

4Q

Allianz Global Investors Capital

International Small Cap Growth

Fourth Quarter 2011 Commentary

Market Overview

The fourth quarter began with strong gains in October that were nearly offset during the last two months of the year. The capitulating market was largely tied to news flow as opposed to company-specific fundamentals, creating a difficult environment for long-term active managers to add value.

Investor attention focused on progress (or lack thereof) made in Europe to combat the sovereign debt crisis. The MSCI Emerging Markets Index posted gains above the S&P Developed ex-U.S. Small Cap Growth Index, which was dragged lower by Japan, France, and Italy. While Europe was on the brink of recession, U.S. corporate earnings continued to be quite strong and the economy showed signs of growth.

Uncertainty has driven investors to seek safe harbor in assets such as cash and government bonds. On an aggregate basis, small cap equities trailed their large cap counterparts as the S&P Developed ex-U.S. Small Cap Index underperformed the MSCI EAFE Index by over 200 basis points. Within the S&P Developed ex-U.S. Small Cap Index, growth stocks slightly outpaced value stocks.

Portfolio Overview

The portfolio underperformed the S&P Developed ex-U.S. Small Cap Growth Index by 107 basis points during the fourth quarter. Relative returns were hindered by stock selection and unfavorable sector allocation. Holdings in the Consumer Discretionary sector were responsible for a majority of underperformance, particularly specialty retailer SuperGroup PLC. Within the Materials sector, allocations in the metals & mining industry group lagged those stocks in the benchmark. Conversely, superior stock selection in the Financials sector contributed positively. Portfolio holdings outpaced in the commercial banking, diversified financial, and real estate industry groups. Stock selection was also additive in the Information Technology, Energy, Health Care, and Consumer Staples sectors. Country-based attribution reveals adept stock picks in Canada, Germany, and Finland. Disappointing performance occurred in the United Kingdom and Australia.

Contributors

Shares of Brazilian bank **Banrisul** widely outpaced its commercial banking peers. Banrisul sports a net interest margin well above its peers, which is supported by a low cost funding base.

Rotork, a U.K.-listed manufacturer of industrial actuators, is a recent addition to the portfolio. Rotork is the largest provider of actuators to the late-cycle oil & gas industry. In addition, a large proportion of Rotork's sales stem from after-market service, which makes it less vulnerable during an economic slowdown.

Outokumpu Technology, a Finnish producer of stainless steel, acquired Energy Products of Idaho during the quarter. The company believes this will serve as a platform for expanding its energy and environmental technology business in the U.S. market.

Hollysys Automation Technologies Ltd. is a leading provider of automation and control technologies in China. The stock benefited from predictions of growth in high speed rail spending.

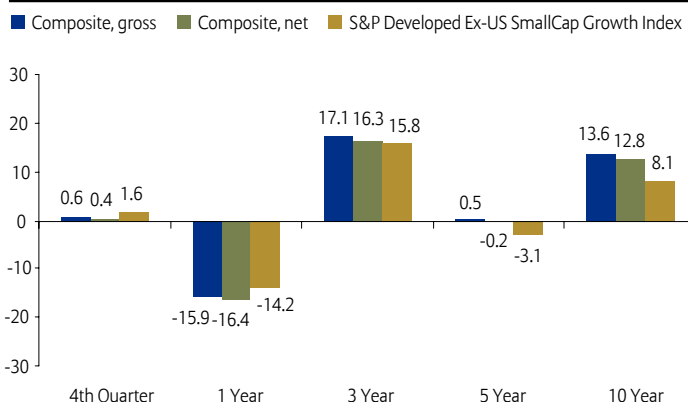
In December, recent purchase **Quadra FNX Mining Ltd.** agreed to be acquired by KGMH for an all-cash consideration at a significant premium to its closing share price. KGMH is a Polish copper and silver mining company.

Detractors

SuperGroup is a U.K.-based youth fashion retailer. Its share price was punished after a botched warehouse upgrade resulted in a hit to profits.

Five Largest Contributors	Avg Wgt (%)	Contrib. (bps)
Banrisul	1.8	42
Rotork PLC	1.9	42
Outokumpu Technology	1.1	41
Hollysys Automation Technologies Ltd.	1.2	39
Quadra FNX Mining Ltd.	1.0	37
Five Largest Detractors	Avg Wgt (%)	Contrib. (bps)
Supergroup PLC	1.1	-102
Chemring Group PLC	2.0	-55
Mount Gibson Iron	0.3	-32
Start Today Co. Ltd.	0.7	-32
Tadano Ltd.	2.5	-29

Performance (%)



All data as of December 31, 2011 unless otherwise noted. Composite inception date: January 1, 2001. Contributors and Detractors do not represent all of the securities purchased, sold or recommended for advisory clients during the stated measurement period. A list of all recommendations made, and every holding's contribution to the representative account's performance during the past 12 months is available upon request. Portfolio contributions are calculated by multiplying the portfolio weight by the rate of return during the measurement period. Performance of less than one year has not been annualized. Past performance is not indicative of future results. Source: Allianz Global Investors Capital.

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Detractors (continued)

Chemring Group PLC is a producer of countermeasures, counter-IED equipment, pyrotechnics, and munitions. The company reported contract delays, especially among its higher margin products, resulting in lower earnings forecasts. Its share price has also declined on U.S. defense budget concerns.

Mount Gibson Iron is an Australian iron ore producer. Shares have declined on lower iron ore prices, as well as investor concern about management instability and board independence. We elected to sell our position in the company.

Start Today Co. Ltd., a Japanese online apparel retailer, announced a slowdown in October sales growth which was below expectations. Performance has been lackluster due to poor economic conditions and a highly competitive landscape.

Tadano is a Japanese company specializing in the manufacture and sale of construction machinery. In spite of a normalization of its supply capabilities following the earthquake, its share price lagged the machinery industry overall.

Purchases and Sales

The portfolio initiated several Materials and Industrials purchases during the quarter. Among the largest purchases were **Quadra FNX Mining Ltd.** and **African Minerals Ltd.** in the Materials sector, and **Cookson Group PLC** in the Industrials sector.

Quadra FNX Mining Ltd. is a Canadian mining company. We bought Quadra for an anticipated recovery in its core mining operations and to gain exposure to copper post the 30% decline in the price of the metal in the summer.

As previously mentioned, in December, Quadra agreed to be acquired by the Polish miner KGMH for an all-cash consideration at a significant premium to closing share price.

African Minerals Ltd. is an African iron ore miner that currently has the largest iron ore reserve in all of Africa. The company started first production of its Sierra Leone mine in the quarter, and is poised for rapid production and profit growth in coming years.

Cookson Group, a U.K.-listed company that makes materials used in steel, foundry and electronics production processes, was bought during the quarter. We decided to re-purchase the company after recent weakness in steel prices and an increase in production in the U.S. market. As a result, steel prices rebounded during the quarter, which should provide a positive earnings environment for Cookson.

The largest sales by weight in the portfolio occurred within the Consumer Discretionary sector. **Carphone Warehouse**, an electronics retailer which owns interests in Best Buy Europe Group and Virgin Mobile France, announced it would sell its interest in Best Buy Europe to Best Buy. This event realized a significant portion of the investment thesis so we sold the position.

Start Today Co. Ltd. was sold during the quarter. As previously mentioned, the company announced a slowdown in October sales growth which was below expectations. We sold in anticipation of a slower sales growth environment over the next year.

K's Holdings Corp., a Japanese electronics retailer, was sold after the company announced August and September same-store sales growth below market expectations.

The negative sales growth numbers were driven by lower incentives provided by the government. We believe this will continue to pressure sales in the future.

Outlook

Macro events continued to have a significant influence during the fourth quarter. International small cap stocks, as measured by the MSCI All Country World ex-U.S. Small Cap Index, were up only 0.5%, as the market focused on the sovereign crisis in Europe, political conflict in the U.S., and a slowing Chinese economy. Global leading economic indicators were mixed during the quarter, with improvement in the U.S. and continued weakness in Europe. The global profit environment is deteriorating, with earnings revisions ratios trending lower in all regions and sectors over the last quarter. After the recent de-rating, global equity valuations are attractive, although there is a risk of further earnings downgrades for the market as a whole.

Sector rotation in the equity markets had a small impact this quarter with most sectors within a four percent performance range. The notable exception was the strong performance shown by the Energy sector. In terms of positioning, we have increased holdings in the Materials sector and reduced holdings in the Consumer Discretionary sector. Our regional weightings changed, with a decline in Japan and an increase in exposure to Canada.

In this time of economic uncertainty, we are focusing on quality companies with sustainable earnings power and higher return on capital. Our focus on these companies that are benefiting from positive, sustainable change should continue to drive performance over the economic cycle.

Allianz Global Investors Capital ("AGIC") was formed from the combination of three affiliates: NFJ Investment Group ("NFJ"), 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 Capital was initiated. AGIC provides oversight with respect to the investment management services provided by NFJ, as well as non-investment functions including marketing, operations, technology, legal/compliance, and client service. AGIC and NFJ 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 NFJ 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. Past recommendations are supplemental information, and supplement the composite performance presented herein.

Contributors and Detractors are the holdings or recommendations of a representative portfolio that had the greatest positive (and negative) impact on performance over the quarter, relative to the impact of that security to the performance of the indicated benchmark index. Purchases reflect the top three new positions during the period from 31-Dec-09 to 31-Mar-10. Sales are based on position size at quarter-end compared to the prior quarter-end. To exclude rebalancing, only new additions to the portfolio and completely liquidated positions are considered. For a description of these inclusion methodologies, and a complete list of all representative buys and sells for the last 12 months, please contact AGIC at (619) 687-8000.

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. "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.

This material contains the current opinions of the author, which are subject to change without notice. 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, or representative of the composition or performance of the portfolio. Statements concerning financial market trends are based on current market conditions, which will fluctuate. Forecasts are inherently limited and should not be relied upon as an indicator of future results. 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.

The International Small Cap Growth Composite (the "Composite") consists of accounts that invest primarily in non-U.S. growth equities within market capitalization range of the S&P Developed Ex-US SmallCap Growth Index, measured on a quarterly basis. The S&P Developed Ex-US SmallCap Index is a market capitalization-weighted index measuring capital appreciation. It is defined as an unmanaged world equity index representative of small capitalization securities, defined as the bottom 20% of any given country's available market capitalization excluding the US, excluding the U.S. The Growth Index covers those companies in each country that exhibit the characteristics of growth. 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. Investments in overseas markets may pose special risks, including currency fluctuation and political risks, and the portfolio is expected to be more volatile than a U.S.-only portfolio. These risks are generally intensified for investments in emerging markets.