

# PIMCO Capital Securities Fund

## PERFORMANCE SUMMARY

The PIMCO Capital Securities Fund returned 0.84% (Institutional, Accumulation net of fees) in January outperforming the ICE BofA SOFR Overnight Rate Index by 0.38%. Year-to-date the Fund has returned 0.84% (Institutional, Accumulation net of fees), while the benchmark returned 0.46%.

In December, the Bloomberg European Additional Tier 1 (AT1) Index returned +0.88% (USD hedged) and the Bloomberg Global Agg Corp Senior Financials Index (USD hedged) returned +0.26%. Over the month, spreads in European AT1s tightened by 7 bps, while spreads in Senior Financials tightened by 8 bps.

### Contributors

- Exposure to Additional Tier 1 bonds, and in particular to select Dutch and Spanish issuers contributed to performance, as spreads tightened over the month.
- Select interest rate swap positions contributed to performance.
- Exposure to Tier 2 bonds, and in particular to select Italian and Slovenian issuers contributed to performance, as spreads tightened over the month.

### Detractors

- A tactical exposure to a select non-financial issuer detracted from performance, as the issuer underperformed.
- There were no other material detractors for this Fund.

Past performance is not a reliable indicator of future results

Performance (Net of Fees)	1 Mo.	3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	SI
Institutional, Acc (%)	0.84	9.80	8.63	5.13	0.79	4.34	4.63	5.17
Benchmark (%)	0.46	1.37	2.75	5.29	2.51	2.16	1.56	—

Past Performance is not a guarantee or reliable indicator of future results and no guarantee is being made that similar returns will be achieved in the future.

Performance (Net of Fees)	Jan'2019-Jan'2020	Jan'2020-Jan'2021	Jan'2021-Jan'2022	Jan'2022-Jan'2023	Jan'2023-Jan'2024
Institutional, Acc (%)	15.34	4.73	3.14	-5.58	5.13
Benchmark (%)	2.41	0.84	0.18	2.13	5.29

The following information is additional to, and should be read only in conjunction with, the calendar year performance data presented below.

Calendar Year (Net of Fees)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
Institutional, Acc (%)	6.05	3.89	6.16	11.22	-4.42	17.38	6.32	5.09	-11.53	9.10	0.84
Benchmark (%)	0.24	0.29	0.68	1.20	2.20	2.49	0.98	0.18	1.78	5.20	0.46

Current SFC guidelines prohibit us from reporting performance data for funds or share classes with less than a 6 month track record. The benchmark is the ICEBofA SOFR Overnight Rate Index. All periods longer than one year are annualised. SI is the performance since inception.

The fund is considered to be actively managed in reference to the below benchmark as further outlined in the prospectus and key investor information document/key information document.

ICE BofA SOFR Overnight Rate Index tracks the performance of a synthetic asset paying SOFR to a stated maturity. The index is based on the assumed purchase at par of a synthetic instrument having exactly its stated maturity and with a coupon equal to that day's fixing rate. That issue is assumed to be sold the following business day (priced at a yield equal to the current day fixing rate) and rolled into a new instrument. It is not possible to invest directly in an unmanaged index.

## Key Facts

	Accumulation
Bloomberg Ticker	PIMCINA
ISIN	IE00B6VH4D24
Sedol	B6VH4D2
CUSIP	G7112M633
Valoren	21366058
WKN	A1XDCY
Inception Date	31/07/2013
Distribution	-
Unified Management Fee	0.79% p.a.
Fund Type	UCITS
Portfolio Manager	Philippe Bodereau, Matthieu Loriferne, Michael Bogecho, Eusta Qin
Total Net Assets	4.7 (USD in Billions)
Fund Base Currency	USD
Share Class Currency	USD

**Credit and Default Risk:** A decline in the financial health of an issuer of a fixed income security can lead to an inability or unwillingness to repay a loan or meet a contractual obligation. This could cause the value of its bonds to fall or become worthless. Funds with high exposures to non-investment grade securities have a higher exposure to this risk. **Currency Risk:** Changes in exchange rates may cause the value of investments to decrease or increase. **Derivatives and Counterparty Risk:** The use of certain derivatives could result in the fund having a greater or more volatile exposure to the underlying assets and an increased exposure to counterparty risk. This may expose the fund to larger gains or losses associated with market movements or in relation to a trade counterparty being unable to meet its obligations. **Liquidity Risk:** Difficult market conditions could result in certain securities becoming hard to sell at a desired time and price. **Interest Rate Risk:** Changes in interest rates will usually result in the values of bond and other debt instruments moving in the opposite direction (e.g. a rise in interest rates likely leads to fall in bond prices).

## MONTH IN REVIEW

### 4Q23 Earnings Update

#### US Banks

The US Big 6 banks generated about \$16bn of net income in 4Q23 which would be a decline of almost 40% YoY. However, results were not easily comparable as they included over \$9bn of FDIC special assessment charges (replenishing losses from the regional bank failures last year) and other idiosyncratic items.

Deposits increased 1.4% quarter-on-quarter for the US Big 4 money center banks while system wide deposits fell by less than 2% for the full year 2023. The deposit mix exhibited a shift to interest-bearing accounts, where banks proved successful attracting funding at market rates. The shift adds pressure to the trajectories of net interest income (NII) and net interest margins (NIM) as deposit funding costs may lag expected rate cuts, while loan demand remains muted (up less than 1% quarter-on-quarter).

For full year 2024, large banks currently expect NII to range from almost unchanged to down high single-digits year-over-year. The forecast for fees is more sanguine, including more capital markets oriented banks pointing to pent-up M&A advisory and equity IPO potential alongside a robust debt underwriting backdrop.

Most Big 4 banks have added to their loss reserves, with Citi being the exception. Loss rates and non-performing office balances started to increase and banks have generally boosted reserves in response. Capital ratios were mixed for the Big 4, with two banks reporting increases in CET1 ratios, while the other two banks reported slight declines.

#### European Banks

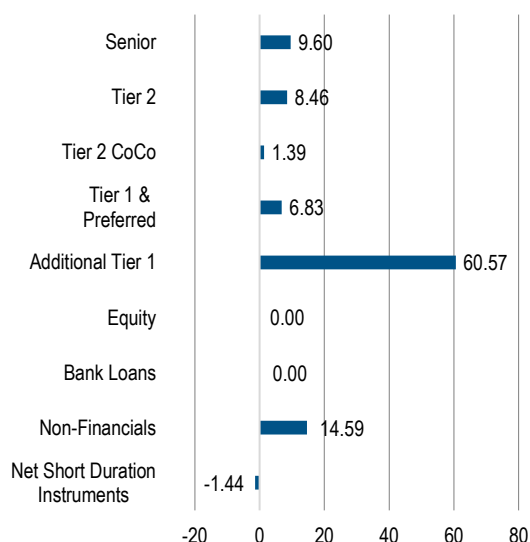
The earnings from European banks that reported results in January were generally strong from a credit perspective, even though some banks missed equity market consensus expectations which led to stock price declines for some banks. NII increased year-over-year, but the growth in NII generally slowed, likely indicating that peak earnings have been reached for this cycle.

Other key financial metrics remained broadly unchanged over the quarter. Liquidity ratios were well above the regulatory minimum, while capital ratios were close to unchanged over the quarter as organic capital generation improved. Asset quality remained stable as NPL ratios did not show meaningful signs of deterioration, providing strong initial conditions ahead of a potential economic slowdown.

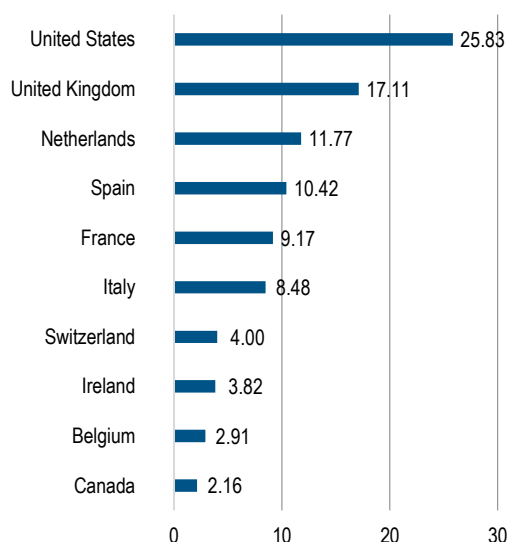
#### Supply update

Traditionally, January is a busy period for primary market activity, and it was also the case this year. In total, European banks issued €76bn across regulatory capital and senior debt. This compares to €85.3bn and €53.1bn in 2023 and 2022 respectively. Notably, the amount of tier 2 issuance in January was higher compared to previous years, while supply in other parts of the capital structure were more in-line.

Capital Structure Positioning (% Market Value)



Top 10 Country Exposure (% Market Value)



The country exposures exclude cash and cash equivalents  
Source: PIMCO

## PORTFOLIO POSITIONING

The Fund favors AT1s from systemic banks and national champions with ample capital buffers, robust equity cushions and a diversified revenue stream. At the same time, the Fund remains cautious on smaller issuers and those with more limited scope for organic capital generation. Geographically, the Fund is well diversified and favors countries such as the UK, Netherlands and France where banks have the highest levels of capital. In senior and Tier 2 debt, the exposure remains mostly centered on UK banks, as well as select idiosyncratic opportunities in peripheral and core European banks offering upside through improving fundamentals and potential consolidation.

Over the course of January, the Fund has taken advantage of the continued strong market environment to marginally decrease its exposure to AT1 bonds, while slightly increasing its liquidity buffers. The Fund increased its exposure to T2 bonds from select French, Belgian, Italian and Spanish banks and continued to favor attractively priced opportunities in the primary market, which saw a high level of activity in January. The Fund continues to focus on more resilient issuers within the bank capital investment universe. It also continues to pursue a tactical approach to take advantage of market dislocations.

## Fund Statistics

Effective Duration (yrs)	3.63
Current Yield (%) <sup>Ⓢ</sup>	5.55
Estimated Yield to Maturity (%) <sup>Ⓢ</sup>	7.74
Average Coupon (%)	5.28
Effective Maturity (yrs)	4.58

## OUTLOOK AND STRATEGY

### **The banking sector is entering this period of economic uncertainty with strong initial conditions in credit fundamentals.**

Banks' asset quality has weathered the pandemic well and capital buffers are at or close to record highs. While elevated inflation, higher interest rates and tighter financial conditions will inevitably have an impact on the broader economy, banks are well positioned given their strong fundamentals following more than a decade of restructuring, de-risking and de-leveraging and remain more insulated from inflationary pressures relative to other sectors in corporate credit.

**Most banks are uniquely positioned to continue to benefit from higher rates, particularly in Europe.** Banks in Europe are by far the biggest beneficiaries within the developed market banking system. Financial results published in the fourth quarter of 2023 continued to indicate that the benefits of abandoning negative rates have become visible on banks' P&Ls. While we believe 2023 likely marked peak earnings for banks in the US and Europe, it is important to stress that we do not expect a return to an environment of extremely low or negative interest rates, which was the case for much of the last decade and which put bank earnings under significant pressure.

**Valuations look attractive compared to other parts of the fixed income universe, particularly given AT1 yields remain elevated versus history.** Market stress related to events over the course of March propagated primarily to the most junior part of banks' capital structures, as the wipe-out of CS' AT1s cast the market into price discovery mode. However, the subsequent months have seen a strong recovery in prices, particularly in November and December of last year, with AT1s now trading at the 36th percentile of daily spread data since inception of the index in 2014. More senior parts of the capital structure also sold off last year, despite not being subject to the write-down/conversion mechanism of AT1s. Senior Financials are currently trading at the 65th percentile of daily spread data since the inception of the AT1 index in 2014, thus providing attractive spreads compared to historical levels.

Spreads referenced are the average option adjusted spread (OAS) level as generated by Bloomberg.

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<sup>②</sup>Yields reported gross of fees, the deduction of which will reduce the yield. Yields are reported in the base currency of the fund and are not specific to the share class. The current yield illustrates the income investors could get from the portfolio as a percentage of market value of the securities assuming a holding period of one year. The current yield does not take into account the future cash flows of bonds, but rather is a snapshot of the income in the portfolio as of a certain point in time.

<sup>③</sup>PIMCO calculates a Funds Estimated Yield to Maturity by averaging the yield to maturity of each security held in the Fund on a market weighted basis. PIMCO sources each security's yield to maturity from PIMCO's Portfolio Analytics database. When not available in PIMCO's Portfolio Analytics database, PIMCO sources the security's yield to maturity from Bloomberg. When not available in either database, PIMCO will assign a yield to maturity for that security from a PIMCO matrix based on prior data. The source data used in such circumstances is a static metric and PIMCO makes no representation as to the accuracy of the data for the purposes of calculating the Estimated Yield to Maturity. The Estimated Yield to Maturity is provided for illustrative purposes only and should not be relied upon as a primary basis for an investment decision and should not be interpreted as a guarantee or prediction of future performance of the Fund or the likely returns of any investment.

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**Benchmark:** Unless referenced in the prospectus and relevant key investor information document/key information document, a benchmark or index in this material is not used in the active management of the Fund, in particular for performance comparison purposes. Where referenced in the prospectus and relevant key investor information document/key information document a benchmark may be used as part of the active management of the Fund including, but not limited to, for duration measurement, as a benchmark which the Fund seeks to outperform, performance comparison purposes and/or relative VaR measurement. Any reference to an index or benchmark in this material, and which is not referenced in the prospectus and relevant key investor information document, is purely for illustrative or informational purposes (such as to provide general financial information or market context) and is not for performance comparison purposes. Please contact your PIMCO representative for further details.

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**For Sustainable Finance Disclosure Regulation (SFDR) Categorization: Article 8/9**

SFDR Categorization sets out how the fund is categorized for the purposes of Regulation (EU) 2019/ 2088 on Sustainability related Disclosures in the Financial Services Sector (SFDR) Article 8 & 9 Funds promote, among other characteristics, environmental or social characteristics. Further details are set out in the Prospectus and relevant Fund Supplement. **Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this Fund presents disproportionate communication on the consideration of non financial criteria in its investment policy**

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