

4Q

Allianz Global Investors Capital

Small Cap Growth

Fourth Quarter 2011 Commentary

Market Overview

U.S. small-cap growth equities experienced a rally during the fourth quarter, increasing 15.0% for the period. All ten sectors of the Russell 2000 Growth Index posted positive returns. Returns were most robust in Energy and Industrials.

Portfolio Overview

For the fourth quarter, Small Cap Growth underperformed the Russell 2000 Growth Index. Stock selection in Energy was the primary driver of relative underperformance and stock selection in Information Technology and Materials detracted to a lesser extent. The portfolio's more natural gas weighted holdings failed to keep up with the strong rally in the broader Energy sector. Their relative underperformance was the result of a further decline in the price of natural gas and the market's avoidance of companies with leverage on their balance sheets. In addition, the market continued to punish companies investing at the bottom of the cycle, as was the case with Scorpio Tankers, which underperformed after a secondary it completed to expand its fleet of new build vessels.

While some of our investments were challenged weathering the global macro uncertainty over the last eighteen months, we believe the strategy's underperformance has largely been

exacerbated by the structural market environment. During this time the equity markets have been characterized by risk aversion, unprecedented levels of stock correlation and volatility, a trend of capital movement from equities to fixed income, and overall short term focused global macroeconomic obsession. Despite this challenging market environment, we remain confident in our ability to add value through our time proven investment philosophy and process. In addition, this market environment continues to present us with extremely attractive risk/reward ratios for our Small Cap Growth portfolio holdings. When fundamentals reassert themselves as the drivers of stock price performance, we have tremendous conviction in our ability to capture strong positive alpha.

Contributors

United Rentals posted strong third quarter operating results, confounding naysayers who had driven the stock down by more than 60% on cyclical concerns. Given the company's fundamentals, we used this weakness to double our position size. The stock rebounded sharply as investors began to acknowledge the secular and company specific drivers of growth and returns.

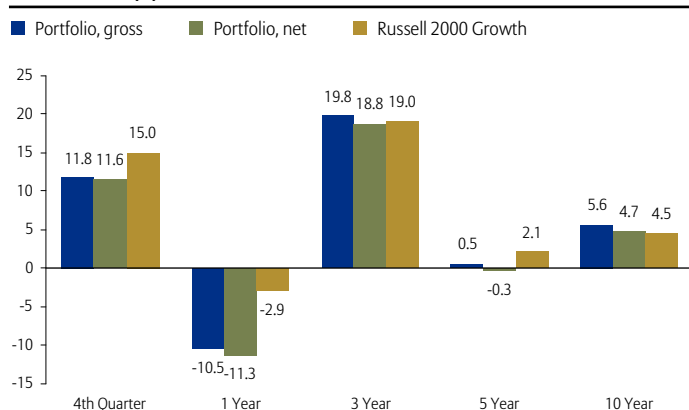
In the third quarter, **Wabash National** faced selling pressure from investors that were concerned with the macro environment. Our confidence in the company led us to aggressively purchase shares on the excessive weakness. The company experienced a significant rebound in the fourth quarter as it reported strong and accelerating order activity with insight into improved margin performance on the horizon.

Zoll Medical sold off during the third quarter due to concerns that government reimbursement for its LifeVest product, an external wearable defibrillator, would be cut or limited. At that time, we aggressively bought into the weakness due to our conviction in physician support and utility of the product. Ultimately, the government's draft proposal questioning reimbursement for the LifeVest was not passed, as the critical importance of the external wearable defibrillator was recognized. We were rewarded as the stock moved toward all time highs on the news.

As a result of meaningful stock price weakness in the third quarter associated with the market's broad-based swoon, we re-initiated our position in previous holding **Successfactors** at a compelling entry point and made it one of the largest positions in the portfolio. During the

Five Largest Contributors	Avg Wgt (%)	Contrib. (bps)
United Rentals Inc.	2.3	133
Wabash National Corp.	2.4	114
Zoll Medical Corp.	1.7	110
Successfactors Inc.	1.2	110
Questcor Pharmaceuticals Inc.	2.2	108
Five Largest Detractors	Avg Wgt (%)	Contrib. (bps)
NuVasive Inc.	2.6	-81
Shutterstock Inc.	1.5	-76
Polypore International Inc.	2.2	-53
Great Basin Gold Ltd.	0.6	-46
Ipg Photonics Corp.	0.9	-42

Performance (%)



All data as of December 31, 2011 unless otherwise noted. Composite inception date: April 1, 1999. 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.

Small Cap Growth

Contributors (continued)

quarter, the company was acquired by SAP at a 50% premium.

Questcor Pharmaceuticals continued to show impressive growth from its biopharmaceutical product Acthar. We believe the company is in the very early innings of explosive growth for this product. Despite our conviction, we harvested some of our profits toward the tail end of the quarter on its extreme outperformance.

Detractors

NuVasive, a pioneer of lateral access minimally invasive spinal surgery, plagued us all year as reimbursement delays depressed its growth rate. During the fourth quarter we became increasingly concerned about a waning competitive advantage and the remote possibility of an injunction being granted in their patent dispute with Medtronic, an outcome that would be extremely damaging. We trimmed the position due to these concerns.

We took profits from **Shutterfly** earlier in the year after it posted strong performance. In the fourth quarter, the stock came under intense selling pressure due to competitive concerns. Although we acknowledge aggressive competitive discounting during the high seasonal demand of the quarter, the on-line photo services market continues to grow. As the market leader, Shutterfly continues to execute and capture a large market opportunity. Toward the end of the quarter, we began incrementally adding back to this position as its risk/reward ratio became increasingly compelling.

Polypore, manufacturer of filtration systems, struggled during the quarter due to concerns over pricing pressure, end customer inventory drawdown, slow early electric vehicle adoption and potential safety given isolated battery fires and problems with the Chevrolet Volt. We believe these concerns are overblown and that this strong secular growth company is trading at

a very compelling risk/reward ratio. As a result, we added to our position on the weakness.

Great Basin Gold disappointed us with significant and ongoing operational issues while attempting to increase production in its South African-based Burnstone mine, which clouded the company's production growth profile. This resulted in a management confidence issue that will require time to resolve; therefore, we exited the position.

IPG Photonics, a provider of and leader in fiber lasers for industrial use, is a company that we have long followed and desired to own at the right price. We were presented with an opportunity to initiate a position during the fourth quarter as the stock sold off aggressively due to cyclical concerns and the company's geographic exposure to Europe and Asia. We believe that the company is in the early stages of a highly secular new product cycle. As a result, we used the weakness to initiate and aggressively increase our position size.

Purchases & Sales

During the quarter, we initiated a position in **Acme Packet**, a provider of session border controllers which aid in the transition to an all IP network, which had experienced inconsistent movement in wireline service providers spending patterns. We used the excessive weakness in the security to aggressively purchase this powerful secular growth company at what we believe is a compelling valuation.

As discussed, during the quarter we initiated a position in **IPG Photonics**. We also initiated a position in **Teradyne** based on what we believe was the bottoming of orders in the semiconductor capital equipment market and our view that a significant order recovery would begin in the first half of 2012, resulting in material revenue growth and substantial earnings leverage. In addition, we were attracted to Teradyne's recently acquired wireless testing

business, which we expect will accelerate the company's growth rate.

We reduced our position in **AerCap Holdings** due to the combination of softness in air travel data and high order rates for the new Boeing 787 and Airbus A320. These two trends have had a marginally negative impact on the prospective leasing rates of AerCap Holdings existing aircraft portfolio. We also exited our position in **Silver Standard Resources** due to a production growth push-out as well as credibility concerns on the size and quality of their pipeline of prospects. As previously noted, **Successfactors** was acquired by SAP at a significant premium.

Outlook

Our market outlook remains cautiously optimistic. Despite attractive valuations, the market has been focused on global macro concerns, which have been a headwind for fundamentally based investment strategies. In 2012, we believe U.S. economic growth will remain tepid and the market will remain volatile until macro concerns subside. In this environment, we will continue to seek solid secular growth companies that are not reliant on economic growth to outperform the broad market. We firmly believe that company level fundamentals will once again reassert themselves as the drivers of equity performance, and that our conviction in the investments in our portfolio remains unwavering. As always, we thank you for your continued confidence and trust. While recent relative performance has been a struggle, our discipline and understanding of how we add value over the long term has not changed. We are steadfast in our commitment to delivering strong results to our clients moving forward. If you have any questions or would like additional information, please let us know.

Allianz Global Investors Capital ("AGIC") was formed from the combination of three affiliates: NFI Investment Group ("NFI"), 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 NFI, as well as non-investment functions including marketing, operations, technology, legal/compliance, and client service. AGIC and NFI 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 NFI 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 (212) 739-3300.

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The Small Cap Growth (unconstrained) Composite includes all discretionary equity oriented tax-exempt accounts (including mutual funds) with market values of \$5 million or greater managed by AGIC in its Small Cap Growth (unconstrained) strategy. The Small Cap Growth team was previously associated with PEA Capital, an affiliated investment manager. In November 2006, the team became employees of OpCap and PEA Capital was dissolved. The performance results of PEA Capital, LLC are linked to the performance results of OpCap and AGIC. The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. The Russell 3000 Index is an unmanaged index generally representative of the U.S. market for large domestic stocks as determined by total market capitalization, which represents approximately 98% of the investable U.S. equity market. Russell Growth Indexes measure the performance of those companies with higher price-to-book ratios and higher forecasted growth values. 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.