



POST-CRISIS PORTFOLIO SOLUTIONS

PIMCO Canada Corp.
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Your Global Investment Authority.SM

Agenda

1
The New Normal

**Secular Implications:
Potentially Lower and
More Volatile Returns**

2
**The New Normal in
Canada?**

3
**Implications for
Canadian Investors**

2010 Secular Forum: Process and Speakers

	Topics	Speakers
Annual 3–5 Year Forecasting	<i>The Aftermath of the Financial Crisis</i>	Dr. Kenneth Rogoff Harvard University
Firm-Wide Debate and Discussion	<i>Secular Megatrends</i>	Dr. Ian Goldin University of Oxford
	<i>The Political Economy of Austerity</i>	Greg Ip <i>The Economist</i>
Forms Key Investment Themes and Firm's Strategic Direction	<i>Trends and Issues in Global Finance</i>	Dr. Arminio Fraga Former President of the Central Bank of Brazil

Revisiting the New Normal of 2009

Summary of 2009 Conclusions: A paradigm shift for the global economy and capital markets that will occur over multiple years

The Pre-Crisis Normal	The New Normal
Financial Innovation (Leverage)	De-Leveraging
De-Regulation	Re-Regulation
Global Trade	De-Globalization

Key Secular Themes: Driving Without a Spare

2010 Summary: The world is on a multi-year journey to an unstable destination, through unfamiliar territory, on an uneven road, having already used its spare tire(s)

**Continued
emergence of
key developing
economies**

And submergence
of others

**Extended periods
of increased
sovereign risk**

Serial balance sheet
contamination

**Politicians
trump
economists**

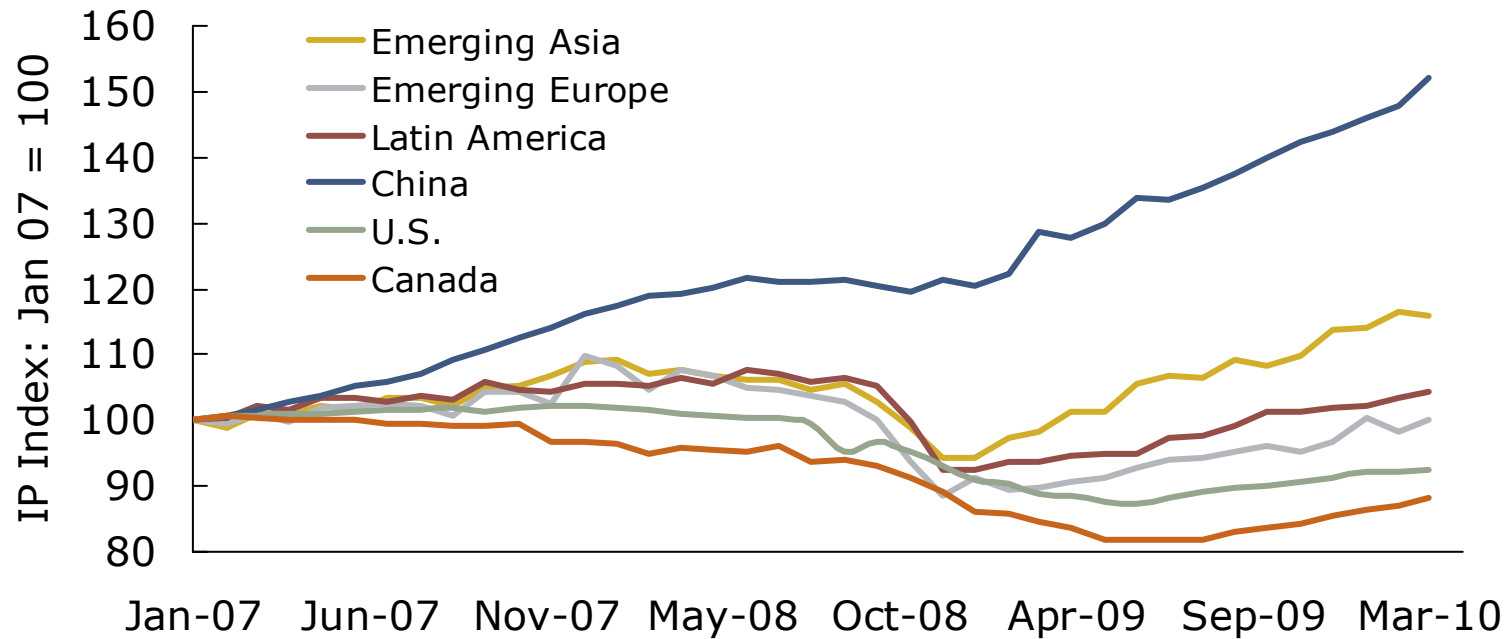
Expect policy
mistakes

Secular implication: Potentially Lower and more volatile returns

Developed Countries vs. Strong Emerging Economies

Industrial Production Levels

EM20*, China, U.S., and Canada

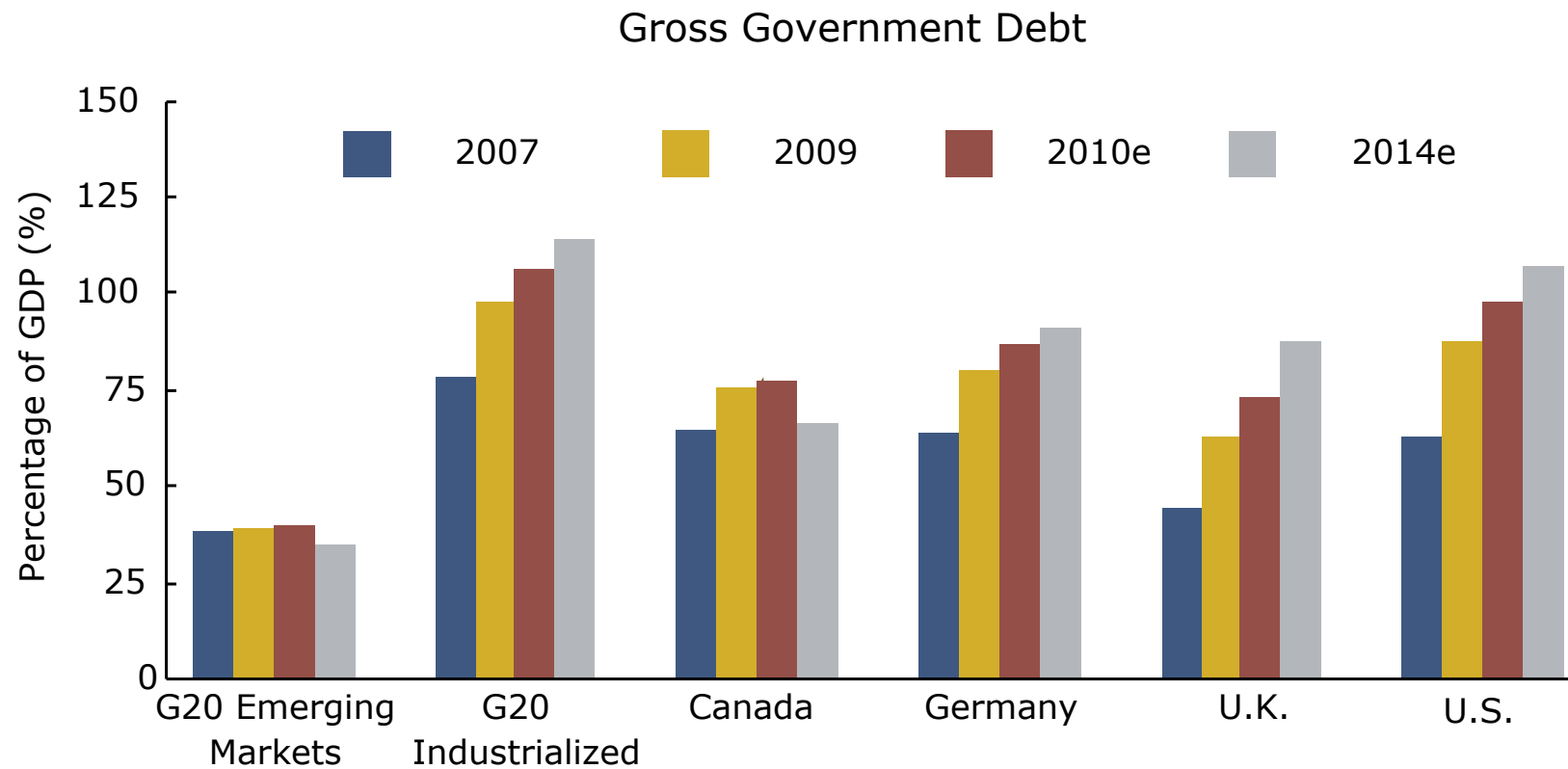


Source: Haver Analytics, PIMCO
As of March 31, 2010

* EM20 are the 20 largest EM countries excluding China

Serial Balance Sheet Contamination in Debt Dynamics

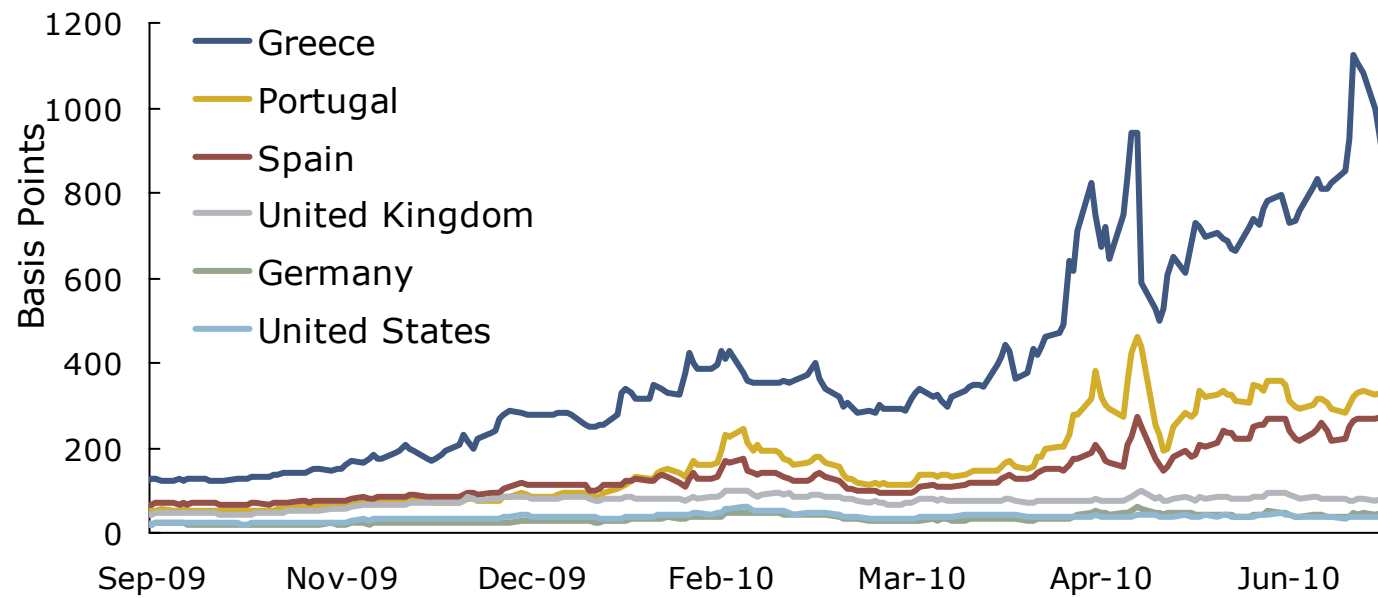
Industrialized countries are expanding their indebtedness at an unprecedented pace



Source: IMF
As of May 31, 2010

Policy Mistakes: Europe as Current Case Study?

Cost of 5 Year Credit Default Swap



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**Canada:
Should Be a Relative
Winner in The New
Normal**

**Potentially:
Strong Canadian Dollar
Low Real Interest Rate
More Volatility**

Refer to Appendix for additional outlook information.

Canada is Likely the G7 Winner in the New Normal: Cleanest Dirty Shirt

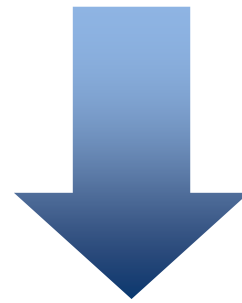
**Financial and
Economic Linkages**

**Natural Resources
Fuelling Growth**

“Old Normal”
Economies

**Analytical
Battleground**

Emerging
Economies



Potentially:

- More volatility
- Strong Canadian dollar
- Low real interest rates

The Bank of Canada has a New Normal Framework

0.5% Tightening Campaign

- U.S. Economy slips into “double dip” recession
- Europe cannot deal with sovereign debt issues

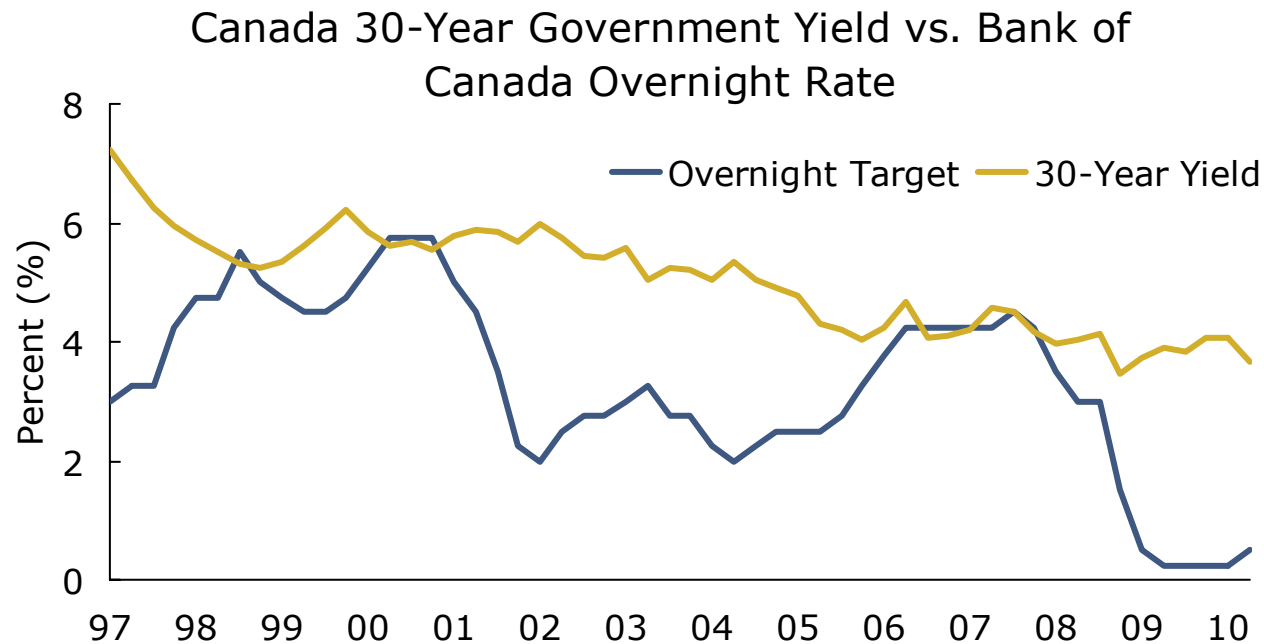
***“Nothing is
pre-ordained”***

Bank of Canada Governor, Mark Carney – 4/27/10

2-3% Tightening Campaign

- Growth momentum continues
- Inflation stays around 2% target
- Jobs growth continues
- No external economic and financial shocks

Canadian Interest Rates: A Tale of Two Stories



Short-Term Rates

- Heightened volatility
- Higher rates

Long-Term Rates

- Bank of Canada's inflation target credibility
- Beneficiary of international capital flows
- Relative stability
- Liability driven investments?

Source: Bank of Canada
As of June 30, 2010

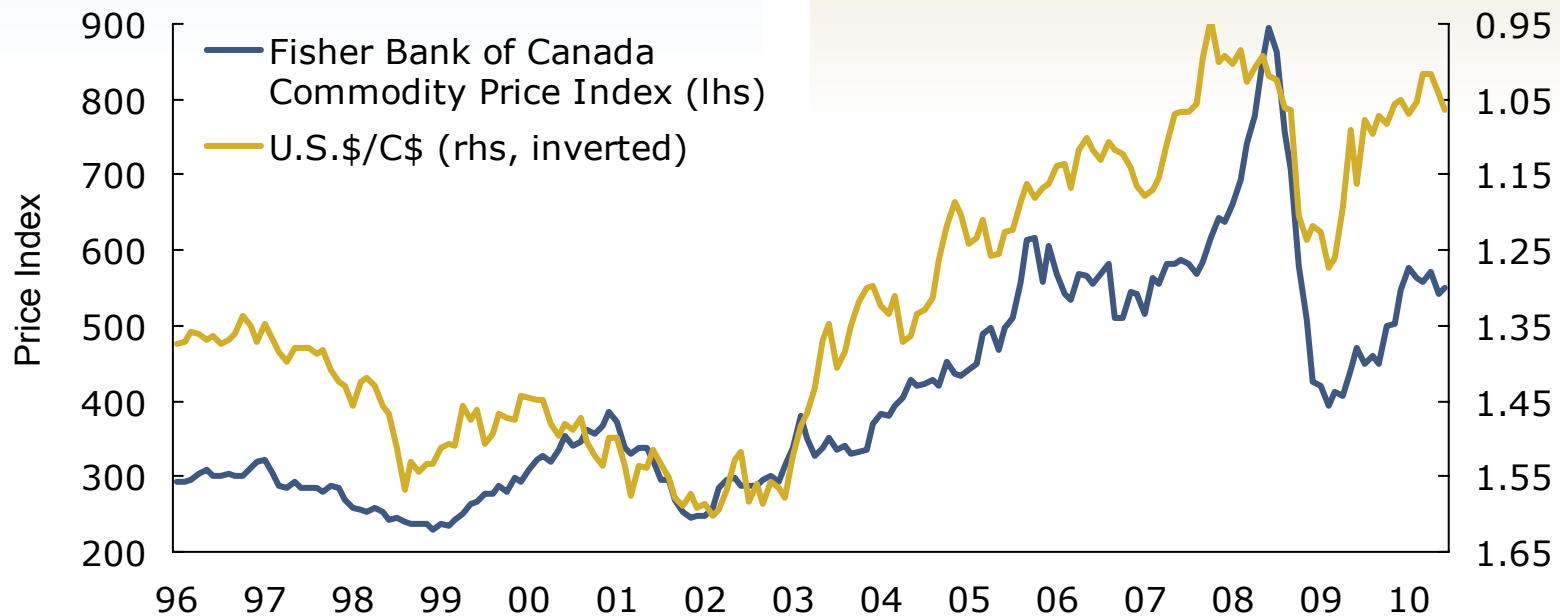
Canadian Dollar Should Benefit in the New Normal

Debt Dynamics

- As the debt situation deteriorates in Europe and with U.S. balance sheet contamination, Canada is expected to attract international capital flows, helping support the currency

Emerging Markets/Commodities

- As emerging markets develop, higher demand for commodities will likely be supportive of the currency



As of June 30, 2010

Source: Statistics Canada / Haver Analytics

Refer to Appendix for additional index and outlook information.

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All Assets Need to
Be Working

In a Low Beta World, Alpha is More Important than Ever

- Historical 10-year return for S&P/TSX Composite Index: 3.3%
- Most investors are implicitly assuming significant equity returns
- Generating alpha within fixed income allocation helps reduce the burden on required return through equities

Required *Equity* Return to Meet a 7% Target Return

Assumptions

- Asset Mix: 60% Equities / 40% Fixed Income
- Fixed Income Return = DEX Universe Yield 3.1%
- Fixed Income Alpha = 1%

Passive Fixed Income

$$7\% = \text{Equity Return} \times 60\% + 3.1\% \times 40\% \quad X = 9.6\%$$

Active Fixed Income (100bps alpha)

$$7\% = \text{Equity Return} \times 60\% + 4.1\% \times 40\% \quad X = 8.9\%$$

As of June 30, 2010

Hypothetical example for illustrative purposes only.

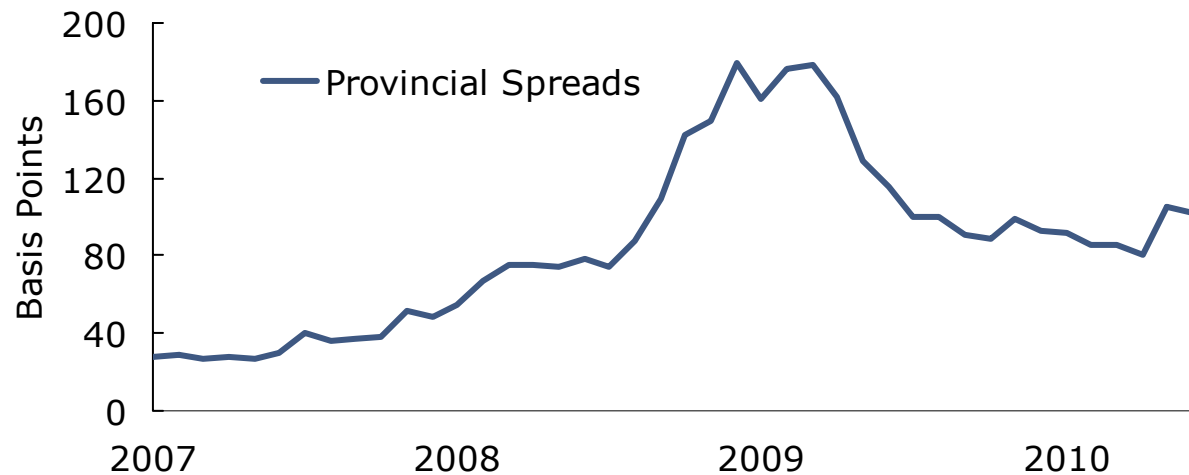
Refer to Appendix for additional hypothetical example, index, return assumptions and risk information.

Generating Alpha in Canada

- Provincials could become an investment opportunity when foreign sovereign risks spike and the “baby is thrown out with the bath water”

- Canadian credit is among the most expensive in the world
- Incorporating foreign spread sectors may improve risk-adjusted returns

Provincial Spreads¹



Spread Over Treasuries/Government ² (bps)	
Canadian IGC	149
U.S. IGC	209
High Yield	713
Emerging Markets	358

The benchmarks used are as follows -Canadian Yield Benchmark Bond Yields: 10-Years. Source: Bank of Canada/Haver -Canadian IGC: BofA Merrill Lynch Canadian Investment Grade Corporate Index - US IGC: BofA Merrill Lynch U.S. Corporate Index -High Yield: BofA Merrill Lynch Global High Yield BB-B Constrained Index -Emerging Markets: JPMorgan EMBI Global Index

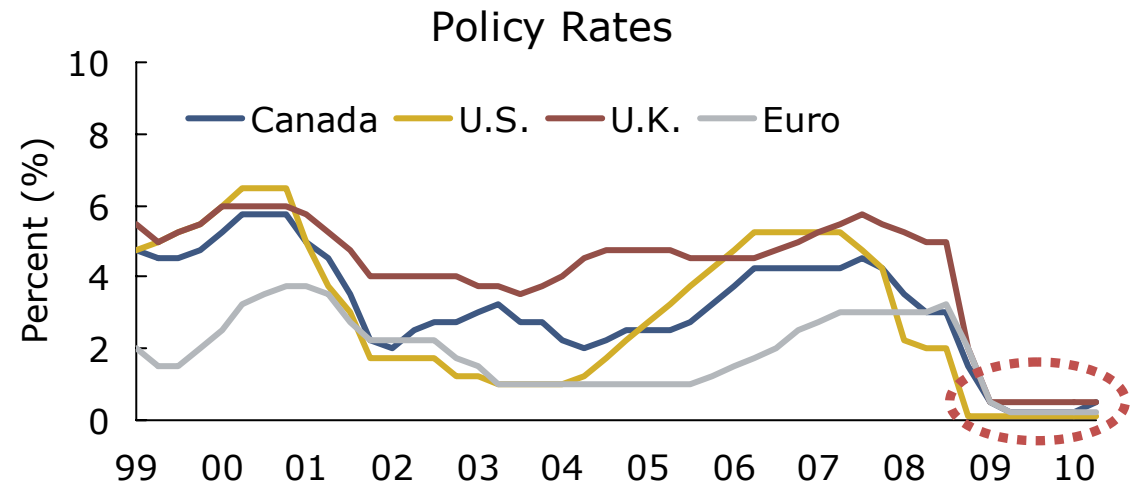
¹ Provincial spreads measured as the difference between 10-year Ontario and Government yields

² Option Adjusted Spread over U.S. Treasuries for US IGC, High Yield and Emerging Markets and over Canadian Governments for Canadian IGC

SOURCE: Bloomberg, JP Morgan Markets, TSX, BofA Merrill Lynch As of June 30, 2010
Refer to Appendix for additional portfolio structure and risk information

Generating Alpha Outside of Canada: Desynchronized Recovery

- Desynchronized global recovery; different markets will move at different times and pace
- Tactical opportunities to harvest alpha outside of Canada
- Using only pure Canadian duration management can be risky



June 30, 2010
SOURCE: PIMCO, Bank of Canada, Bank of England, Federal Reserve, European Central Bank
Refer to Appendix for additional risk information.

Generating Alpha Outside of Canada: Potential Diversification Benefits

- Core active managers can tactically adjust portfolio duration in an effort to add value when interest rates change
- Using one strategy limits the potential for alpha and concentrates the risk
- Low correlation to sectors outside of the index may enhance returns and lower risk

Correlation of Returns to Canadian 10-Yield Inverse Change February 28, 1998 – June 30, 2010

DEX Universe	0.95
Canadian IGC	0.75
U.S. IGC	0.55
U.S. Mortgages	0.69
High Yield	-0.02
EM	0.28

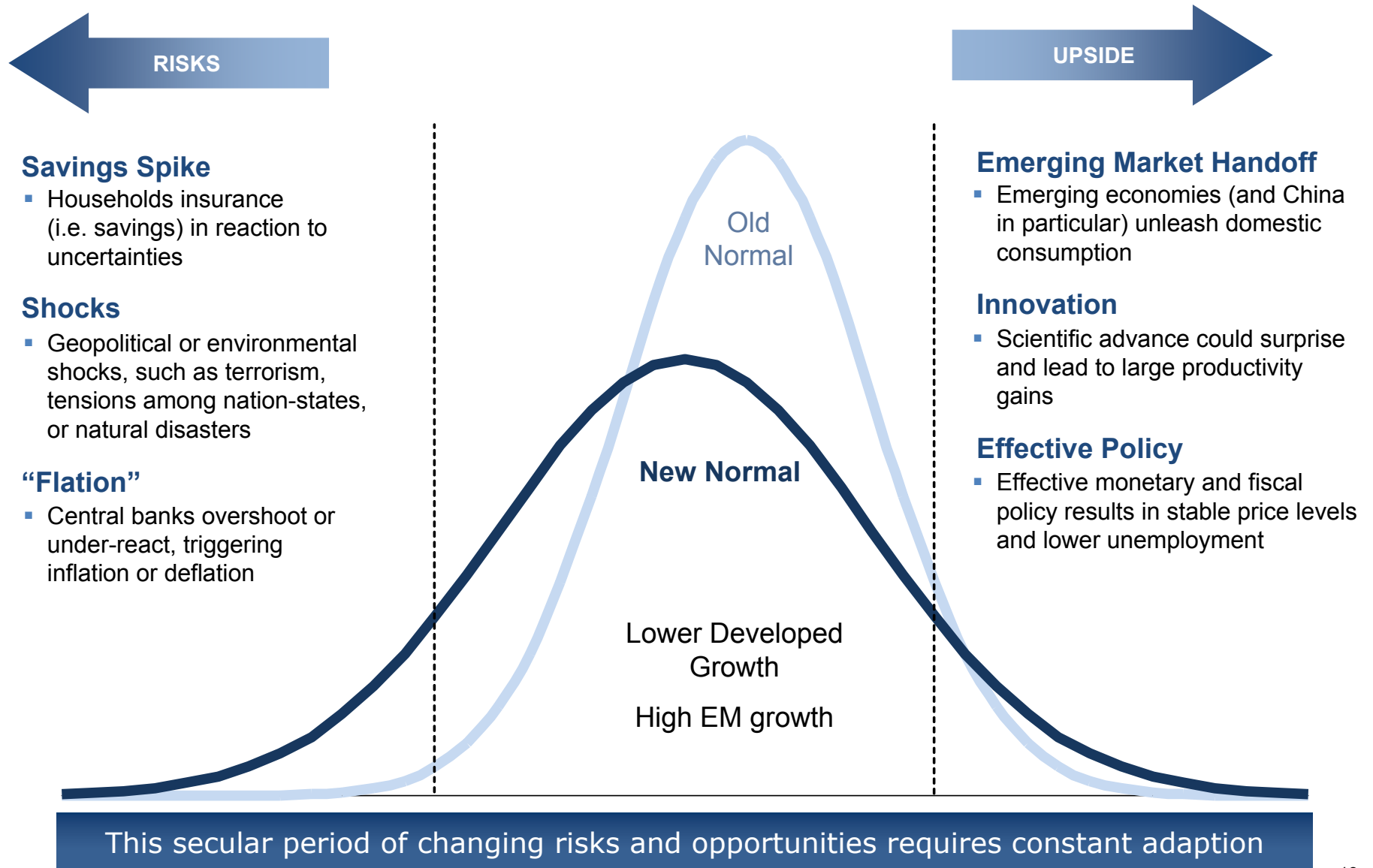
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SOURCE: PIMCO, TSX, JP Morgan Markets

As of June 30, 2010

Refer to Appendix for additional correlation and index information.

New Normal: Wider Range of Outcomes as Risks Become More Distributed



Refer to Appendix for additional outlook information.

Post-Crisis Portfolio Solutions

1

The New Normal

- The world is on a multi-year journey to an unstable destination, through unfamiliar territory, on an uneven road, having already used its spare tire(s)

- Secular implications:
Potentially lower and more volatile returns

2

The New Normal in Canada

- Canada should be a winner in the New Normal
- Distribution of potential outcome flatter with fatter tails

Potentially:

- More volatility
- Strong Canadian dollar
- Low real interest rates

3

Implications for Canadian Investors

- Make your fixed income allocation work harder
- Exploit opportunities of a desynchronized recovery

Appendix

Past performance is not a guarantee or a reliable indicator of future performance.

Correlation

The correlation of various indices or securities against one another or against inflation is based upon data over a certain time period. These correlations may vary substantially in the future or over different time periods that can result in greater volatility.

Hypothetical Example

No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown. Hypothetical or simulated performance results have several inherent limitations. Unlike an actual performance record, simulated results do not represent actual performance and are generally prepared with the benefit of hindsight. There are frequently sharp differences between simulated performance results and the actual results subsequently achieved by any particular account, product, or strategy. In addition, since trades have not actually been executed, simulated results cannot account for the impact of certain market risks such as lack of liquidity. There are numerous other factors related to the markets in general or the implementation of any specific investment strategy, which cannot be fully accounted for in the preparation of simulated results and all of which can adversely affect actual results.

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.

Outlook

Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

Portfolio Structure

Portfolio structure is subject to change without notice and may not be representative of current or future allocations.

Return Assumptions

Return assumptions are for illustrative purposes only and are not a prediction or a projection of return. Return assumption is an estimate of what investments may earn on average over the long term. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods.

Risk

Investing in the bond market is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk. 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. Sovereign securities are generally backed by the issuing 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. Mortgage and asset-backed securities may be sensitive to changes in interest rates, subject to early repayment risk, and while generally backed by a government, government-agency or private guarantor there is no assurance that the guarantor will meet its 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. Swaps are a type of privately negotiated derivative; there is no central exchange or market for swap transactions and therefore they are less liquid than exchange-traded instruments. 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.

Appendix

The products and services provided by PIMCO Canada Corp. are only available in provinces or territories of Canada to investors who are accredited investors within the meaning of the relevant provincial or territorial legislation or rules and in certain provinces, only through dealers authorized for that purpose.

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Index Description

The Bank of Canada Commodity Price Index is a chain Fisher price index of the spot or transaction U.S. dollar prices of 24 commodities produced in Canada and sold in world markets, with weights updated on an annual basis.

The Barclays Capital U.S. Fixed Rate Mortgage-Backed Securities Index is composed of all fixed-rate securitized mortgage pools by GNMA, FNMA, and the FHLMC, including GNMA Graduated Payment Mortgages.

The BofA Merrill Lynch Global High Yield BB-B Rated 2% Constrained Index tracks the performance of below investment grade bonds of below investment grade bonds of corporate issuers domiciled in countries having an investment grade foreign currency long term debt rating (based on a composite of Moody's, S&P, and Fitch). The index includes bonds denominated in U.S. dollars, Canadian dollars, sterling, euro (or euro legacy currency), but excludes all multicurrency denominated bonds. Bonds must be rated below investment grade but at least B3 based on a composite of Moody's, S&P, and Fitch. Qualifying bonds are capitalization-weighted provided the total allocation to an individual issuer (defined by Bloomberg tickers) does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face value of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. The index is re-balanced on the last calendar day of the month. The inception date of the index is December 31, 1997.

The Barclays Capital U.S. Corporate Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility and financial issuers. It includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973.

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.

The S&P/TSX Composite Index is a list of the largest companies on the Toronto Stock Exchange as measured by market capitalization. The Toronto Stock Exchange listed companies in this index comprises about 71% of market capitalization for all Canadian-based companies listed on the TSX.

It is not possible to invest directly in an unmanaged index.