

4Q

Allianz Global Investors Capital

US Micro Cap

Fourth Quarter 2011 Commentary

Market Overview

U.S. stocks rebounded sharply in the fourth quarter after registering steep declines in the prior period. Throughout the quarter, positive U.S. economic data and corporate earnings lifted investor sentiment, while fears of a deepening European sovereign debt crisis pressured equities.

October's stock surge accounted for nearly all of the market's quarterly gain, while November and December closed mostly flat despite notable intra-month volatility.

For the period, the Russell Microcap Index rose 13.8%, underperforming Russell 2000 Index by 1.6%, but besting a return of 11.8% for the Russell 1000 Index. Within the micro-cap universe, growth stocks trailed value stocks by a percent.

Within the Russell Microcap Growth Index, all sector returns were positive.

Economically sensitive stocks including Energy, Industrials and Materials led all sectors as economic growth concerns waned. In contrast, counter-cyclical sectors such as Consumer Staples, Utilities and Telecommunications underperformed the market by the greatest magnitude as investors rotated out of defensive names.

Portfolio Overview

The US Micro Cap portfolio returned 22.1% (gross of fees), outperforming the Russell Microcap Growth Index's return of 13.3%. For the year, the portfolio returned -9.6% versus -8.4% for the index.

Over the last three months equity pricing was more rational as stocks generally reflected underlying company fundamentals – a reversal of what occurred in the third quarter.

From an attribution perspective, security selections in the Information Technology, Energy and Industrials sectors were the main factor contributing to relative outperformance. Separately, stock-picking within Health Care and Financials negatively impacted relative returns. The total level asset weighting effect was negligible.

Contributors

Fabless semiconductor company **Silicon Motion Technology Corp.**, which was recently purchased in August, moved higher over the quarter after topping estimates and raising guidance. The company is uniquely positioned because it offers a better product at a lower price with faster lead times.

In addition to increasing mobile phone storage requirements, the company should benefit from demand for its innovative products and new market opportunities, which in turn should lead to upside earnings surprises.

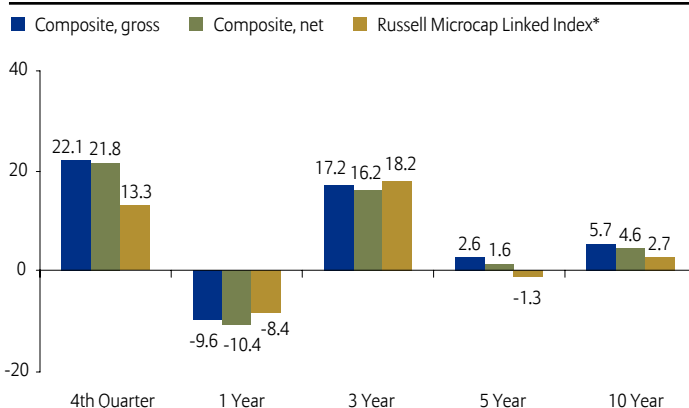
Flotek Industries Inc. moved higher after exceeding profit projections. The supplier of drilling and production products to the energy industry has reached an earnings inflection point and should begin to exhibit robust top- and bottom-line growth due to better pricing, market share gains and exposure to key regions.

Approach Resources Inc. is a predominantly domestic onshore oil and gas E&P company. The company is benefiting from its liquids transformation, leadership position within the horizontal oil space and Permian Basin exposure. The company's recently improved liquidity position should accelerate drilling activities and ultimately result in upward earnings revisions.

A better-than-estimated earnings report lifted shares of **Lithia Motors Inc.**, an automotive franchisee and retailer of new and used vehicles. Acquisitions, improving used car pricing, robust new vehicle sales and market share gains are driving sales growth, while superior operating leverage due to a more efficient business model is boosting profits.

Five Largest Contributors	Avg Wgt (%)	Contrib. (bps)
Silicon Motion Technology	1.3	71
Flotek Industries Inc	1.0	67
DXP Enterprises Inc	1.2	66
Approach Resources	1.2	65
Lithia Motors Inc	1.4	65
Five Largest Detractors	Avg Wgt (%)	Contrib. (bps)
Biosante Pharmaceuticals	0.3	-26
Bio-Reference Labs	0.4	-22
Computer Programs	0.4	-21
Hansen Medical Inc	0.2	-17
Merge Healthcare Inc	0.9	-15

Performance (%)



All data as of December 31, 2011 unless otherwise noted. Composite inception date: July 1, 1998. * The Russell Microcap Linked Index is comprised of the Russell 2000 Growth Index from inception to August 31, 2007 and the Russell Microcap Growth Index thereafter. 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.

US Micro Cap

Contributors (continued)

Industrial MRO products distributor **DXP Enterprises Inc.** continued to exhibit sustained earnings growth predicated on broad-based business momentum, new sales wins and an accretive acquisition.

Detractors

The top five top detractors within the portfolio were all healthcare-related companies. **BioSante Pharmaceuticals Inc.**, a specialty pharmaceutical company, develops products for female health and oncology, including LibiGel for the treatment of female sexual dysfunction. Phase III clinical development results for LibiGel did not show a statistically significant advantage over the placebo. The stock dropped sharply on the news and the name was removed from the portfolio. Clinical laboratory testing services company **Bio-Reference Laboratories Inc.** was lower after a report cited questionable business ethics and billing practices. Shares were sold from the portfolio due to said concerns.

A disappointing third quarter earnings report and reduced outlook pressured shares of **Computer Programs and Systems Inc.**, a healthcare information technology company. Subsequent to this report, the company was replaced with a more compelling total return opportunity.

Similarly, **Hansen Medical Inc.**, a developer of medical robotics designed for accurate positioning of catheters, posted lower-than-expected profits and revenues. Said earnings report in conjunction with the news of a product launch delay and dilutive financing deal led to the sale of this position.

Medical imaging solutions provider **Merge Healthcare Inc.** moved lower over the period due to a shelf offering and insider selling concerns. Our outlook, however, remains positive. The company should continue to benefit from a comprehensive product lineup coupled with a large addressable market. The company's acquisitions, new initiatives and clinical trials in addition to favorable legislation should provide additional upside to current earnings estimates.

Purchases and Sales

America's Car-Mart Inc., which operates used car lots, was added to the portfolio during the quarter. Currently, the company is profiting from strong sales volumes in conjunction with a fixed cost business model. Going forward, we believe an improved car mix, new store openings, higher interest income and stable/lower credit losses will likely result in accelerating fundamentals in 2012.

Watch designer **Movado Group Inc.** was also purchased during the period. A strong watch cycle has resulted in broad brand demand; however, top- and bottom-line growth opportunities should materialize from new product introductions and strategic inventory rationalization efforts.

Shares of **Freightcar America Inc.** were purchased in October. A longer-than-expected coal car replacement cycle and strengthening export coal volumes may result in an improving backlog, better pricing and margin expansion. Ultimately, upward earnings revisions should drive the railcar manufacturer's stock price higher over the coming year.

Weaker-than-expected comparables led to the sale of **Shoe Carnival Inc.** from the portfolio.

Computer Programs and Systems Inc. was sold for the aforementioned reasons and shares of **Magma Design Automation Inc.** were sold after Synopsis Inc. announced they would acquire the company.

Outlook

While the U.S. economy continues to muddle along, leading economic indicators remain encouraging. Recession fears and continued uncertainty in Europe in conjunction with a macro-headline focused equity market may result in similar levels of equity volatility. However, corporate profitability has been strong, balance sheets are healthy and in general, corporate managements remain cautiously optimistic. Deploying cash should lead to additional shareholder buybacks, increased dividends and merger and acquisition activity.

Small-cap growth equities continue to exhibit attractive risk-reward profiles due to company-specific improving fundamentals, attractive earnings yields compared to bonds, superior growth prospects and the potential for significant bottom-line leverage on improved revenue growth. Additionally, growth stocks are better exposed to exciting, new secular opportunities and overseas economic drivers relative to their value counterparts.

Despite volatility associated with mixed macro economic data points, we believe that company specific results ultimately dictate performance. We continue to find exciting, new positive change-based opportunities within the small-cap investment universe.

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 (619) 687-2800.

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. Past recommendations are supplemental information, and supplement the composite performance presented herein.

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 AGIC at (619) 687-8000.

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, an indication that the purchase of such securities was or will be profitable, or representative of the composition or performance of the portfolio. "Representative Holdings" are as of the date indicated and are subject to change without notice. Holdings are selected based on size of positions, from a representative account. Representative account characteristics and partial lists of past recommendations do not reflect composite performance, which may be different. Additional information regarding account characteristics, and a complete list of all representative buys and sells for the last 12 months is available upon request. Portfolio and benchmark characteristics for this strategy are provided by FactSet, and calculated according to FactSet methodology.

Unless otherwise noted, equity index performance is calculated with gross dividends reinvested and estimated tax withheld, and bond index performance includes all payments to bondholders, if any. Indexes are referred to for comparative purposes only and are not intended to parallel the risk or investment style of the portfolios in the Composite. Indexes do not utilize leverage. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index. Index data contained herein (and all trademarks related thereto) are owned by the indicated index provider, and may not be redistributed. The information herein has not been approved by the index provider.

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. The US Micro Cap Composite (the "Composite") consists of accounts that invest primarily in domestic growth equities with a market capitalization range equivalent to the Russell Microcap Growth Index. On August 31, 2007, AGIC's predecessor adviser, Nicholas-Applegate Capital Management acquired US Micro Cap assets from another investment management firm. The acquisition included all of the assets in this composite as of that date. Effective September 1, 2007, Nicholas-Applegate Capital Management has assumed ownership of the performance results presented above and has met all portability requirements as outlined under GIPS. The Russell Microcap Growth Index is an unmanaged index comprised of the Russell Microcap companies with higher price-to-book ratios and higher forecasted growth values. The Russell Microcap Index is an unmanaged index which includes the smallest 1,000 securities in the Russell 2000 Index plus the next 1,000 securities. Investment Risks: Ultra micro-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. Beginning September 1, 2007, the Russell Microcap Growth Index became the benchmark reported for comparison purposes by linking the Russell 2000 Growth Index from July 1, 1998 through August 31, 2007 and the Russell Microcap Growth Index from September 1, 2007 forward.