

4Q

Allianz Global Investors Capital

# NFJ International Value

## Fourth Quarter 2011 Commentary

### Market Overview

Global equities were up for the quarter, though Europe's sovereign debt crisis remains unresolved and many international indices could not keep pace with the double-digit gains seen in the U.S. The emerging markets also experienced their strongest quarterly advance in 2011. Within the MSCI ACWI ex-U.S., a particularly strong October was enough to see the index end the quarter on a positive note, after recovering from a sharp downturn during the third quarter and negative returns in November and December.

For the year, global markets suffered with many indices experiencing steep declines, including the MSCI ACWI ex-U.S., which fell by over -13%. As headlines drove markets around the world, investors sought to protect assets by piling into German bunds, U.S. Treasuries and Japanese bonds, thereby driving down yields on fixed income. Countries like Switzerland and Sweden saw their currencies rise and export competitiveness negatively impacted, as investors treated strong, non-Euro currencies as safe havens. With yields from German, U.S. and U.K. 10-year bonds dipping below inflation, investors relied on equities for return. Much of that focus was on dividend paying equities, as the dividend yield on the MSCI ACWI surpassed

the Barclays Capital Global Aggregate yield and unlike fixed income, dividends can grow in excess of inflation. For the year, dividend payers within the MSCI ACWI ex-U.S. protected on the downside and outperformed non-dividend payers by over nine percentage points, according to FactSet.

### Portfolio Overview

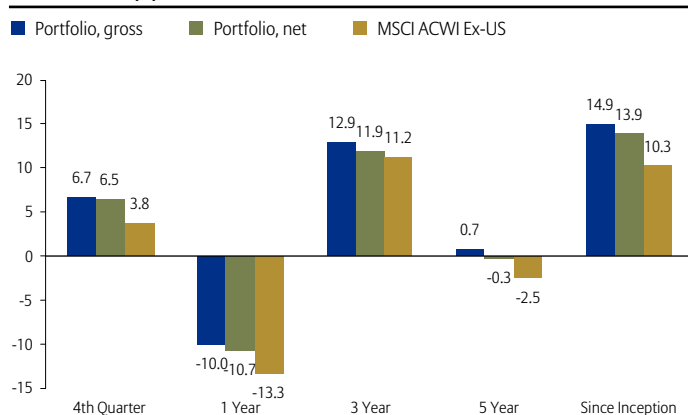
The NFJ International Value portfolio returned 6.7% during the quarter, soundly outperforming the MSCI ACWI ex-U.S., which ended the quarter up 3.8%. Stock selection was the main driver of this outperformance, primarily due to holdings in the Utilities and Financials sectors. An improving economy in Brazil led Brazilian Utilities to advance, while sound financial firms in the U.S., Brazil, Australia and Switzerland benefited in spite of the European debt crisis. Issues in the Industrials sector detracted as several portfolio holdings were impacted by a general descent in Japanese equities; an underweight to the country contributed to returns. Selection was strong in the Emerging Markets and Europe, excluding the U.K., with many Brazilian, Swiss, Norwegian and Dutch standouts for the quarter. Within Europe, however, the portfolio remained underweight Financial Services firms and has no exposure to financial stocks in the PIIGS countries, Germany

or France. North American stocks, largely within the Financials and Materials sectors, were contributive as well. Currency exposure had a slightly negative impact on the portfolio, as many exchange rates in emerging economies improved since the previous quarter.

For the year, the portfolio outperformed relative to the benchmark by 335 basis points. Both stock selection and sector allocation were strong in 2011. Issue selection in Materials contributed to returns, largely due to a surge in the price of gold and continued demand for paper products. Despite losses throughout the sector, Financials stocks ascended as investors rewarded firms that exhibited financial strength in a sector buffeted by headwinds. Energy and Utilities stocks also contributed to returns, while Telecom services and Industrials holdings detracted. In the face of the year's volatility and uncertainty in Europe, U.K., Emerging Markets and North American stocks appreciated; the portfolio was overweight all three regions and benefitted from that exposure. Though holdings in Japan did detract from returns, an underweight to the country was contributive. Currency exposure negatively impacted the portfolio, as exchange rates ebbed and flowed with volatility and weakness in the global markets.

Five Largest Contributors	Avg Wgt (%)	Contrib. (bps)
SABESP	4.0	75
Sasol	3.2	62
Royal Dutch Shell	3.2	60
Axis Capital Holdings	1.9	49
Svenska Cellulosa	2.2	46
Five Largest Detractors	Avg Wgt (%)	Contrib. (bps)
Mizuho Financial Group	2.2	-20
Koc Holding	1.0	-20
Asahi Glass	1.1	-17
Cap Gemini	0.6	-17
Peugeot	0.6	-15

### Performance (%)



All data as of December 31, 2011, unless otherwise noted. Composite inception date: March 1, 2003. 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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## Contributors

Brazilian utility **SABESP** responded well to recent interest rate cuts and a stronger home economy, reporting 10.1% year-over-year growth in the company's net operating revenue.

South African global leader in synthetic fuel technology **Sasol** was up on increased earnings, due in part to improved operations, a weaker domestic currency and higher oil prices.

Shares of **Royal Dutch Shell** appreciated as the company continued to announce business partnerships and future growth prospects, including approval to drill America's Arctic Ocean. The stock also benefited from increasing oil prices.

Several insurance holdings were up for the quarter including U.S.-based specialty insurance and reinsurance provider **Axis Capital Holdings**. The company's stock price rose after beating analyst estimates.

Swedish pulp and paper manufacturer **Svenska Cellulosa** contributed to returns on signs of growth, including purchase of Georgia-Pacific's European tissue business and a joint venture to enhance operations in Australia and New Zealand.

## Detractors

Financial services firm **Mizuho Financial** was down on a sluggish Japanese economy as well as reduced fees and commissions. The stock trades at 6.2x forward earnings and pays an impressive 7.7% dividend yield.

Shares of Turkish conglomerate **Koc Holding** traded downward after a sharp uptick in the stock early December. We appreciate the holding for its 6.4x forward earnings and 4.9% yield.

Japanese glass maker **Asahi Glass** fell after third quarter year-over-year operating profits increased by 70%, or less than one-fifth the increase generated during the second quarter. The company trades at 7.9x forward earnings and yields a 4.1% dividend.

Global IT services firm **Cap Gemini** fell with many other European stocks on worries of a slowing global economy and fears of a downgrade in the French government's triple-A credit rating. The stock trades at 9.9x forward earnings and yields a 4.4% dividend.

French automotive firm **Peugeot SA** was also hurt by frailty in the European and worldwide economies; we like the company's compelling valuation metrics, including a 4.3 forward P/E ratio. The stock also returns a 9.1% dividend yield to its investors.

## Purchases & Sales

Shares of **Nippon Yusen** were sold after the security became the most expensive name in the portfolio at nearly 20x forward earnings and demonstrated weak price momentum.

**Huaneng Power International** was sold after its fundamentals came into question, including growing number of shares outstanding and increased debt levels, coupled with higher input costs and limited increases in power prices.

**Cap Gemini** was a compelling purchase based on significantly low forward earnings, as the markets continue to depress many French stocks for their perceived association with European and French credit woes.

## 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 a premium 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.

**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 (214) 754-1780.

**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.

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