PIMCO

Your Global Investment Authority

Emerging Asia Bond Fund

Monthly Commentary

PIMCO Funds: Global Investors Series plc

AUG 2012

- The Fund may invest primarily in fixed income instruments of issuers that are economically tied to Asia ex-Japan countries and in currencies from countries across the broader emerging market universe.
- The Fund is subject to the risk of investing in emerging markets.
- The Fund may invest in financial derivative instruments which may involve additional risks.
- The Fund's investments may involve risks (e.g. market, counterparty, liquidity, volatility, and leverage risks) that could result in loss of part or entire amount of your investment.
- The management fees will be paid out of capital, being amounts Shareholders invest in the Fund and/or capital gains attributable to those amounts. As a result, the income available for distribution to Shareholders may be increased but the capital the Fund has available for investment in future capital growth and income generation will be reduced.
- In making investment decisions, investors should not rely solely on this material and should read the offering document of the Fund for further details including the risk factors.

Performance summary

Contributors include:

- Overweight to the Quasi-sovereign sector
- Overweight to the Philippines
- Overweight to the Brazilian real and the Mexican peso

Detractors from relative performance:

- Security selection in Indonesian Industrials
- Underweight to the Argentine peso and the Hungarian forint
- Overweight to Asian currencies

Portfolio information

Summary information	
Fund assets (USD in Millions):	386.9
Effective duration (yrs):	4.45
Benchmark duration (yrs):	4.70
Effective maturity (yrs):	5.93

Trading information			
	Class E (EUR), unhedged accum	Class E, income	Class M Retail HKD, unhedged
Bloomberg ticker:	PEABEEU	PEABEUI	PEABEMR
ISIN:	IE00B3Q9WN89	IE00B464Q616	IE00B3QS5W57
Inception:	03/06/2011	01/06/2010	01/03/2011
SEDOL:	B3Q9WN8	B464Q61	B3QS5W5
Valoren:	13102525	11323323	12514844
WKN:	A1JBGK	A1CYU4	A1H7S6
Management Fee (%):	1.50	1.50	1.50

Solution:
Emerging Markets

A company of Allianz

Emerging Asia Bond Fund

Explanation of portfolio characteristics

- Emerging Asia external debt sovereign exposure is focused on high quality countries. We continue to seek opportunities to add value by substituting quasi-sovereign and select corporate credits for sovereign issuers
- Focus on Emerging Asia investment grade corporate credits offering value, high yield credits with a proven track record, and quasi-sovereigns with strategic systemic importance. The fund will focus on entities involved in economic sectors deemed of critical importance for a country's economic growth: energy, commodities, telecom, and development banks
- Retain structural allocations to the currencies of countries that are fundamentally undervalued and lower beta in nature. Overall in our currency exposure we plan to continue maintaining an overweight in Asia and some of the countries in Latin America while planning to underweight the countries in Emerging Markets (EM) Europe with the exception being Poland

Top 5 country allocation	EM spread duration (%)
Philippines	24.2
South Korea	14.0
China	11.7
Indonesia	11.3
Singapore	10.5

Country allocation as of 31 August 2012

Top 5 currency allocation	% of MV
Mexico	10.2
China	10.0
Singapore	9.7
Brazil	8.0
India	8.0

Allocation mix is subject to change and may not be representative of current or future allocations

MV = Market value

Market commentary

Most of August was a relatively tranquil month thanks to the president of the ECB, Mario Draghi, helping to still markets concerns during his July 26th speech in London. Mr. Draghi reassured the world that the ECB is ready to do" whatever it takes to preserve the euro". Following the speech, yields tumbled in countries such as Spain and Italy and other risk markets rallied as well. All EM asset classes benefitted. Nonetheless, toward the end of August spreads on external debt eased somewhat, turned their focus towards Jackson Hole and the likelihood of another round of quantitative easing.

In spite of this, month-over-month, almost all types EM assets managed to post positive performance. Sluggish economic data coming from China weighed on EM returns overall. US Treasuries yields increased marginally during the month as investors speculated whether the Fed would take additional action to stimulate the economy

Emerging Asia Bonds returned 0.5% in August as measured by the JP Morgan Asia Credit Index (JACI). The high yield sector returned 0.7% while the investment grade sector returned 0.4%. By sector, quasi-sovereigns and corporate credit outperformed sovereigns.

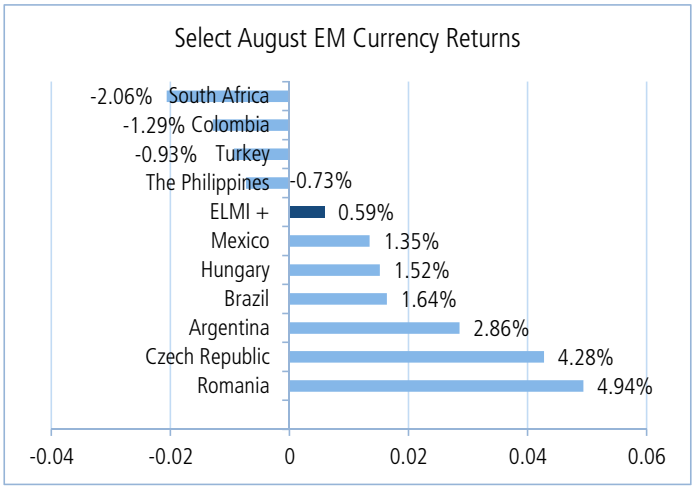
In Asia, not many actions by authorities were observed, but a number of telling economic releases gave investors greater clarity on how effective countries and their recent responses have been at addressing global headwinds. In China, flash reading for HSBC manufacturing PMI deteriorated to 47.8 for the month of August – a nine-month low – following a brief rebound of 49.3 in the previous month. The drop was mainly driven by a collapse in new export orders, which came at 44.7 in August, the lowest since 2009. In Malaysia, Q2 GDP came higher than expected at 5.4% yoy led by broad-based acceleration in domestic demand and investment. Inflation for the month of July was also released, coming marginally better than expected at 1.4% yoy compared to 1.6% yoy in the previous month. With this print in GDP H1 GDP growth comes at 5.1% yoy, the upper end of the official forecast range. In The Philippines, Q2 GDP growth came at 5.9% yoy, higher than expected. These numbers reflect strong domestic demand supported by fiscal spending and resilient remittances. Net exports slowed but remain a positive contributor to growth given expansion of the service sector. Moody's upgraded Korea's government bond rating to Aa3 from A1 with a stable outlook. Key drivers of the decision included (1) strong fiscal fundamentals, (2) a high degree of economic resilience and competitiveness, (3) reduced external vulnerability of the banking sector, and (4) continuation of status-quo in the Korea Peninsula geopolitics. The announcement added that the government's balance sheet "…has been relatively unscathed by the global financial crisis and, so far, by the Eurozone crisis…" while highlighting the country's competitiveness of its external sector on continued gains in labor productivity amid a fairly low rate of unemployment.

Emerging Market FX as measured by the JP Morgan Emerging Local Markets Index Plus (ELMI+) returned 0.6% in August. Regionally, Latin America and EM Europe outperformed the market returning 1.3%, while EM Asia and Middle East/ Africa lagged with return of 0.1% and -1.5% respectively.

YTD the ELMI+ has generated a 4.04% return. Regionally, EEMEA (Emerging Europe, Middle East, and Africa) markets broadly benefited from the modest improvement in investor sentiment. Performance, however, was uneven across countries and asset classes, in particular in the Middle East and Africa region. Currency weakness, especially in South Africa and Turkey, caused local returns to suffer in these countries. The Hungarian *forint* returned 1.52% during the month, although the currency gave back gains as the Central Bank surprised markets with a 25 bps rate cut late in the month. The Polish *zloty* gained 0.89% as expectations shifted towards the policy rate remaining unchanged in the near future.

Latin America had the highest returns in the index of all regions in August. The Argentine *peso* continued its rebound, followed by the Brazilian *real* and Mexican *peso*. In fact, no Latin American country's currency in the index underperformed the ELMI+ in August.

Asian markets generally lagged. August data from the region showed major Asian economies continue to slow. Despite the continued slowdown, policy rates were largely left unchanged across the region. Moody's upgraded South Korea's foreign currency rating in August – a highlight in what was otherwise a relatively uneventful month in Asia. In contrast to Latin America, no Asian country in index managed to outperform the ELMI+ in August.



Country returns are represented by the JPMorgan Emerging Local Markets Plus (Unhedged) sub-country index

Source: Sub-Index returns are from the JPMorgan ELMI + (unhedged)

Market outlook

Policy Decisions Continue to Drive Global Economic Outcomes

After a vigorous start to the year and a forceful rally for risk assets, risk appetite cooled off in March. A Greek debt restructuring and Spanish budgetary problems reminded investors that there are lingering, unresolved issues plaguing the global economy that do not have easy (or quick) solutions. Until solvency is sorted out in peripheral Europe and the core that holds the eurozone together is strengthened, instability in Europe risks recurring crises throughout the global economy, affecting emerging markets (EM).

We now see greater likelihoods of two mutually exclusive outcomes – one in which issues in Europe are resolved and growth in the U.S. is securely reestablished and another in which there is a negative outcome in Europe that leads to potential disorderly defaults and Euro Zone exits for some. These events, coupled with the reduced probability of a "muddling through" that we saw throughout 2011 that exists between them, shape our bimodal expectation for the world economic outcome.

In the left mode, slowing growth for world economic engines will likely mean reduced demand for many goods and services exported from EM countries. Rising commodity prices threatens to slow economies as well. We also concerned that some countries are nearing a lower bound for domestic interest rates and inflationary pressures may constrain their monetary policy flexibility to ease in this scenario.

In the right mode, economies would be reinvigorated. We would expect risk-seeking in this scenario to drive up returns on assets with higher perceived risk profiles. These include sovereign debt issued by EM countries with weaker fundamentals that have been strained by recent global concerns and corporate debt instruments generally. Risk premia, widely, would fall in this scenario.

Given the sizable distance that seems to still stand between our current state and a resolution in Europe that would be needed to avoid further crises, we see the left mode as being the more likely outcome at present. In addition, we view the risk to being positioned for the right mode but realizing the left to be greater than the opposite case, and so we are positioned cautiously in our EM portfolios.

Emerging Asia Bonds - Cautiously Positioned in Emerging Asia Markets

While we anticipate challenges to emerging markets that will likely lead to greater asset and flow volatilities, we still expect a reallocation of capital towards EM Asia as investors pursue positive real returns in a global environment that does not offer them that in many countries. Identifying the strongest countries as investment targets is paramount as we foresee a bumpy year within a generally bullish secular outlook for EM Asia assets.

We remain neutral to underweight EM Asia spread duration in aggregate, given our cautious outlook, and overweight countries with stronger balance sheets, where growth drivers are more resilient to global shocks, and where any reduction in flows into or liquidity within domestic markets would not materially affect the creditworthiness of either the sovereign or major non-sovereign issuers in the country.

Likewise, we plan to continue to underweight countries with heavy debt burdens, weak growth prospects, limited room to enact effective policy changes, and/or clear susceptibilities to global shocks. We also continue to target quasi-sovereign entities of systemic importance in each country and to target corporations with strong fundamentals that can benefit from economies that are growing.

Emerging Market Currency - Cautious Currency Positioning Amid Global Uncertainty

EM currencies are likely the most exposed EM asset class to changes in global risk sentiment and showed some of that volatility over the last six months. The currencies are generally floating, so while they can act as shock absorbers during periods of instability, they are also the most liquid investment vehicles that investors can use to reduce their exposure to EM assets. Although, the currencies will likely sell off sharply in risk-off episodes, we expect them to rebound energetically when risk-on reemerges (as seen in January and February of this year).

We anticipate positioning our currency portfolios cautiously considering developed market currencies and largely focusing our EM currency exposure in currencies of those countries with stronger credits fundamentals. This, in turn, should allow those currencies to better weather currency related volatility. Specifically, we plan to concentrate our exposure in currencies of counties which are fundamentally undervalued and where there are incentives for strengthening, such as a bias to use currency appreciation to raise the purchasing power of domestic consumers in order to preserve growth. This includes currencies in some Asian countries such as China. In addition, the strong current account surpluses, vast foreign reserves, fast-growing economies, and managed nature of currencies in many Asian countries makes these currencies the least exposed to a large sell-off in risk.

We plan to avoid or underweight currencies that exhibit higher sensitivity to global deleveraging (higher carry currencies) or which are susceptible to spill-over effects in developed countries and the Eurozone periphery.

Emerging Asia Bond Fund

Past performance is not indicitave of future performance.

A word about risk: Investing in the bond market is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk; investments may be worth more or less than the original cost when redeemed. 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. Mortgage and asset-backed securities may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee there is no assurance that private guarantors will meet their obligations. High-yield, lower-rated, securities involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. 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. Diversification does not ensure against loss.

The value of shares of the fund and the income accruing to them, if any, may fall or rise. Investment returns denominated in non-local currency may be exposed to exchange rate fluctuations. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. This and other information is contained in the Fund's prospectus which can be obtained from www.pimco.com or by contacting PIMCO, a fund distributor or your financial advisor. Prospective investors should read the fund's prospectus before deciding whether to subscribe for or purchase shares in any of the funds. Investors may wish to seek advice from a financial adviser before making a commitment to invest and in the event you choose not to seek advice, you should consider whether the investment is suitable for you.

PIMCO Funds: Global Investors Series plc is an umbrella type open-ended investment company with variable capital and is incorporated with limited liability under the laws of Ireland with registered number 276928. The Funds typically offer different share classes, which are subject to different fees and expenses (which may affect performance), have different minimum investment requirements and are entitled to different services.

This publication has been issued (i) in Hong Kong by PIMCO Asia Limited and has not been reviewed by the Securities and Futures Commission; and (ii) in Singapore by PIMCO Asia Pte Ltd.

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The JPMorgan Emerging Markets Bond Index Global is an unmanaged index which tracks the total return of U.S.-dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady Bonds, loans, Eurobonds, and local market instruments. JPMorgan Emerging Local Markets Index Plus (Unhedged) tracks total returns for local currency-denominated money market instruments in 23 emerging markets countries with at least U.S. $10 billion of external trade. The JPMorgan Corporate Emerging Markets Bond Index (JPM CEMBI) is a global, liquid corporate emerging markets benchmark that tracks U.S.-denominated corporate bonds issued by emerging markets entities. The Consumer Price Index (CPI) is an unmanaged index representing the rate of inflation of the U.S. consumer prices as determined by the U.S. Department of Labor Statistics. There can be no guarantee that the CPI or other indexes will reflect the exact level of inflation at any given time. It is not possible to invest directly in an unmanaged index.

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