

4Q

Allianz Global Investors Capital

NFJ Small Cap Value

Fourth Quarter 2011 Commentary

Market Overview

U.S. equity markets were rocky, but generally trended upward during 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, as resolution of the European debt crisis failed to materialize and fear of default contagion punished stocks with greater exposure to Europe. Within the Russell 2000 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. By market cap, small cap indices outperformed large cap indices as investors appeared to grow more comfortable taking on greater risk in search of returns.

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 dipping below inflation rates, investors relied on equities for return. With the dividend yield on the S&P 500 greater than the 10-year Treasury yield, coupled with a dividend's ability to grow in excess of inflation, that equity focus emphasized dividend-paying stocks. For the year, dividend payers within the Russell 2000 Value protected on the downside and outperformed non-dividend payers by over ten percentage points, according to FactSet.

Portfolio Overview

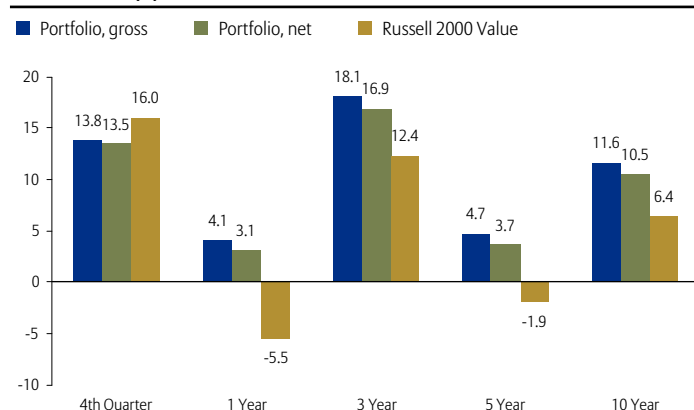
The NFJ Small Cap Value portfolio returned 13.8% versus 16.0% for the Russell 2000 Value Index during the quarter. Though absolute returns were robust, stock selection, a small cash position and sector allocation drove relative underperformance. Poor issue selection in the Health Care sector contributed to negative excess return, as Invacare and The Cooper Companies declined. Industrials holdings were also negative on a slip in Titan International's share price. More favorable selection in

Financials and Consumer Staples contributed to returns. Stocks in the Financials sector, specifically insurance industry holding Delphi Financial, surged after receiving a tender offer from Japan's second largest insurer. Consumer Staples issues also advanced, in part due to a sharp uptick in Corn Products International. A small cash position hindered relative performance in a strong absolute return environment. Sector allocations were mixed, and slightly negative.

For the year, the portfolio solidly outperformed the benchmark by 963 basis points, primarily due to superior stock selection. Holdings in the Consumer Discretionary, Materials, Financials and Energy sectors all contributed to returns. Gun manufacturer Sturm Ruger & Co. was a standout, and spiked for the period. Specialty fibers and nonwoven materials manufacturer Buckeye Technologies was the best performing stock within the Index's Materials sector. Significant appreciation from Delphi Financial and cash advance services firm Advance America Cash Advance greatly added to outperformance. The portfolio advanced on a double-digit jump from natural gas producer and distributor Southern Union. The portfolio's small allocation to cash added to returns.

Five Largest Contributors	Avg Wgt (%)	Contrib. (bps)
Delphi Financial Group	1.0	91
Group 1 Automotive	1.0	42
Meredith Corp	1.0	40
Buckeye Technologies	1.1	37
W&T Offshore	0.8	36
Five Largest Detractors	Avg Wgt (%)	Contrib. (bps)
Invacare Corp	0.7	-26
IAMGOLD Corp	1.1	-21
Cellcom Israel	0.8	-14
The Cooper Companies	1.0	-12
Titan International	0.7	-10

Performance (%)



All data as of December 31, 2011, unless otherwise noted. Composite inception date: February 1, 1989. For GIPS purposes, composite has been examined from January 1, 1997 – June 30, 2010. 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 Small Cap Value

Contributors

Shares of U.S.-based insurer **Delphi Financial** more than doubled in the quarter; Tokio Marine made a tender offer for the company on December 21.

Owner and operator of automobile dealerships **Group 1 Automotive** saw a 6.7% increase in year-over-year same-store revenues for the year through September 30, benefiting in part from pent-up demand and positive sales trends.

Meredith Corporation announced a 50% dividend increase in October, which is indicative of management's confidence in the company's financial strength and ability to generate substantial cash flows.

Buckeye Technologies achieved record sales in its fiscal year ended June 30, 2011, largely due to higher selling prices. The company instituted its first dividend in August of 2010, and hiked it twice during 2011.

W&T Offshore, a detractor in the previous quarter, was up on the company's ability to grow sales and net income significantly, in part due to increased oil prices.

Detractors

Health care equipment firm **Invacare** experienced downward pressure on its gross margins. We appreciate the company's attractive valuation relative to peers; the stock trades at 8.8x forward earnings.

While 2011 was overall a positive year for gold, many gold miners, including **IAMGOLD**, fell with the price of gold in the fourth quarter. We like the company's recent 25% increase in its annual dividend.

Mobile phone provider **Cellcom Israel** fell after the country's Prime Minister Benjamin Netanyahu proposed breaking up conglomerates to spur competition. The company has an attractive forward P/E measure and healthy dividend yield of 11.7%.

Shares of medical device manufacturer **The Cooper Companies** fell after the company

expanded a product recall on contact lenses. The stock was a top ten contributor to absolute returns during the previous quarter.

Tire manufacturer for farming and mining equipment **Titan International** pulled back after a steep rise in share price earlier in the year. The stock tripled from August 2010 to April 2011. On a relative basis, Titan had less of a significant impact on the portfolio.

Purchases & Sales

The portfolio bought into **J2 Global** after the web-based services provider initiated a dividend; the stock currently pays a 2.8% dividend.

Shares of **Titan International** were purchased for trading at an attractive 8.4x forward earnings at our time of purchase. We believe the stock could also benefit from upward price trends in commodities.

Electric and gas utility **Vectren Corporation** has been a good relative performer on the basis of both stock and dividend appreciation. The stock was sold on steep valuations.

Equity One was sold because of the stock's high absolute and relative valuations. The company also cut its dividend during the fourth quarter of 2009 and has yet to raise it.

Commonwealth REIT was a sale on poor performance, as well as concerns regarding recently filed related-party transactions.

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.

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.