

4Q

Allianz Global Investors Capital

NFJ Mid Cap 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 at 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 Midcap Value, a particularly strong October was enough to see the index end the quarter 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. 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 below current 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 Midcap Value protected on the downside and outperformed non-dividend payers by over twelve percentage points, according to FactSet.

Portfolio Overview

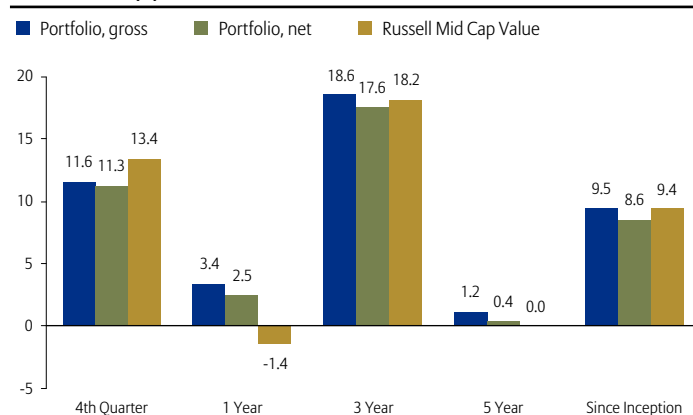
The NFJ Mid Cap Value portfolio returned 11.6% versus 13.4% for the Russell Midcap Value Index during the quarter. Stock selection drove relative underperformance, while sector allocation contributed to returns for the period. Cyclical stocks generally outperformed, as the market and investors accepted signs of a stronger domestic economy. Consumer Discretionary stocks detracted as price cuts and higher commodity costs hurt automobile part manufacturer Lear Corp, and retail holdings failed to keep pace with gains within the sector. Though many Energy holdings contributed for the period, several names were down, in part

due to concerns for natural gas pricing and the global economy; the overall effect was negative. Stock selection among Consumer Staples added value, largely due to strength from corn refiner Corn Products International. Holdings in Information Technology contributed on strong returns from the semiconductor and office electronics industries. An overweight in Materials contributed, as this was the strongest sector within the Index, though an overweight in Health Care was negative on weakness in the sector.

For the year, the portfolio outperformed the benchmark by 474 basis points. Stock selection was the primary driver of outperformance, though sector allocation was also positive. Selection in the Materials and Financials sectors contributed. Though 2011 was a difficult year for financial firms and natural-resource companies, our selection of high quality, dividend paying holdings were better able to weather these conditions. Stock picks in the Information Technology and Consumer Staples sectors also contributed, while those in the Industrials and Energy sectors lagged. Our underweight in Financials was beneficial, 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.

Five Largest Contributors	Avg Wgt (%)	Contrib. (bps)
Reliance Steel & Aluminum	2.5	91
Corn Products International	2.5	73
KLA-Tencor Corp	2.8	68
International Paper	2.4	62
Murphy Oil Corp	2.3	56
Five Largest Detractors	Avg Wgt (%)	Contrib. (bps)
Chesapeake Energy Corp	2.0	-21
Lear Corp	2.2	-10
CR Bard	2.2	-4
Kimco Realty Corp	0.2	-1
Annaly Capital Management	1.1	-1

Performance (%)



All data as of December 31, 2011, unless otherwise noted. Composite inception date: December 1, 2002. 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 Mid Cap Value

Contributors

Shares of Reliance Steel & Aluminum

experienced a strong ascent after reporting a 29% year-over-year increase in sales during the third quarter. The company provides value-added metals processing and demand for its services exceeded expectations.

Corn Products International soundly beat analyst expectations and announced a 60% year-over-year increase in net sales. Though much of these gains were due to an acquisition, the company expanded its profit margins and reported greater sales volumes. The firm also raised its quarterly dividend by 25% in December.

KLA-Tencor develops process diagnostic and control tools for the semiconductor manufacturing industry. The company has some of the best gross margins in the industry and reported a 25% increase in earnings for the fiscal first quarter.

International Paper recovered from lows in the previous quarter after beating Wall Street's expectations and reporting a 30.5% year-over-year increase in net income for the third quarter.

Murphy Oil Corp was a detractor last quarter; the company doubled its income in the third quarter, soundly besting expectations, and benefited from an uptick in the price of oil.

Detractors

Chesapeake Energy was hurt by natural gas prices, which fell on oversupply concerns; 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.

Lear Corp announced third quarter profits that disappointed analysts' estimates, largely due to narrowing margins. The company forecasted an increase in sales and profit for 2011 and trades at a compelling 7.3x forward earnings.

Medical device manufacturer **CR Bard** was down after falling short of analysts' estimates for its 2012 profit forecast. The company experienced pricing pressure in both its U.S. and European markets due to continued economic weakness.

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.

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.

Kimco Realty Corp was a recent purchase that entered the portfolio in December. We believe the stock offered an advantageous entry point, and appreciate that Kimco has taken notable steps to shore up its balance sheet and divest non-core assets.

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 appealing. The company is in the process of deleveraging its balance sheet and is attractively valued for its industry, trading at 7.0x forward earnings.

Purchases & Sales

Shares of telecom service provider **CenturyLink** were sold after valuations rose to less attractive levels. The company's replacement was **CSX Corp**, which provides rail-based transportation services primarily in the major markets east of the Mississippi River. Global macroeconomic concerns have made the company's valuation metrics attractive relative to historical levels, as well as to industry peers.

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

We sold our position in **Atmos Energy** after identifying candidates with better valuation metrics. **Kimco Realty Corp** is North America's largest owner of neighborhood and community shopping centers, and one of the securities we believe offered a superior valuation to Atmos.

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 32 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, we believe 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.