

4Q

Allianz Global Investors Capital

Convertibles

Fourth Quarter 2011 Commentary

Market Overview

Prices of convertible bonds rose in the quarter, but the convertible market return ended a volatile year in negative territory. The Bank of America Merrill Lynch All Convertibles All Qualities Index returned 4.3% for the fourth quarter, but lost 5.2% for 2011. By way of comparison, the convertible market outperformed the ten-year Treasury return of 1.2%, but underperformed the S&P 500 return of 11.8% for the quarter. The S&P 500 was up 2.1% for 2011.

After a rough third quarter, the equity market rebounded nicely to end the year. Corporate profits, political headlines and related macroeconomic data all influenced the markets. Unlike the third quarter, where most of the headlines were negative, much of the data in the fourth quarter was positive. Third quarter earnings for a majority of companies exceeded expectations and the outlooks remained positive. In Europe, sovereign debt worries made daily headlines, but the Fed and other major central banks agreed to implement supportive measures to ease the crisis. In the U.S., economic statistics were better than expected, consumer spending trended positively and even housing showed some signs of life.

Besides a positive equity market, an increase in bond floor valuations had a positive impact on the convertible market. Corporate bond spreads tightened as prices rose. Bond prices rose to more accurately reflect the lack of balance sheet risk for the average issuer in the market.

While credit spread tightening and a positive equity market drove convertible returns, the upside participation rate in the fourth quarter was less than expected. Historically, convertibles have captured around 70% of the upside move of the underlying equity. Prices were slower to move in the quarter because of the more bond-like positioning of the convertible market.

Industry-level performance was mostly positive for the period. The economically sensitive issuers such as Consumer Discretionary, Industrials and Technology, outperformed for the quarter on better-than-expected U.S economic statistics and corporate profits.

The Transportation and Materials industries were lower in the quarter. The Transportation industry was lower largely due to the bankruptcy of American Airlines. The Materials industry was off on slowing global GDP fears.

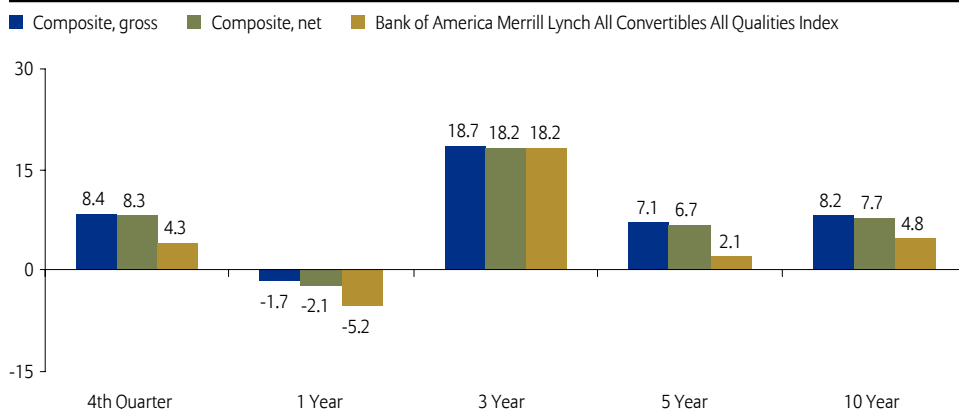
Investment grade issuers and larger-capitalized companies underperformed in the quarter, while total-return convertibles outperformed the yield and busted categories for the quarter.

New convertible issuance was steady in the fourth quarter. Eleven new deals priced for \$2.9 billion in total proceeds. For 2011, there was \$23.3 billion of issuance, which was below last year's level. Many companies are still accessing the corporate debt markets instead of the convertible markets because of the absolute low level of interest rates.

Portfolio Specifics

For the fourth quarter, the Convertibles strategy outperformed the Bank of America Merrill Lynch All Convertibles All Qualities Index. The net result of the quarter was decidedly positive, but this was only after a significant upswing in October, a retreat in November and finally a rebound in December.

Performance (%)



All data as of December 31, 2011 unless otherwise noted. Composite inception January 1, 1987; Performance of less than one year has not been annualized. Past performance is not indicative of future results. See additional disclosure at the end of this presentation. Source: Allianz Global Investors Capital.

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Portfolio Specifics (continued)

In this environment, an all-weather design aided relative performance. The cornerstone of such a design is consistently identifying companies that met or exceeded fundamental expectations. Also limiting or eliminating exposure to companies that did not meet or exceed expectations.

Positions in the Energy, Industrials and Technology industries helped performance in the quarter. Energy issuers were higher as better macro data drove up oil prices and increased investors' confidence in future earnings. Industrial issuers outperformed as third quarter profits met or exceeded expectations. Technology companies were up on continued positive demand for their respective products. In addition, a software company announced it would be acquired at a large premium by a competitor.

Select issuers in the Healthcare and Telecommunication industries hurt performance. Healthcare device manufacturing companies were lower during the quarter on worse-than-expected quarterly profits. In addition, a telecommunications company was sold after an acquisition candidate reported disappointing results.

The conversion premium at quarter end was approximately 31%. The portfolio's conversion premium has returned to a more balanced, asymmetric risk return level. The portfolio is well positioned to participate on the upside and protect on the downside.

Outlook

The outlook for the convertible market is unchanged and constructive. The positive asymmetric risk/reward convertible bonds currently offer is very favorable, especially during periods of high volatility.

While convertibles had less upside than expected in the fourth quarter, upside participation going forward should be higher, without sacrificing downside protection. Leverage ratios and interest coverage ratios are near or better than levels seen in the past twenty years, and cash levels remain high. Default rates are low and should stay low for an extended period. Given these dynamics, convertible bond floors should hold, diminishing the downside participation rate.

While credit spread volatility will continue to impact convertible performance, equity market volatility will also be a driver of future convertible returns. Macro factors are having an impact on daily volatility and prices of higher beta issues, which warrants close monitoring.

Commodity prices eased in the quarter and should be a tailwind to earnings in the first half of 2012 versus a headwind for much of 2011. In addition, economic statistics have generally been improving in the U.S, which should allow a majority of companies to meet or exceed expectations for the fourth quarter.

In 2012, companies are expected to use the high cash levels on their balance sheets and future free cash flow to boost shareholder value. Share buybacks, increased dividends and merger and acquisition activity are possible uses of excess cash. These factors will benefit equity and convertible investors.

Our disciplined approach of focusing on companies that are exceeding expectations and improving their credit statistics should be rewarded as those companies differentiate themselves from their peer group. In this environment, we believe companies that have reasonable earnings visibility should command premium valuations relative to other companies.

We continue to build the portfolio one company at a time, by identifying those that are opportunistically capitalizing on change. In addition, we are maintaining our discipline of seeking to identify the best convertibles with the optimal risk/reward profile, 70%-80% of the upside and 40%-50% of the downside. At Allianz Global Investors Capital, a discriminating environment that rewards corporations for exceeding expectations bodes well for our convertible investment process.

Allianz Global Investors Capital ("AGIC") was formed from the combination of three affiliates: NFI Investment Group ("NFI"), Nicholas-Applegate ("NACM"), and Oppenheimer Capital ("OpCap"). In July 2010, all employees of NACM and OpCap became employees of AGIC, and the transition of management of client assets from NACM and OpCap to AGIC was initiated. AGIC provides oversight with respect to the investment management services provided by NFI, as well as non-investment functions including marketing, operations, technology, legal/compliance, and client service. AGIC and NFI are SEC registered investment advisers. AGIC claims compliance with the Global Investment Performance Standards (GIPS). AGIC is an SEC registered investment adviser that provides investment management and advisory services primarily to separate accounts of institutional clients, and registered and unregistered investment funds. For GIPS purposes, the Firm is defined and held out to the public as the investment management and advisory services provided by AGIC and its SEC registered investment adviser subsidiary NFI Investment Group LLC, excluding (i) administrative and/or sub adviser oversight services, and (ii) separately managed account (wrap) services. The firm's list of composite descriptions, as well as information regarding the firm's policies for valuing investments, calculating performance, and preparing compliant presentations, are available upon request by contacting (619) 687-2800. **Past performance is not indicative of future results.** The strategy may not achieve its desired results. Gross returns do not give effect to investment advisory fees, which would reduce such returns. All returns presented are calculated using U.S. dollars unless otherwise noted. Advisory fees are deducted periodically from the account and have an impact on performance. As an example, the effect of investment advisory fees on the total value of a portfolio assuming (a) \$1,000,000 investment, (b) portfolio return of 5% per year, and (c) 1.00% annual investment advisory fee would be \$10,268.81 in the first year, \$56,741.68 over five years, and \$129,160.05 over ten years. Actual fees charged may vary by portfolio due to various conditions, including account size. Investment advisory fees are described further in Form ADV Part 2A Brochure. Where "net of fee" performance is indicated, actual fees charged were used for performance calculations. The asset and industry reports contained herein are unaudited. The summation of dollar values and percentages reported may not equal the total values, due to rounding discrepancies. Portfolio characteristics are derived using currently available data from independent research resources that are believed to be accurate. Estimates (est.) are preliminary and unaudited. Unless otherwise noted, AGIC is the source of illustrations, performance data, and characteristics. Representative account characteristics and risk metrics are supplemental information, and supplement the composite performance presented herein. References to specific securities and their characteristics are examples of securities held in the portfolio and are not intended to be, and should not be interpreted as an offer, solicitation or recommendation to purchase or sell any financial instrument, an indication that the purchase of such securities was or will be profitable, or representative of the composition or performance of the portfolio. Unless otherwise noted, equity index performance is calculated with gross dividends reinvested and estimated tax withheld, and bond index performance includes all payments to bondholders, if any. Indexes are referred to for comparative purposes only and are not intended to parallel the risk or investment style of the portfolios in the Composite. Indexes do not utilize leverage. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index. Index data contained herein (and all trademarks related thereto) are owned by the indicated index provider, and may not be redistributed. The information herein has not been approved by the index provider. Currency conversions are provided by Russell Performance Universe and are based on monthly linked performance converted from U.S. dollar. Exchange rates are provided by the Federal Reserve Statistical Release as of month end. Market participation is based on the average of quarterly returns in up and down markets as determined by the benchmark's performance. "Representative Holdings" are as of the date indicated and are subject to change without notice. Holdings are selected based on size of positions, from a representative account. Representative account characteristics and partial lists of past recommendations do not reflect composite performance, which may be different. Additional information regarding account characteristics, and a complete list of all representative buys and sells for the last 12 months is available upon request. Portfolio and benchmark characteristics for this strategy are provided by FactSet, and calculated according to FactSet methodology. The Convertibles Composite (the "Composite") consists of accounts that invest primarily in U.S. Dollar denominated, convertible bond and convertible preferred securities. The Bank of America Merrill Lynch All Convertibles All Qualities Index represents convertible securities spanning all corporate sectors and having a par amount outstanding of \$25 Mil+. Maturities must be at least one year. The coupon range must be equal to or greater than zero and all qualities of bonds are included. Preferred equity redemption stocks are not included nor are component bonds once they are converted into corporate stock. **Investment Risks:** Small- and mid-cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the markets for these stocks may adversely affect the value of these investments. Convertible securities are often rated below investment grade or not rated because they fall below debt obligations and just above common equity in order of preference or priority on the issuer's balance sheet. Hence an issuer with investment grade senior debt may issue convertible securities with ratings less than investment grade or not rated.