

4Q

Allianz Global Investors Capital

NFJ Dividend Value

Fourth Quarter 2011 Commentary

Market Overview

U.S. equity markets were rocky, but generally trended upward for the quarter as fears of a double-dip recession appeared to abate and the S&P 500 closed out the year up 2.1%, recovering from an annual low of nearly -13% in early October. U.S. equities outperformed their non-U.S. counterparts after a resolution of the European debt crisis failed to materialize and fear of default contagion punished stocks with greater exposure to Europe. Within the Russell 1000 Value, a particularly strong October was enough to see the index end the year on a positive note after recovering from weakness in the second quarter and a sharp downturn during the third quarter.

For the year, U.S. markets held up well in comparison to the rest of the world, due in part to the relative strength of U.S. companies and healthy amounts of cash on balance sheets. This excess cash resulted in \$50.2 billion in dividend increases within the S&P 500, surpassing last year's dividend increases by over 82%. Though payout ratios remain low at under 30%, remaining cash reserves offer ample opportunity to grow payments in 2012. By market cap, large cap indices outperformed small cap indices, likely due to investor preference for stability in times of volatility. Of greater concern was a

constant stream of news from Europe regarding the region's sovereign debt and political instability. As headlines drove markets around the world, investors sought to protect assets by piling into U.S. Treasuries, driving yields on 10-year Treasury notes below 2% at year end. With U.S. fixed income yields dipping below inflation rates, investors relied on equities for return. Much of that focus was on dividend paying equities, as the dividend yield on the S&P 500 surpassed the 10-year Treasury yield and unlike fixed income, dividends can grow in excess of inflation. In 2011, dividend payers within the Russell 1000 Value protected on the downside and outperformed non-dividend payers by over twelve percentage points, according to FactSet.

Portfolio Overview

The NFJ Dividend Value portfolio returned 12.9% versus 13.1% for the Russell 1000 Value Index during the quarter. Stock selection was the main driver of this relative underperformance, somewhat offset by positive sector allocation. Negative selection in Industrials and Energy detracted as portfolio holdings failed to keep pace with a substantial ascent in the sector. Issue selection in Financials and Materials contributed on healthy returns from capital markets and commercial bank stocks, as well as from paper and forest products and metals and mining

industry holdings. An overweight in Energy and Materials allowed the portfolio to reap rewards from a surge in these sectors. Being underweight Utilities and Telecom Services stocks contributed positively to performance, as these were the weakest sectors in the Index.

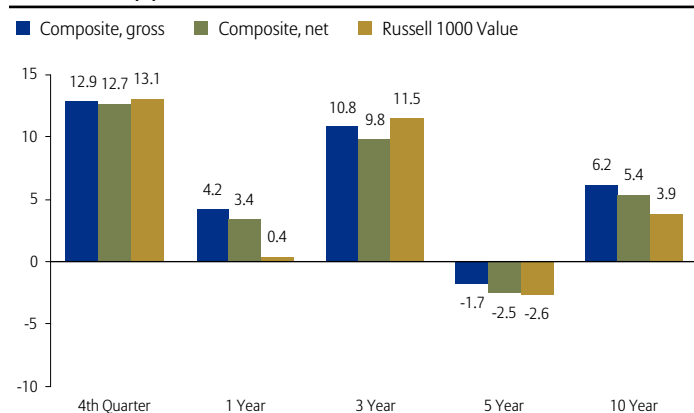
For the year, the portfolio outperformed the benchmark by 384 basis points. Favorable stock selection contributed to over half of these gains, though sector allocation was also beneficial in 2011. Selection in Financials was advantageous, as this sector was hurt by regulatory restrictions and fear of contagion from Europe's debt crisis, and our high quality holdings were better able to weather these conditions. Performance from Consumer Staples issues was also contributive as investors flocked to more defensive investments during a volatile year. An underweight in Financials was the greatest source of relative returns, as this sector faced significant headwinds. More defensive sectors were able to weather the year's volatility, and an overweight in Consumer Staples capitalized on this. The best performing sector for the Index was Utilities, and our underweight in the sector, due in part to higher valuations, was a headwind.

Contributors

Shares of **International Paper**, a detractor in the previous quarter, were up after beating analyst

Five Largest Contributors	Avg Wgt (%)	Contrib. (bps)
International Paper	3.9	100
Total SA	3.5	63
Intel	4.4	62
Marathon Oil	1.9	61
ConocoPhillips	3.7	58
Five Largest Detractors	Avg Wgt (%)	Contrib. (bps)
Chesapeake Energy	1.7	-18
Annaly Capital Management	1.8	-7
EnSCO International	0.5	-4
Whirlpool	1.6	-2
CenturyLink	0.0	0

Performance (%)



All data as of December 31, 2011 unless otherwise noted. Composite inception date: February 1, 1989. 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

NFJ Dividend Value

Contributors (continued)

estimates for the third quarter and earning record profits in its individual divisions. Many Energy stocks appreciated as oil prices trended upward from last quarter's lows, including another detractor from the third quarter, France-based oil and gas major **Total SA**.

Intel advanced after reporting a 17% increase in earnings during the third quarter. Sales spiked on semiconductor shipments to emerging markets, including China and Brazil, which offset weakness in domestic orders.

Integrated oil and gas firm **Marathon Oil**, a third detractor to returns during the previous quarter, also benefited from improved pricing conditions. Additionally, the company was rewarded by the market for divesting assets that do not complement its long-term growth plan.

ConocoPhillips performed well after its adjusted earnings surpassed Wall Street estimates and revenues increased, in part due to higher crude prices. The company still anticipates spinning off its refining operations in 2012.

Detractors

Chesapeake Energy was hurt by analysts and investors anticipating an oversupply of natural gas; however, the firm issued better-than-expected third quarter figures. We support the name for trading at 9.5x forward earnings and yielding a 1.5% dividend.

Annaly Capital Management gave up recent gains after declining on news of its second dividend cut in two quarters; the current yield of 14.2% remains compelling. The company is in the process of deleveraging its balance sheet and is attractively valued for its industry, trading at 7.0x forward earnings.

London-headquartered offshore drilling contractor **Ensco** declined on global recession concerns. The company offers an above-industry-average 2.9% yield. The firm also has the youngest and deepest-capable fleet, which should garner a premium, but the stock trades at a discount to other offshore drillers at 8.2x forward earnings.

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 AGI 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.

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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. 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. 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 NFJ at (214) 754-1780.

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. This material contains the current opinions of the author, which are subject to change without notice. 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 include all payments to bondholders, if any. Indexes may not represent the investment style of the composite. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index. 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.

Certain characteristics of the securities held in a representative account ("Representative Account") (and included in the relevant Composite) are displayed. On any given date, any particular portfolio managed in an NFJ strategy may include securities not held by the Representative Account for such strategy and may not hold each security held in the Representative Account for such strategy. A security included in the Representative Account may not be available for purchase at a time in the future, or if available, the prices or other characteristics of the securities may have changed. Consequently, any particular account may have portfolio characteristics and performance that differ from those of the relevant Representative Account. Indices are referred to for comparative purposes only and are not intended to parallel the risk or investment style of the portfolios in any Composite. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index.

Shares of **Whirlpool** fell after the company announced slower-than-expected sales growth and plans to reduce costs. Weak global demand and elevated material costs were largely to blame. We believe the stock is attractively valued at 8.1x forward earnings and like the company's well-supported 4.1% dividend yield.

CenturyLink became the country's third largest telecom service provider after acquiring Qwest Communications in April 2011, but some investors remained suspicious of the company's ability to generate revenues in a world increasingly eschewing land lines for wireless-based communications. After valuations soared, we sold the stock.

Purchases & Sales

Including the sale of **CenturyLink**, three sells and one purchase occurred in the portfolio during the fourth quarter.

New York Community Bancorp was sold after valuations spiked. The stock also had a dividend payout ratio that exceeded the threshold set by the Federal Reserve for larger banks.

Kraft has been one of the portfolio's strongest performers in recent quarters as investors flocked to safety and the Street embraced the company's announcement that it will spin off its grocery unit. As a result, this stock became one of the most expensive holdings in the portfolio. We exited the position.

Purchase of **Ensco** was based on the stock's superior valuation measures and strong dividend yield for its industry.

Outlook

Few markets or investments were safe from the extreme levels of volatility characteristic of 2011, and to a large degree, we expect this will continue into the new year. Countless reasons have been given to explain why investors experienced such pronounced market movements. Everything from natural disasters, sovereign debt crises and political action, or inaction in some instances, caused indices to rise and fall as company fundamentals went largely unheeded. Faltering monetary systems only

served to make matters worse, while high velocity traders seeking returns with short-term tactical moves heightened market swings. For the year, the S&P 500 experienced thirty-two trading days where the daily price changes exceeded two standard deviations. Amplifying uncertainty in 2012 will be whether or not European leaders identify a workable solution for the fiscal crisis and upcoming presidential elections in the U.S. and France. In such an environment, investors should expect to pay for less volatility, and in our view, should favor dividend paying securities. Our internal research indicates that historically, dividend payers demonstrate a lower volatility of returns than their non-dividend paying peers. Because companies that yield a dividend tend to have stronger balance sheets and more consistent cash flows, they often are better able to weather market instability. We believe this will continue as investors prefer dividend yielding companies for offering evidence of a positive earnings outlook and an ability to generate future earnings.

Although we are bottom-up investors and do not incorporate a top-down macro forecast into our strategies, we expect to see slow growth in the U.S. and flat to negative growth in Europe during 2012. While many U.S. companies have strong balance sheets and excess cash on hand, it may take years for Europe to cure their debt overhang and repair balance sheets. During periods of slow, or even negative, economic growth, corporate profits can be limited, making dividend pay-outs an increasingly important portion of an equity investor's total return.

With future outcomes in the world's economic and political situations uncertain and fixed income yields consistently below inflationary rates, our dividend paying strategies are well positioned to help investors access real returns and growth potential in 2012. As the investment environment appears murky, we continue to invest cautiously and seek attractive entry points for dividend paying, high quality securities that can be held over the long term.