treadway, Corba, and others alerting them that the rapid fire trading activity in the Canary accounts resulted in trade settlement problems.

47. On May 17, 2002, Corba sent an e-mail to one of the broker representatives, and others, characterizing Canary’s trading as “the most opportunistic but extreme form of market timing [he had] ever seen.”

48. On May 23, 2002, Corba sent one of the broker representatives an e-mail referring to “another one day transaction” by Canary. On June 4 and 11, 2002, Corba sent one of the broker representatives additional e-mails further complaining about Canary’s frequent one-day round trip transactions.

49. Treadway and Corba discussed the market timing arrangement approximately once per month. Around late April or early May 2002, Treadway told Corba that Canary’s trading levels and volumes were higher than anticipated and that the Canary accounts were more actively traded than Treadway expected. Corba agreed with Treadway. Nevertheless, Treadway and Corba allowed Canary to continue market timing the PIMCO Equity Funds for several more months.

50. In or around late August or early September 2002, Treadway and Corba finally decided to terminate the Canary arrangement. Despite that decision, Canary was allowed to continue timing the Target and Growth Funds until November 2002. Indeed, Canary was allowed to time the Target and Growth Funds until just after the Select Growth Fund merged with the Growth Fund in October 2002. Just prior to the merger of these two mutual funds, Canary redeemed its sticky asset investment from the Select Growth Fund. Canary redeemed its shares in the Select Growth Fund on or around October 11, 2002, but continued its timing activity until on or around November 21, 2002, at which point all funds were withdrawn from the Target and Growth Funds.
Canary continued, however, to time the Opportunity Fund until on or around April 3, 2003, and kept its sticky asset investment in the Horizon Fund until on or around May 31, 2003, at which time, the Canary relationship with the PIMCO Equity Funds was terminated.

6. **The Disclosure of Nonpublic Portfolio Holdings**

PAFM and PEA did not establish, maintain, or enforce written policies and procedures designed to prevent disclosure of the PIMCO Equity Funds’ nonpublic portfolio holdings. PEA disclosed nonpublic portfolio holdings of the Growth, Target, Opportunity, and Select Growth Funds to the broker representatives.

The disclosure of the nonpublic holdings to the broker representatives, some of which were forwarded to Canary, provided Canary and possibly others the opportunity to trade in the securities held in the respective fund portfolios.

E. **Violations**

As a result of the conduct described above, PAFM and PEA willfully violated Sections 206(1) and 206(2) of the Advisers Act in that, while acting as investment advisers, they employed devices, schemes, or artifices to defraud clients or prospective clients, and engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon clients or prospective clients. Specifically, PAFM and PEA entered into agreements with Canary that created a conflict of interest that they knowingly or recklessly failed to disclose to the board of trustees of the PIMCO Funds and that were inconsistent with the PIMCO Funds’ prospectus disclosures. Respondent PAD willfully aided and abetted PAFM and PEA’s violations of Sections 206(1) and 206(2) of the Advisers Act, in that it knowingly provided substantial assistance to PAFM and PEA’s violations of Sections 206(1) and 206(1) of the Advisers Act.

As a result of the conduct described above, PAFM and PEA willfully violated Section 204A of the Advisers Act, in that, PAFM and PEA, as affiliated persons of the PIMCO Funds, and PAD, as principal underwriter, acting as principals effected transactions in connection with joint arrangements in which certain PIMCO Funds were joint participants with PAFM, PEA, and PAD in contravention of rules and regulations the Commission has prescribed for the purpose of limiting or preventing participation by registered companies, such as the PIMCO Funds, on a basis different from or less
advantageous than that of such other participants without obtaining a Commission order approving the transactions.

57. As a result of the conduct described above, PAFM and PEA willfully violated Section 34(b) of the Investment Company Act in that they made untrue statements of material fact in a registration statement, application, report, account, record, or other document filed or transmitted pursuant to the Investment Company Act, or omitted to state in such documents any fact necessary in order to prevent the statements made therein, in the light of the circumstances under which they were made, from being materially misleading. Specifically, PAFM and PEA filed several registration statements with the Commission containing prospectuses, which PAFM and PEA reviewed, that were materially false and misleading at the time they were filed because they failed to disclose that an agreement had been made to permit timing in the PIMCO Funds in exchange for sticky assets. In addition, the prospectuses gave the misleading impression that the funds discouraged market timing. Respondent PAD willfully aided and abetted PAFM and PEA’s violations of Section 34(b) of the Investment Company Act, in that it knowingly provided substantial assistance to PAFM and PEA’s violations of Section 34(b) of the Investment Company Act.

F. Undertakings

58. In determining to accept the Offer, the Commission has considered the following efforts voluntarily undertaken by the PIMCO Equity Funds:

a. The PIMCO Equity Funds will operate in accordance with the following governance policies and practices, which the Funds have represented are currently in effect:

i. no more than 25 percent of the members of the board of Trustees of any PIMCO Equity Fund will be persons who either (a) were directors, officers or employees of the PIMCO Equity Entities at any point during the preceding 10 years or (b) are interested persons, as defined in the Investment Company Act, of the PIMCO Equity Funds or of the PIMCO Equity Entities. In the event that the board of Trustees fails to meet this requirement at any time due to the death, resignation, retirement or removal of any independent Trustee, the independent Trustees will take such steps as may be necessary to bring the board in compliance within a reasonable period of time;

ii. no chairman of the board of Trustees of any PIMCO Equity Fund will either (a) have been a director, officer or employee of the PIMCO Equity Entities at any point during the preceding 10 years or (b) be an interested person, as defined in the Investment Company Act, of the PIMCO Equity Funds or of the PIMCO Equity Entities; and

iii. any person who acts as counsel to the independent Trustees of any PIMCO Equity Fund will be an “independent legal counsel” as defined by Rule 0-1 under the Investment Company Act.
b. No action will be taken by the board of Trustees or by any committee thereof unless such action is approved by a majority of the members of the board of Trustees or of such committee, as the case may be, who are neither (i) persons who were directors, officers of employees of the PIMCO Equity Entities at any point during the preceding 10 years nor (ii) interested persons, as defined in the Investment Company Act, of the PIMCO Equity Funds or of the PIMCO Equity Entities. In the event that any action proposed to be taken is opposed by a majority vote of the independent Trustees of a PIMCO Equity Fund, then the PIMCO Equity Fund will, in its shareholder report for such period, disclose such proposal, the related board vote, and the reason, if any, for the independent Trustees’ vote against the proposal.

c. Commencing in 2005 and not less than every fifth calendar year thereafter, each PIMCO Equity Fund will hold a meeting of shareholders at which the board of Trustees will be elected.

d. The PIMCO Equity Funds are expected to comply with Rule 38a-1 of the Investment Company Act as of the date of entry of this Order, notwithstanding the October 5, 2004 compliance date for each rule as adopted by the Commission. See Compliance Programs of Investment Companies and Investment Advisers, Investment Company Act Rel. No. 26299 (Dec. 17, 2003) (adopting release). See also Section 60, paragraph f, below.

59. Ongoing Cooperation. In determining to accept the Offer, the Commission has considered the following undertaking by the PIMCO Equity Entities:

The PIMCO Equity Entities shall cooperate fully with the Commission in any and all investigations, litigations or other proceedings relating to or arising from the matters described in the Order. In connection with such cooperation, the PIMCO Equity Entities have undertaken:

a. To produce, without service of a notice or subpoena, any and all documents and other information requested by the Commission’s staff;

b. To use their best efforts to cause their employees to be interviewed by the Commission’s staff at such times as the staff reasonably may direct;

c. To use their best efforts to cause their employees to appear and testify truthfully and completely without service of a notice or subpoena in such investigations, depositions, hearings or trials as may be requested by the Commission’s staff; and

d. That in connection with any testimony of the PIMCO Equity Entities to be conducted at deposition, hearing or trial pursuant to a notice or subpoena, the PIMCO Equity Entities:

i. Agree that any such notice or subpoena for PAFM, PEA, or PAD’s appearance and testimony may be served by regular mail on their attorney,
Harvey J. Wolkoff, Esq., Ropes & Gray LLP, One International Place, Boston, MA 02110-2624 or such other attorney as the PIMCO Equity Entities may designate from time to time; and

ii. Agree that any such notice or subpoena for the PIMCO Equity Entities’ appearance and testimony in an action pending in a United States District Court may be served, and may require testimony, beyond the territorial limits imposed by the Federal Rules of Civil Procedure.

60. **Compliance and Ethics Oversight Structure.** Within 90 days from the date of entry of this Order, the PIMCO Equity Entities shall maintain a compliance and ethics oversight infrastructure having the following characteristics:

a. PAFM and PEA shall maintain a Code of Ethics Oversight Committee having responsibility for all matters relating to issues arising under the Adviser Code of Ethics. The Code of Ethics Oversight Committee shall be comprised of senior executives of the PIMCO Equity Entities’ operating business. The PIMCO Equity Entities shall hold at least quarterly meetings of the Code of Ethics Oversight Committee to review violations of the Code of Ethics, as well as to consider policy matters relating to the Code of Ethics. PAFM and PEA shall report on issues arising under the Code of Ethics, including all violations thereof, to the Audit Committee of the Trustees of the PIMCO Equity Funds with such frequency as the Audit Committee may instruct, and in any event at least quarterly, provided however that any material violation shall be reported promptly.

b. The PIMCO Equity Entities shall establish an Internal Compliance Controls Committee to be chaired by the Director of Compliance for the ADAM of America Group (or if he so designates, PAFM’s Chief Compliance Officer), which Committee shall have as its members senior executives of the PIMCO Equity Entities’ operating business. Notice of all meetings of the Internal Compliance Controls Committee shall be given to the outside independent counsel of the Board of Trustees for the PIMCO Equity Funds, who shall be invited to attend and participate in such meetings provided that the involvement of the outside independent counsel of the Board of Trustees shall be limited to compliance issues relating to the PIMCO Equity Funds. The Internal Compliance Controls Committee shall review compliance issues throughout the business of the PIMCO Equity Entities, endeavor to develop solutions to those issues as they may arise from time to time, and oversee implementation of those solutions. The Internal Compliance Controls Committee shall provide reports on internal compliance matters to the Board of Trustees of the PIMCO Equity Funds with such frequency as the Board may reasonably instruct, and in any event at least quarterly. The PIMCO Equity Entities shall also provide to the Audit Committee of the PIMCO Equity Entities the same reports of the Code of Ethics Oversight Committee and the Internal Compliance Controls Committee that it provides to the Audit Committee of the PIMCO Equity Funds.
c. The PIMCO Equity Entities shall, at their own expense, cause there to be a senior-level employee whose responsibilities shall include compliance matters regarding conflicts of interests relating to the business of the PIMCO Equity Entities, as the case may be. This officer will report directly to the Chief Compliance Officers of the PIMCO Equity Entities and shall have oversight over compliance matters related to conflicts of interests at the PIMCO Equity Entities.

d. The PIMCO Equity Entities shall require the Chief Compliance Officer of each of the PIMCO Equity Entities to report to the MMS Chief Compliance Officer who shall report to the Board of Trustees for the PIMCO Equity Funds any breach of fiduciary duty owed to the Board and/or violations of the federal securities laws of which he or she becomes aware in the course of carrying out his or her duties, with such frequency as the Board of Trustees may instruct, and in any event at least quarterly, provided however that any material breach (i.e., any breach that would be important, qualitatively or quantitatively, to a reasonable Trustee) shall be reported promptly.

e. The PIMCO Equity Entities shall establish a corporate ombudsman to whom their employees may convey concerns about business matters that they believe implicate matters of ethics or questionable practices. The PIMCO Equity Entities shall establish procedures to investigate matters brought to the attention of the ombudsman, and these procedures shall be presented for review and approval by the independent Trustees of the PIMCO Equity Funds. The PIMCO Equity Entities shall also review matters brought to the attention of the ombudsman, along with any resolution of such matters, with the independent Trustees of the PIMCO Equity Funds with such frequency as the independent Trustees of such Funds may instruct.

f. Effective immediately, the PIMCO Equity Entities will comply with Rule 206(4)-7 of the Advisers Act, notwithstanding the October 5, 2004 compliance date for each rule as adopted by the Commission. See Compliance Programs of Investment Companies and Investment Advisers, Investment Company Act Rel. No. 26299 (Dec. 17, 2003) (adopting release). See also, Section 58, paragraph d., above.

61. Independent Compliance Consultant. The PIMCO Equity Entities shall retain, within 60 days of the date of entry of the Order, the services of an Independent Compliance Consultant not unacceptable to the staff of the Commission and a majority of the independent Trustees of the PIMCO Equity Funds. The Independent Compliance Consultant’s compensation and expenses shall be borne exclusively by the PIMCO Equity Entities or their affiliates. The PIMCO Equity Entities shall require that the Independent Compliance Consultant conduct a comprehensive review of the PIMCO Equity Entities’ supervisory, compliance, and other policies and procedures designed to prevent and detect breaches of fiduciary duty, breaches of the Code of Ethics and federal securities law violations by the PIMCO Equity Entities and their employees. This review shall include, but shall not be limited to, a review of the PIMCO Equity Entities’ market timing controls across all areas of its business, a review of the PIMCO Equity
Funds’ pricing practices that may make those funds vulnerable to market timing, a review of the PIMCO Equity Funds’ utilization of short term trading fees and other controls for deterring excessive short term trading, and a review of the PIMCO Equity Entities’ policies and procedures concerning conflicts of interest, including conflicts arising from advisory services to multiple clients. The PIMCO Equity Entities shall cooperate fully with the Independent Compliance Consultant and shall provide the Independent Compliance Consultant with access to their files, books, records, and personnel as reasonably requested for the review.

a. The PIMCO Equity Entities shall require that, at the conclusion of the review, which in no event shall be more than 120 days after the date of entry of the Order, the Independent Compliance Consultant shall submit a Report to the PIMCO Equity Entities, the Trustees of the PIMCO Equity Funds, and the staff of the Commission. The Report shall address the issues described in subparagraph 62 of these undertakings, and shall include a description of the review performed, the conclusions reached, the Independent Compliance Consultant’s recommendations for changes in or improvements to policies and procedures of the PIMCO Equity Entities and the PIMCO Equity Funds, and a procedure for implementing the recommended changes in or improvements to the PIMCO Equity Entities’ policies and procedures.

b. The PIMCO Equity Entities shall adopt all recommendations with respect to the PIMCO Equity Entities contained in the Report of the Independent Compliance Consultant; provided, however, that within 150 days after the date of entry of the Order, the PIMCO Equity Entities shall in writing advise the Independent Compliance Consultant, the Trustees of the PIMCO Equity Funds and the staff of the Commission of any recommendations that they consider to be unnecessary or inappropriate. With respect to any recommendation that the PIMCO Equity Entities consider unnecessary or inappropriate, the PIMCO Equity Entities need not adopt that recommendation at that time but shall propose in writing an alternative policy, procedure or system designed to achieve the same objective or purpose.

c. As to any recommendation with respect to the PIMCO Equity Entities’ policies and procedures on which the PIMCO Equity Entities and the Independent Compliance Consultant do not agree, such parties shall attempt in good faith to reach an agreement within 180 days of the date of entry of the Order. In the event the PIMCO Equity Entities and the Independent Compliance Consultant are unable to agree on an alternative proposal acceptable to the staff of the Commission, the PIMCO Equity Entities will abide by the determinations of the Independent Compliance Consultant.

d. The PIMCO Equity Entities (i) shall not have the authority to terminate the Independent Compliance Consultant, without the prior written approval of the majority of independent Trustees and the staff of the Commission; (ii) shall compensate the Independent Compliance Consultant, and persons engaged to assist the Independent Compliance Consultant, for services rendered pursuant to
the Order at their reasonable and customary rates; and, (iii) shall not be in and shall not have an attorney-client relationship with the Independent Compliance Consultant and shall not seek to invoke the attorney-client or any other doctrine or privilege to prevent the Independent Compliance Consultant from transmitting any information, reports, or documents to the Trustees or the Commission.

e. The PIMCO Equity Entities shall require that the Independent Compliance Consultant, for the period of the engagement and for a period of two years from completion of the engagement, shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with the PIMCO Equity Entities, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. The PIMCO Equity Entities shall require that any firm with which the Independent Compliance Consultant is affiliated in performance of his or her duties under the Order shall not, without prior written consent of the independent Trustees and the staff of the Commission, enter into any employment, consultant, attorney-client, auditing or other professional relationship with the PIMCO Equity Entities, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

62. **Periodic Compliance Review.** Commencing in 2006, and at least once every other year thereafter, the PIMCO Equity Entities shall undergo a compliance review by a third party, who is not an interested person, as defined in the Investment Company Act, of the PIMCO Equity Entities. At the conclusion of the review, the third party shall issue a report of its findings and recommendations concerning the PIMCO Equity Entities’ supervisory, compliance, and other policies and procedures designed to prevent and detect breaches of fiduciary duty, breaches of the Code of Ethics and federal securities law violations by the PIMCO Equity Entities and their employees in connection with their duties and activities on behalf of and related to the PIMCO Equity Funds. Each such report shall be promptly delivered to the PIMCO Equity Entities’ Internal Compliance Controls Committee and to the Audit Committee of the Board of Trustees for the PIMCO Equity Entities.

63. **Independent Distribution Consultant.** The PIMCO Equity Entities shall retain, within 30 days of the date of entry of the Order, the services of an Independent Distribution Consultant not unacceptable to the staff of the Commission and the independent Trustees of the PIMCO Equity Funds. The Independent Distribution Consultant’s compensation and expenses shall be borne exclusively by the PIMCO Equity Entities. The PIMCO Equity Entities shall cooperate fully with the Independent Distribution Consultant and shall provide the Independent Distribution Consultant with access to its files, books, records, and personnel as reasonably requested for the review. The PIMCO Equity Entities shall require that the Independent Distribution Consultant develop a Distribution Plan for the distribution of all of the disgorgement and penalty ordered in Paragraph IV.F.1 of the Order, and any interest or earnings thereon, according to a methodology developed in consultation with the PIMCO Equity Entities and acceptable to the staff of the Commission and the independent Trustees of the PIMCO Equity Funds. The Distribution Plan shall provide for investors to receive, from the monies
available for distribution, in order of priority, (i) their proportionate share of losses suffered by
the fund due to market timing, and (ii) a proportionate share of advisory fees paid by funds that
suffered such losses during the period of such market timing.

a. The PIMCO Equity Entities shall require that the Independent Distribution Consultant submit a Distribution Plan to the PIMCO Equity Entities and the staff of the Commission no more than 100 days after the date of entry of the Order.

b. The Distribution Plan developed by the Independent Distribution Consultant shall be binding unless, within 130 days after the date of entry of the Order, the PIMCO Equity Entities or the staff of the Commission advises, in writing, the Independent Distribution Consultant of any determination or calculation from the Distribution Plan that it considers to be inappropriate and states in writing the reasons for considering such determination or calculation inappropriate.

c. With respect to any determination or calculation with which the PIMCO Equity Entities or the staff of the Commission do not agree, such parties shall attempt in good faith to reach an agreement within 160 days of the date of entry of the Order. In the event that the PIMCO Equity Entities and the staff of the Commission are unable to agree on an alternative determination or calculation, the determinations and calculations of the Independent Distribution Consultant shall be binding.

d. Within 175 days of the date of entry of the Order, the PIMCO Equity Entities shall require that the Independent Distribution Consultant submit the Distribution Plan for the administration and distribution of disgorgement and penalty funds pursuant to Rule 1101 [17 C.F.R. § 201.1101] of the Commission’s Rules Regarding Fair Fund and Disgorgement Plans. Following a Commission order approving a final plan of disgorgement, as provided in Rule 1104 [17 C.F.R. § 201.1104] of the Commission’s Rules Regarding Fair Fund and Disgorgement Plans, the PIMCO Equity Entities shall require that the Independent Distribution Consultant, with the PIMCO Equity Entities, take all necessary and appropriate steps to administer the final plan for distribution of disgorgement and penalty funds.

e. The PIMCO Equity Entities shall require that the Independent Distribution Consultant, for the period of the engagement and for a period of two years from completion of the engagement, not enter into any employment, consultant, attorney-client, auditing or other professional relationship with the PIMCO Equity Entities, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. The PIMCO Equity Entities shall require that any firm with which the Independent Distribution Consultant is affiliated in performance of his or her duties under the Order not, without prior written consent of a majority of the independent Trustees and the staff of the Commission, enter into any employment, consultant, attorney-client, auditing or other professional relationship with the PIMCO Equity Entities, or any of their
present or former affiliates, directors, officers, employees, or agents acting in
their capacity as such for the period of the engagement and for a period of two
years after the engagement.

64. Certification. No later than twenty-four months after the date of entry of the
Order, the chief executive officers of the PIMCO Equity Entities shall certify to the Commission
in writing that the PIMCO Equity Entities have fully adopted and complied in all material
respects with the undertakings set forth in paragraphs 60 through 63 above and with the
recommendations of the Independent Compliance Consultant or, in the event of material non-
adoption or non-compliance, shall describe such material non-adoption and non-compliance.

65. Recordkeeping. The PIMCO Equity Entities shall preserve for a period not less
than six years from the end of the fiscal year last used, the first two years in an easily accessible
place, any record of each of the PIMCO Equity Entities’ compliance with the undertakings set
forth in paragraphs 60-63.

66. Deadlines. For good cause shown, the Commission’s staff may extend any of the
procedural dates set forth above.

IV.

In view of the foregoing, the Commission deems it appropriate in the public interest and
for the protection of investors to impose the sanctions agreed to in the PIMCO Equity Entities’
Offers. Accordingly, it is hereby ORDERED, effective immediately, that:

A. Pursuant to Section 203(e) of the Advisers Act, PAFM and PEA are hereby
censured.

B. Pursuant to Section 203(k) of the Advisers Act and Section 9(f) of the Investment
Company Act, PAFM and PEA shall cease and desist from committing or causing
any violations and any future violations of Sections 204A, 206(1) and 206(2) of
the Advisers Act and Sections 17(d) and 34(b) of the Investment Company Act
and Rule 17d-1 thereunder.

C. Pursuant to Section 15(b)(4) of the Exchange Act, PAD is censured.

D. Pursuant to Section 203(k) of the Advisers Act and Section 9(f) of the Investment
Company Act, PAD shall cease and desist from committing or causing any
violations and any future violations of Sections 206(1) and 206(2) of the Advisers
Act and Sections 17(d) and 34(b) of the Investment Company Act and Rule 17d-1
thereunder.

E. The PIMCO Equity Entities shall comply with the undertakings set forth in
paragraphs 60 through 65 above.

F. Disgorgement and Civil Money Penalties
1. The PIMCO Equity Entities shall jointly pay disgorgement in the amount of $10,000,000. The PIMCO Equity Entities previously made a payment of $1,616,738 to the PIMCO Equity Funds. The PIMCO Equity Entities shall therefore jointly pay the remaining $8,383,262 of disgorgement (“Disgorgement”) into an escrow account as set forth below. PAFM will pay civil money penalties in the amount of $10,000,000; PAD will pay civil money penalties in the amount of $10,000,000; and PEA will pay civil money penalties in the amount of $20,000,000 (“Penalties”); for a total payment of $50,000,000.

2. There shall be, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund established for the funds described in Section IV.F.1. Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that they shall not, in any Related Investor Action, benefit from any offset or reduction of any investor’s claim by the amount of any Fair Fund distribution to such investor in this proceeding that is proportionately attributable to the civil penalty paid by the Respondents (“Respondents’ Penalty Offset”). If the court in any Related Investor Action grants such an offset or reduction, Respondents agree that they shall, within 30 days after entry of a final order granting the offset or reduction, notify the Commission’s counsel in this action and pay the amount of the Respondents’ Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed against Respondents in this proceeding. For purposes of this paragraph, a Related Investor Action means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as those set forth in the Order.

3. Pursuant to an escrow agreement not unacceptable to the staff of the Commission, the PIMCO Equity Entities shall, within 20 days of the entry of this Order, pay the Disgorgement and Penalties into an escrow account. The escrow agreement shall, among other things: (1) require that all funds in escrow be invested as soon as reasonably possible and to the extent practicable in short-term U.S. Treasury securities with maturities not to exceed six months; (2) name an escrow agent who shall be appropriately bonded; and (3) provide that escrowed funds be disbursed only pursuant to an order of the Commission. The PIMCO Equity Entities shall be responsible for all costs associated with the escrow agreement and the Fair Fund distribution.

G. Other Obligations and Requirements. Nothing in this Order shall relieve the PIMCO Equity Entities or any PIMCO Equity Fund of any other applicable legal obligation or requirement, including any rule adopted by the Commission subsequent to this Order.

By the Commission.
Jonathan G. Katz
Secretary