

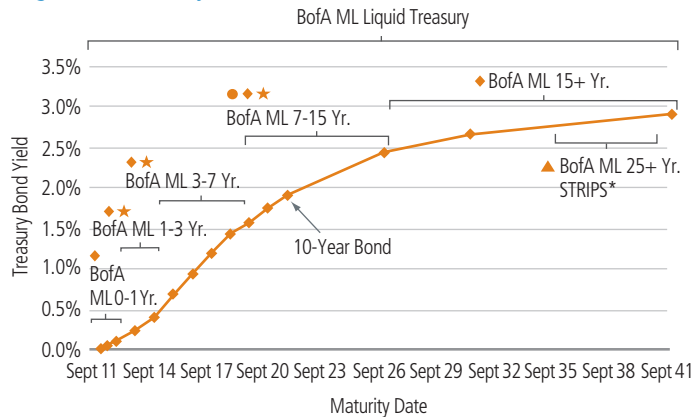
PIMCO ETFs

Splitting the Curve

The Indexes PIMCO has chosen for our Treasury ETFs reflect thoughtful decisions on where we believe the best opportunity sets for investors are located along the U.S. Treasury yield curve. As depicted in the chart below, each PIMCO Treasury ETF Index may offer at least one of the following potential benefits:

- **Efficient yield curve segmentation** chosen to avoid potential structural deficiencies that may detract from traditional Treasury curve splits as investment options
- ◆ **Groupings of securities** that can be conducive to optimized creation baskets, which may reduce bid-ask spreads and tighten the premium/discount to Net Asset Value (NAV) over time
- ▲ **Efficient capital utilization** for those with focused interest rate views, with a 25+ year zero coupon index
- ★ **Tools for investors** to obtain exposure to the bellwether 2-, 5- and 10-year rates

Figure 1: U.S. Treasury Yield Curve



As of 30 September 2011

Symbols above index names correspond with bullets above the chart, and indicate characteristics exhibited by each index.

*Separate trading of registered interest and principal securities.

Example 1: The BofA Merrill Lynch 7-15 Year U.S. Treasury Index

7-10 or 7-15... is there really a difference?

The 7-10 Year Index holds significant importance to investors as the Index contains the bellwether 10-Year Treasury Note. However, this index may embed a structural deficiency that impairs its risk/return characteristics relative to a 7-15 alternative.

As existing Treasury Bonds approach 10 years to maturity, these bonds typically appreciate in price as a result of increased demand, because the bonds become eligible for delivery on the 10-Year Treasury Note futures contract. This is a heavily traded contract which had \$148.8 billion in open interest as of December 30, 2011. Because 10-Year bonds may enter the 7-10 Year Index at these higher, demand-driven prices, the 7-10 Year Index effectively 'purchases' 10-Year Bonds at potentially higher prices. This resulting index difference is illustrated in the Risk/Return chart below where the Barclays Capital 7-10 Year U.S. Treasury Index lies below the BofA Merrill Lynch 7-15 Year US Treasury Index.

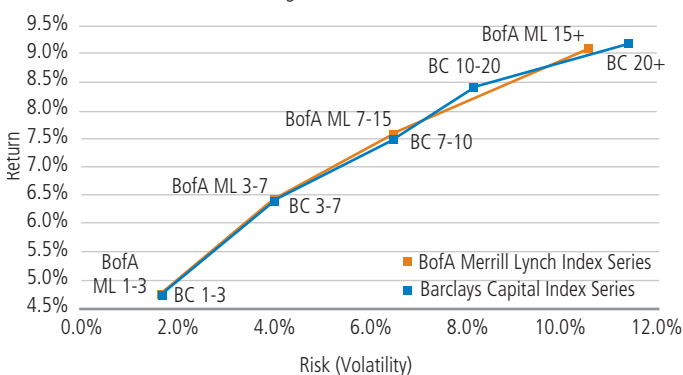
Conclusion: While the 7-10 Year Index is a commonly used split when dividing up the Treasury maturity curve, an Index based on the 7-15 maturity range may offer a more efficient risk/return tool for passive strategies.

The 7-15 Year Index: The PIMCO Solution to Investor Needs

The BofA Merrill Lynch 7-15 Year US Treasury Index is designed to create a potentially superior risk/return profile by including bonds up to 15 years of maturity. As a result, this Index contains the bellwether 10-Year note with the benefit of owning bonds which may have a higher yield and price appreciation potential while they are in the Index rather than before they enter the Index.

Figure 2: PIMCO Treasury Risk/Return Chart

(Returns Data from 1/31/1992 through 9/30/2011)



Example 2: The BofA Merrill Lynch Long U.S. Treasury Principal STRIPS Index

ETF investors have demonstrated that there is significant demand for a tradeable instrument with a high price change for a given change

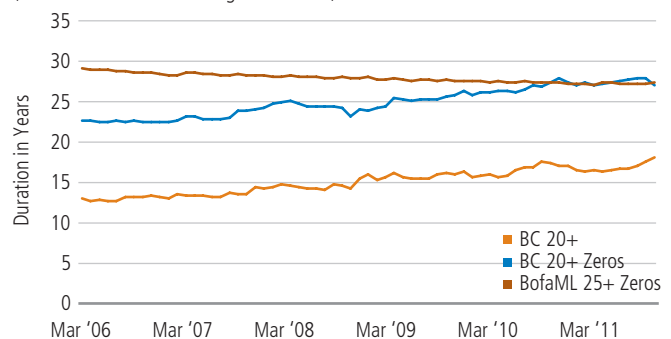
in yields (i.e., a long duration product). Some ETF offerings have been created using double or triple leverage in an attempt to deliver this type of duration effect. However, daily rebalancing of leverage typically creates a different return pattern than simply multiplying a return series by the leverage factor. This phenomenon may be of particular concern to investors with a multi-day horizon seeking a long duration product as a hedge for long-dated liabilities. For such investors, a predictable and relatively stable duration should be a desirable characteristic in a long-duration ETF.

Other indexes that form the basis for non-levered ETFs include long maturity, coupon-bearing Treasuries and, as such, are significantly shorter in duration than indexes comprised of zero-coupon bonds. Zero-coupon indexes extend duration beyond the level offered by indexes containing coupon paying bonds. However, by including both coupon and principal STRIPS, these indexes contain less liquid components (the coupon STRIPS) that may inhibit an ETF market makers' ability to trade or hedge the underlying basket securities. Having to acquire all the coupon STRIPS may be a meaningful burden on ETF market makers, a burden which typically translates to higher bid-ask spreads for ETF investors.

The BofA Merrill Lynch Long US Treasury Principal STRIPS Index includes only principal STRIPS with maturities of 25 years or greater. The graph below shows durations through time for several indexes currently used for non-levered ETFs. The time line for this chart begins when the Treasury resumed issuing 30-Year Bonds on a regular basis. As displayed, the BofA Merrill Lynch Long US Treasury Principal STRIPS Index has the longest and most stable duration of Indexes currently used for non-levered Treasury ETFs.

Figure 3: Duration Through Time

(Data from 3/31/2006 through 9/30/2011)



Investment Products

Not FDIC Insured | May Lose Value | Not Bank Guaranteed

A number of indexes are used for levered ETF products. While double or even triple leverage could theoretically double or triple the duration of the index used on a daily basis, the use of derivatives may distort the duration on a daily basis upon rebalancing the ETFs' exposure. An investment time horizon greater than a day can potentially result in very volatile duration per dollar invested. Further, volatility may cause a leveraged fund's returns to behave very differently than the corresponding Index return and its multiplier would imply over periods longer than a day.

The BofA Merrill Lynch Long US Treasury Principal STRIPS Index is designed to provide investors with the highest and most stable duration in an ETF product, and it should exhibit greater liquidity in its components than a zero-coupon index containing coupon STRIPS.

Example 3: The BofA Merrill Lynch Liquid U.S. Treasury Index

Some investors may seek to gain exposure to U.S. Treasuries, but do not have a particularly strong view on any individual segment of the curve. The BofA Merrill Lynch Liquid U.S. Treasury Index was designed to address this need and to provide exposure to the broad U.S. Treasury yield curve with one product rather than multiple Treasury indexes. This unmanaged index tracks the performance of a liquid basket that includes the three most recently issued 2-year, 3-year, 5-year, 7-year, and 30-year U.S. Treasury notes and bonds (including the on-the-run issues, which are the most recent issues in these maturities). These securities typically offer better liquidity than more seasoned issues, potentially reducing investor transaction costs.

Understanding Tracking Error and its Implications

Tracking error is usually held in high regard by index investors, but as with many important indicators, individual measurements should not be the sole means to judge a product's efficacy. Many investors also have the misconception that tracking error is a measure of risk. Tracking error actually measures the volatility of a fund's excess returns (either over or under the index). Ultimately, underperformance of an index is undesirable, but performance variations around an index may be tolerable given certain trade-offs. For example, a fund that uses a different time than its index to price underlying securities will likely show high tracking error (or variability of index-relative returns) due to different pricing times, but the fund may perform in line with the

benchmark during trading hours and over the course of a longer measurement horizon. Importantly, tracking error is not an economic penalty or cost to investors.

Conversely, bid-ask spreads are economic costs that investors absorb, and do not recover, when buying and selling securities on the market. To the extent an ETF is designed to minimize bid-ask spread, it may reduce costs and actual economic losses to investors. Similarly, premiums and discounts to NAV may also result in tangible economic penalties (more on these concepts later in the discussion of Optimized Portfolios).

In some cases, tracking error can result from a lack of diversification, such as with a fund that only invests in 200 stocks, but seeks to track a 1,000 stock index. A lack of diversification in this case is a legitimate concern since the investor is exposed to more concentrated issuer-specific risk. However, unlike equity or corporate bond indexes where diversification is a key element of risk management, Treasury indexes consist of securities of only one issuer, so diversification to avoid issuer-specific risk is a less meaningful concept.

A focus on effective duration-matching in Treasury index funds may result in the essential return and volatility elements that investors value in these funds. A Treasury index fund that uses fewer bonds than the index will not match returns of the index exactly on a daily basis, and therefore will exhibit greater tracking error than a full replication strategy. However, such a fund will not necessarily display systematic over or under performance of the index. It should be noted that...

1. Variability of index-relative returns (tracking error) does not necessarily increase risk, nor does it generate an economic penalty or un-recoverable cost to investors, particularly in the case of an all-Treasury index.
2. Utilizing a portfolio with fewer, more liquid securities may reduce bid-ask spreads (true economic costs) and premiums and discounts to NAV without penalizing investors from a return or diversification perspective in some circumstances.

Optimized Portfolios

Optimized portfolios refer to portfolios that contain fewer securities than the Index. The potential advantage in using such a strategy would be that the portfolio manager could choose the securities to hold, and thus reduce transaction costs in replicating an index both within a portfolio, as well as for market makers who create trading

markets for ETFs. A more liquid basket of securities may allow market makers to post prices closer to NAV, as they can more easily trade the bonds that are required for a creation or redemption. Since bid-ask spreads and premium/discount to NAV are, in significant part, functions of liquidity in the underlying portfolios, more liquid bonds may result in tighter ETF bid-ask spreads and reduced premiums/discounts to NAV over time.

The below U.S. Treasury Indexes are currently optimized in PIMCO ETFs

- The BofA Merrill Lynch 1-3 Year US Treasury IndexSM
- The BofA Merrill Lynch 3-7 Year US Treasury IndexSM
- The BofA Merrill Lynch 7-15 Year US Treasury IndexSM

For more information visit www.pimcoetfs.com

Investors should consider the investment objectives, risks, charges and expenses of a Fund carefully before investing. This and other information are contained in a Fund's prospectus, which may be obtained by contacting your PIMCO representative. Please read the prospectus carefully before you invest or send money.

A word about risk: An investment in an ETF involves risk, including the loss of principal. Investment return, price, yield and Net Asset Value (NAV) will fluctuate with changes in market conditions. Investments may be worth more or less than the original cost when redeemed. Certain U.S. Government securities are backed by the full faith of the government, obligations of U.S. Government agencies and authorities are supported by varying degrees but are generally not backed by the full faith of the U.S. Government; portfolios that invest in such securities are not guaranteed and will fluctuate in value. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested.

Individual shares cannot be directly purchased from or redeemed by an ETF. Purchases and redemptions directly with ETFs are only accomplished through creation unit aggregations or "baskets" of shares. Investors may sell or purchase individual shares in secondary market transactions that do not involve the ETF. Individual shares of an ETF are bought and sold at market price (not NAV).

The BofA Merrill Lynch 0-1 Year US Treasury IndexSM is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. Government, excluding Treasury Bills, with at least \$1 billion in outstanding face value and a remaining term to final maturity of at least one month and less than one year. The BofA Merrill Lynch 1-3 Year US Treasury IndexSM is an unmanaged index comprised of U.S. Treasury securities, other than inflation-protection securities and STRIPS, with at least \$1 billion in outstanding face value and a remaining term to final maturity of at least one year and less than three years. The BofA Merrill Lynch 7-15 Year US Treasury IndexSM is an unmanaged index comprised of U.S. Treasury securities, other than inflation-protection securities and STRIPS, with at least \$1 billion in outstanding face value and a remaining term to final maturity of at least 7 years and less than 15 years. The BofA Merrill Lynch 3-7 Year US Treasury IndexSM is an unmanaged index comprised of U.S. Treasury securities, other than inflation-protected securities and STRIPS with at least \$1 billion in outstanding face value and a remaining term to final maturity of at least 3 years and less than 7 years. The BofA Merrill Lynch Long US Treasury Principal STRIPS IndexSM is an unmanaged index comprised of securities representing the final principal payments of U.S. Treasury bonds with at least \$1 billion in outstanding face value and a remaining term to final maturity greater than or equal to 25 years. It is not possible to invest directly in an unmanaged index.

"BofA Merrill Lynch" and "The BofA Merrill Lynch 0-1 Year US Treasury IndexSM", "The BofA Merrill Lynch 1-3 Year US Treasury IndexSM", "The BofA Merrill Lynch 3-7 Year US Treasury IndexSM", "The BofA Merrill Lynch 7-15 Year US Treasury IndexSM", and "The BofA Merrill Lynch Long US Treasury Principal STRIPS IndexSM" are reprinted with permission. ©Copyright 2012 Merrill Lynch, Pierce, Fenner & Smith Incorporated ("BofA Merrill Lynch"). All rights reserved. "BofA Merrill Lynch" and "The BofA Merrill Lynch 0-1 Year US Treasury IndexSM", "The BofA Merrill Lynch 1-3 Year US Treasury IndexSM", "The BofA Merrill Lynch 3-7 Year US Treasury IndexSM", "The BofA Merrill Lynch 7-15 Year US Treasury IndexSM", and "The BofA Merrill Lynch Long US Treasury Principal STRIPS IndexSM" (collectively, the "BofA Merrill Lynch Indexes") are service marks of BofA Merrill Lynch and/or its affiliates and have been licensed for use for certain purposes by PIMCO on behalf of the Funds that are based on the BofA Merrill Lynch Indexes, and are not issued, sponsored, endorsed or promoted by BofA Merrill Lynch and/or BofA Merrill Lynch's affiliates nor is BofA Merrill Lynch and/or BofA Merrill Lynch's affiliates an adviser to the Funds. BofA Merrill Lynch and BofA Merrill Lynch's affiliates make no representation, express or implied, regarding the advisability of investing in the Funds or the BofA Merrill Lynch Indexes and do not guarantee the quality, accuracy, timeliness or completeness of the BofA Merrill Lynch Indexes, index values or any index related data included herein, provided herewith or derived therefrom and assume no liability in connection with their use. As the index provider, BofA Merrill Lynch is licensing certain trademarks, the BofA Merrill Lynch Indexes and trade names which are composed by BofA Merrill Lynch without regard to PIMCO, the Funds or any investor. BofA Merrill Lynch and BofA Merrill Lynch's affiliates do not provide investment advice to PIMCO or the Funds and are not responsible for the performance of the Funds.

Premiums (when market price is above NAV) or discounts (when market price is below NAV) reflect the differences (expressed as a percentage) between the NAV and the Market Price of the Fund on a given day, generally at the time the NAV is calculated. A discount or premium could be significant. Data in chart format displaying the frequency distribution of discounts and premiums of the Market Price against the NAV can be found on the Premium/Discount tab for each Fund at www.pimcoetfs.com.

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