

May 2010

# Fund Commentary - PIMCO High Yield Bond Fund



- The Fund invests at least two-thirds of its assets in a diversified portfolio of high yield fixed income instruments.
- The Fund may invest wholly through financial derivative instruments collateralized debt obligations, credit default swaps and asset-backed securities in order to meet its investment objective and such investment policies or portfolio management techniques may as a result lead to a higher volatility to the net asset value of the Fund. Please refer to the "General Risk Factors" of the respective prospectus for details.
- Financial derivative instruments may be used to reduce risk but may involve risks different from, or possibly greater than, the risks associated with investing in bonds. Therefore the Fund may not be suitable for investors who wish to invest in funds that invest solely in bonds, which are commonly perceived as low-risk products.
- Investing in any of the instruments mentioned above may involve substantial credit/counterparty, market and liquidity risks. Given the nature of this Fund, an investment in the Fund may not be suitable to hold as a substantial part of an investor's assets and the entire value of your investment may be lost.
- The investment decision is yours, but unless the intermediary and/or investment adviser who sells it to you has explained why, including how investment in the Fund would be consistent with your investment objectives.
- In making investment decisions, investors should not solely rely on the information contained in this material.

## Investment Objective

The Fund invests at least two-thirds of its assets in a diversified portfolio of high yield fixed income instruments.

## What happened in the market

The high yield market returned -3.6%, its first monthly decline in 15 months, amid concerns over sovereign debt risks, a Chinese engineered slow down and financial reform. Against a difficult market backdrop, high yield mutual fund outflows totaled USD3.6 billion for the month of May 2010 while the new issue market activity slowed down materially from record levels. Spreads widened dramatically, reaching levels not seen since November 2009, as risk aversion outweighed the stretch for yield.

## Outlook and strategy

Technicals will likely continue to come under pressure from broader macroeconomic events, but in general should remain supportive of the high yield market. Fundamentals should continue to improve as issuers benefit from stronger earnings, improved balance sheets, and an extended runway for debt maturities. While valuations improved, following material spread widening linked primarily to exogenous events, security selection will still be the key to finding value.

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Unit value and income therefrom may fall or rise. Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Investors should read the fund prospectus, available from the local representative or any of its appointed distributors, for further details including the risk factors, before investing.

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Ref No: 150/10. Date of Issue: 30/06/10.