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Emanuele Ravano – Head of Portfolio Management at PIMCO in London

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PIMCO

2008 – A Year of Opportunities for (European) Bond Markets

1. Focus on inflation by ECB increases the downside risks for growth

2. New dynamics of contagion: Will the banking problems impact the real economy?

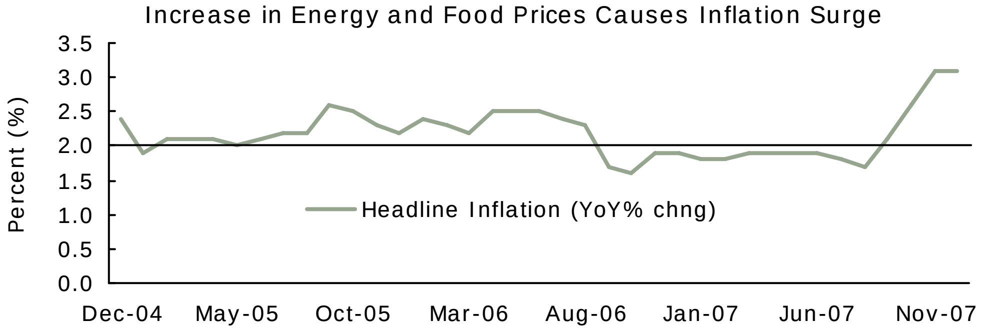
3. How to escape a slowdown:
   - ECB to cut rates in 2008
   - Fiscal policy to offset GDP slowdown
   - Emerging markets will stabilise global growth

4. A fixed-income crisis creates fixed-income opportunities

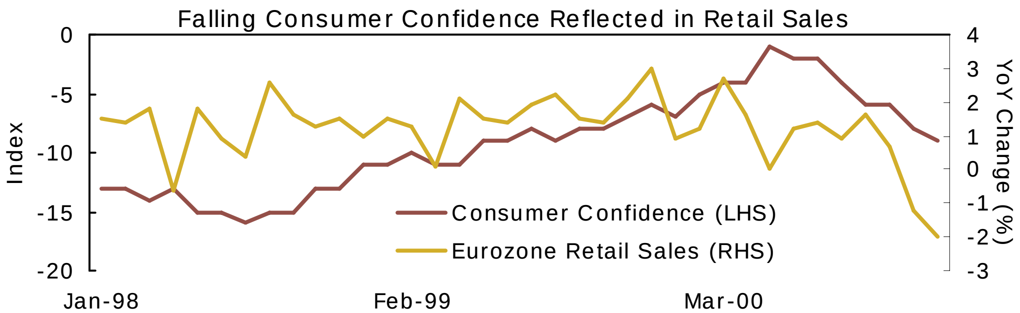
Euro-zone: Confidence Flagging but Inflation Keeps ECB on Hold for Now

As of 31 December 2007

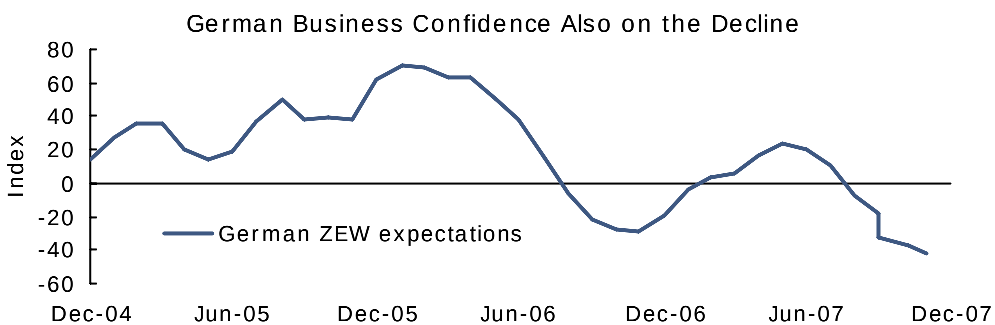
- The ECB is still focusing on above-target inflation, but this is expected to decline once the economy starts slowing



- European consumer confidence is continuing on its downward trend



- Strong investment spending and exports in Germany have ignited recent European growth, but German manufacturers' confidence has fallen sharply



SOURCE: Bloomberg Financial Markets

Unwinding of Shadow Banking System is Impacting Real Economy

"Old World"

- Banks made direct loans, which remained on their balance sheets
- Central Banks had strong control of money supply via discount rates

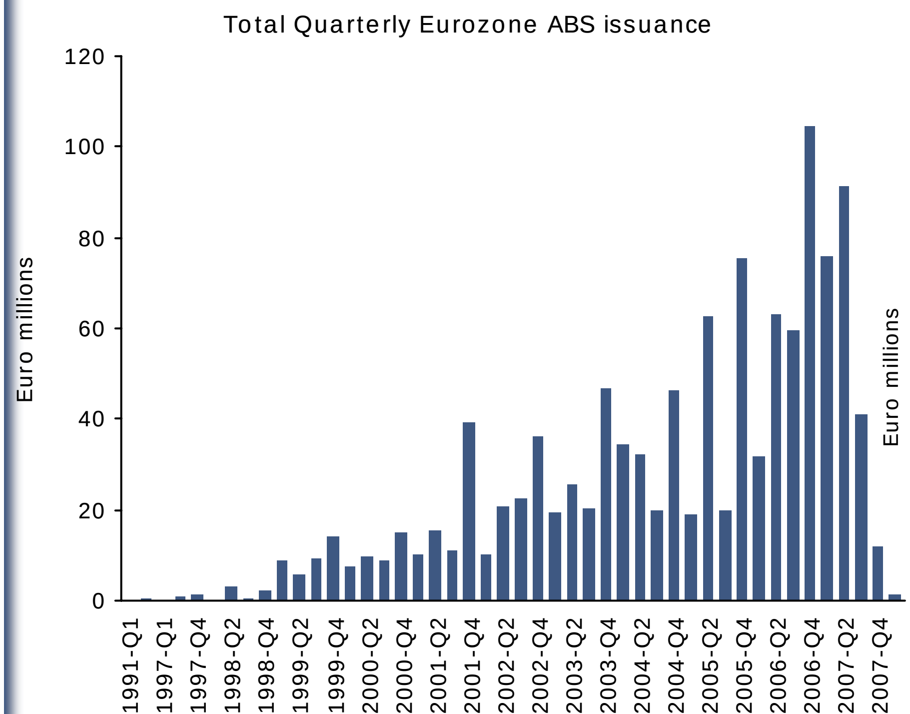
Shadow Banking System

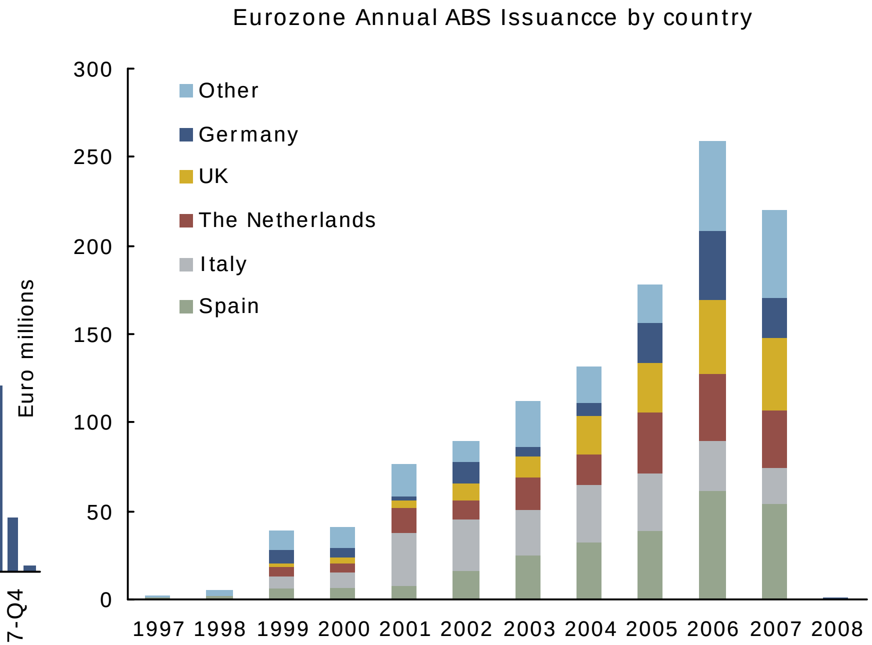
- Banks created off-balance sheet vehicles (Structured Investment Vehicles, conduits etc), funded with short-term commercial paper
- Hedge funds and unregulated entities became lenders through structured products and other leveraged vehicles

Impact

- Unwinding of Shadow Banking System is reducing availability of credit for borrowers
- Tighter credit conditions are impairing economic growth

Euro-zone Asset-Backed Securities Issuance

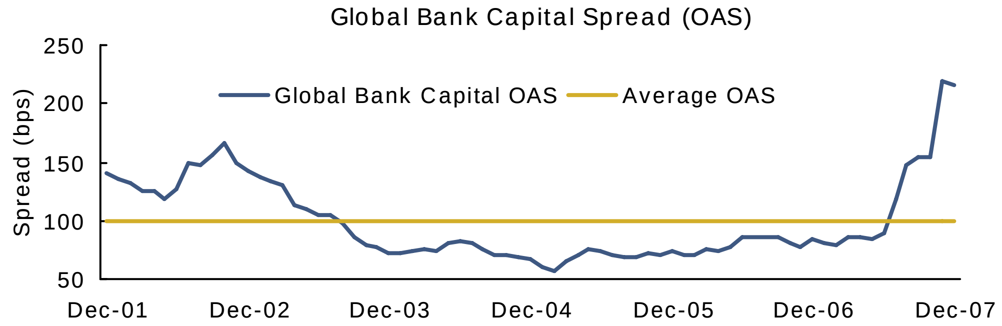


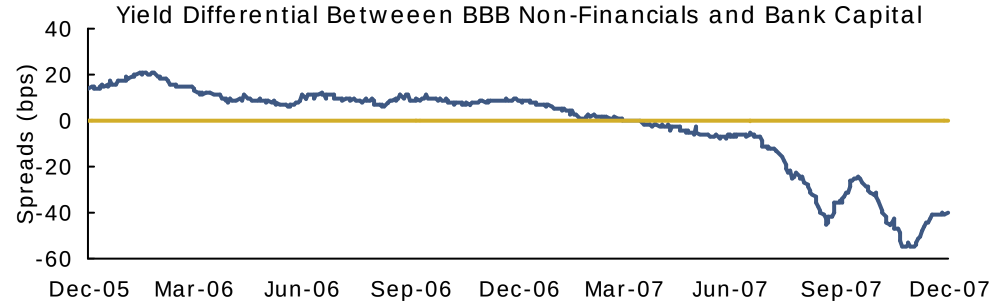


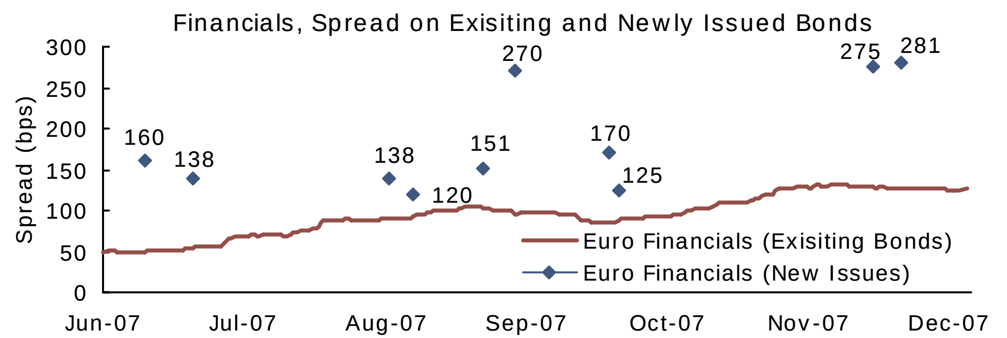
SOURCE: Barclays Capital

Financials Offer Attractive Relative Value

- Global Bank Capital spreads have widened to all-time highs
- Spreads represent a more than three standard deviation move from historical average
- Current valuation of financials presents relative value opportunity versus lower-quality non-financials
- Financials will benefit from steeper yield curves and should outperform industrials in slowing economic environment
- Financial issuers have been forced to pay a significant premium to issue debt
  - PIMCO has been opportunistically adding new issues as a source of yield



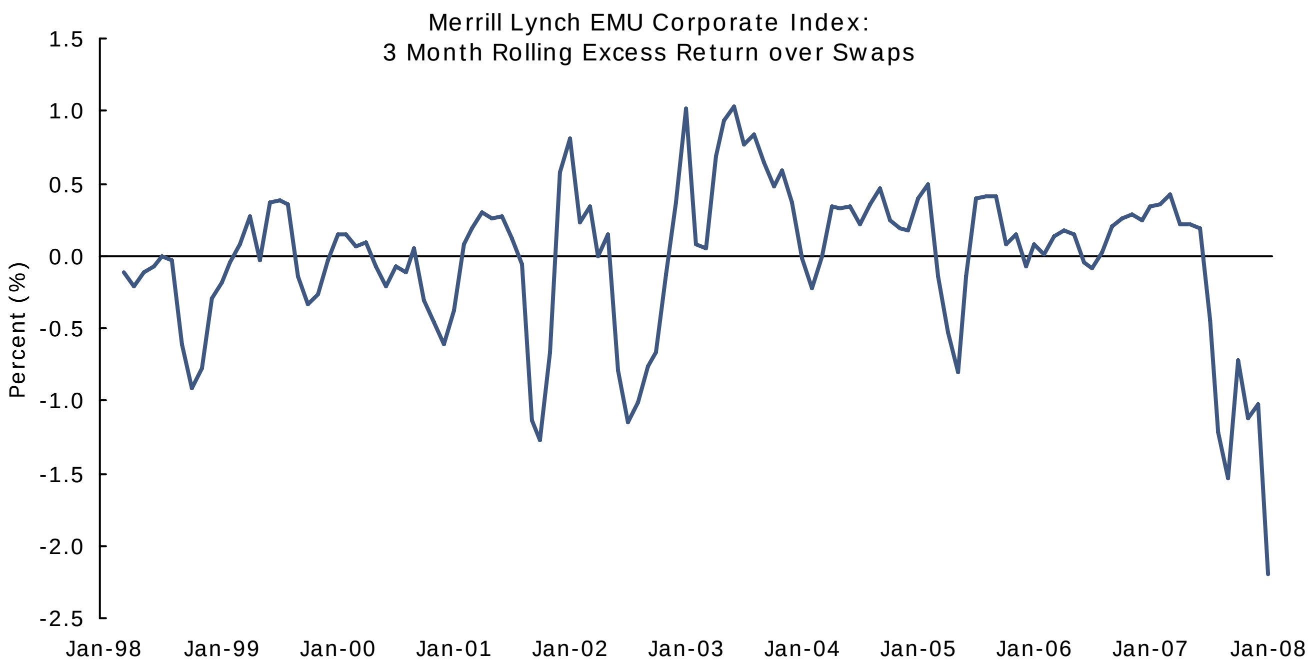




SOURCE: Lehman Brothers, Merrill Lynch

Refer to Appendix for additional OAS and risk information.

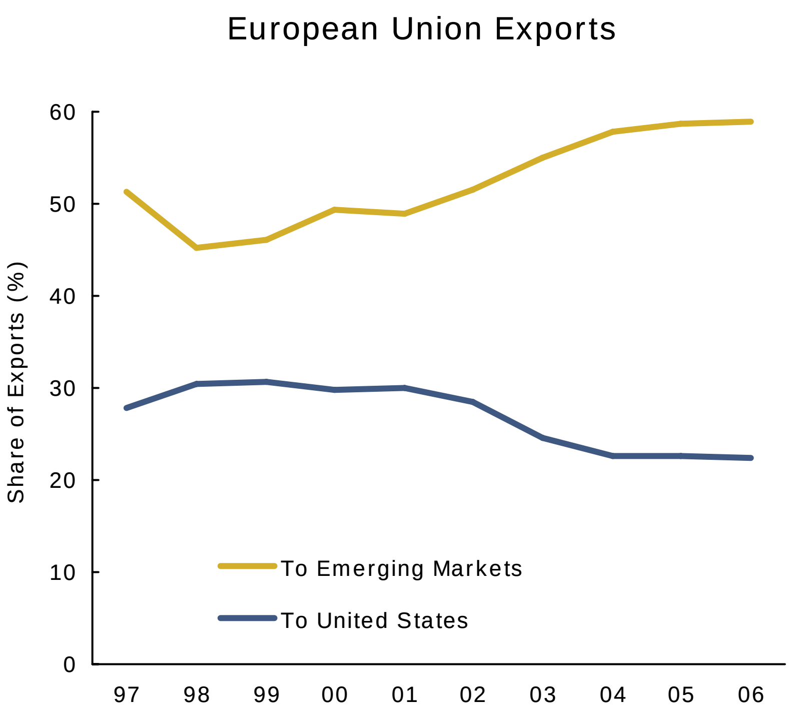
New Dynamics of Contagion

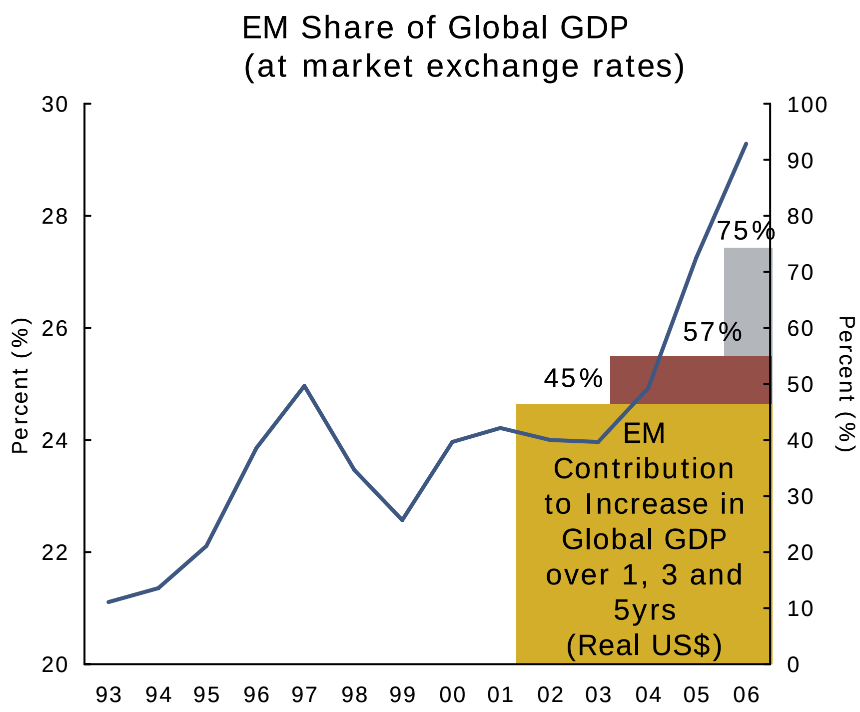


SOURCE: Bloomberg Financial Markets

Refer to Appendix for additional index information.

Emerging Markets Have Become Major Contributor to Global GDP Growth in Recent Years



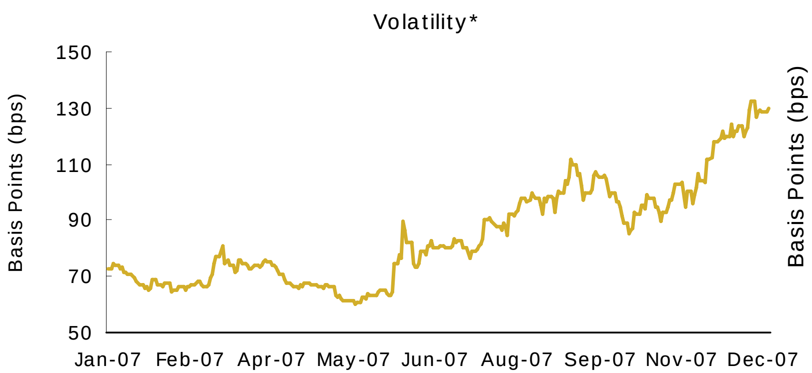


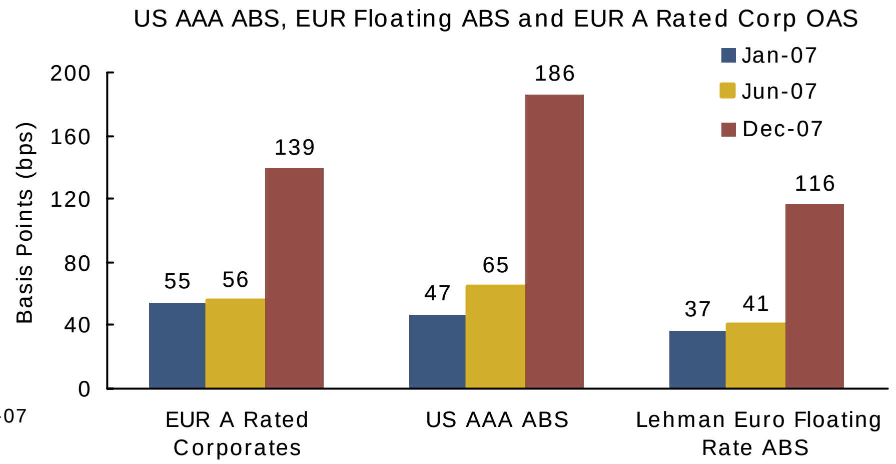
SOURCE: IMF, PIMCO
Refer to Appendix for additional emerging markets information

Alpha Opportunities Abundant in 2008

As of 31 December 2007

Term Premiums	The yield curves have normalised and should continue to steepen as central banks lower rates
Liquidity Premiums	PIMCO is a liquidity provider to a constrained market, thus picking up additional yield in the primary market
Credit Premiums	The avoidance of overvalued and ambiguous risk sectors has positioned us to opportunistically add spread products
Volatility Premiums	Volatility has risen to more normal levels, making agency mortgages more attractive





SOURCE: Bloomberg Financial Markets. OAS: option adjusted spreads are vs Treasuries
* Volatility measure: 3 month into 7 year swaptions
Refer to Appendix for additional alpha, ABS and OAS information.

Appendix

Risk

Each sector of the bond market entails risk. Municipals may realize gains and may incur a tax liability from time to time. The guarantee on Treasuries, TIPS and Government Bonds is to the timely repayment of principal and interest, shares of a portfolio that invest in them are not guaranteed. Mortgage-backed securities are subject to prepayment risk and may be sensitive to changes in prevailing interest rates, when they rise the value generally declines. With corporate bonds there is no assurance that issuers will meet their obligations. An investment in high-yield securities generally involves greater risk to principal than an investment in higher-rated bonds. Investing in non-U.S. securities may entail risk as a result of non U.S. economic and political developments, which may be enhanced when investing in emerging markets.

OAS

The Option Adjusted Spread (OAS) measures the spread over a variety of possible interest rate paths. A security's OAS is the average return an investor will earn over Treasury returns, taking all possible future interest rate scenarios into account.

Emerging Markets

Investments in emerging markets pose special risks, including but not limited to currency fluctuation and political risks. An emerging markets portfolio is expected to be more volatile than that of a Euro zone only portfolio.

Alpha

Alpha represents a portfolio's risk-adjusted performance (the difference between a portfolio's actual returns and the expected performance, given the portfolio's level of risk as measured by beta). It is possible that during any timeframe, the alpha of a portfolio can be positive while the actual total return performance of the portfolio is negative.

ABS

The value of some asset-backed securities may be particularly sensitive to changes in prevailing interest rates. Early repayment of principal on some mortgage-related securities may expose a portfolio to a lower rate of return upon reinvestment of principal. When interest rates rise, the value of a mortgage-related securities generally will decline; however, when the interest rates decline, the value of mortgage-related securities with prepayment features may not increase as much as other Fixed Income Securities. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. If unanticipated rates of prepayment on underlying mortgages increase the effective maturity of a mortgage-related security, the volatility of the security can be expected to increase. The value of such securities may fluctuate in response to the market's perception of the creditworthiness of the issuers. Additionally, there is no assurance that private guarantors or insurers will meet their obligations.

Index Description

The Merrill Lynch EMU Corporate Index measures the performance of the EMU investment-grade euro-denominated corporate bond market.

Disclaimer

Cautionary Note:

Any opinion expressed in this document, or the oral presentation accompanying it, is held as at the date of this document, and any data mentioned is correct as at that date. Both may be subject to change without notification. Nothing in this document or the oral presentation should be interpreted as investment or financial advice and should not be relied on. Any person who wishes to obtain advice should seek this from an independent financial adviser

Emanuele Ravano
Mr. Ravano is a Managing Director, is co-head of the European Strategy Team and is a senior member of PIMCO's portfolio management and strategy groups, managing Euro and Sterling portfolios. Mr. Ravano joined PIMCO in 2001, previously having been for sixteen years at Credit Suisse First Boston and at Credit Suisse Asset Management where he was a Managing Director and Head of European fixed income. Mr. Ravano has twenty years of investment experience and holds a bachelor's degree in economics and business administration from Loyola College in Baltimore.

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