FINAL

Bloomberg Transcript

Executive Update Call

Company Participants

- Dieter Wemmer
- Douglas M. Hodge
- Michael Diekmann
- Oliver Schmidt

Other Participants

- Andrew J. Ritchie
- Andy D. Broadfield
- Farooq Hanif
- Michael Haid
- Michael I. Huttner
- Nick Holmes
- Peter D. Eliot
- Thomas Seidl
- Vinit Malhotra
- William S. Hawkins

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Allianz Call on PIMCO's Management Changes. For your information, this conference is being recorded. At this time, I would like to turn the conference over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt {BIO 15891487 <GO>}

Thank you, Elaine. Well, I have an easy job today because Michael will kick off the call. And so therefore without any further ado, I hand over directly to him.

Michael Diekmann {BIO 1733646 <GO>}

Great. Oliver, thank you very much. Good afternoon to all participants from Europe, and good morning to those ones who are dialing in from the U.S. Thank you very much for joining the conference call. And we would use this call to inform you about the management changes at PIMCO and give you the opportunity obviously to address your questions.

Before we start, let me introduce my colleagues who are joining us today. I'm here in Munich with Dieter Wemmer and Doug Hodge, the CEO of PIMCO has dialed in from Newport Beach where it's 6 AM in the morning right now.

We will structure the call as follows: I will give you a short introduction and my perspective on the changes at PIMCO last Friday. I will then hand over to Doug who will give you more details about the situation at PIMCO. And finally, Dieter will comment on potential implications for Allianz as far as he can at this point in time. And then we will address your questions.

Now, let me start with one statement here to give us a little bit focus for this call. As we were not given any indication that Bill Gross departure last week was related to the ongoing SEC investigation, for the sake of time, we will today only focus on the management changes at PIMCO.

Now, let me speak about the PIMCO CIO transition. While we were not expecting Bill's resignation, we were still very well prepared. We started this preparation already after Mohamed El-Erian's departure by addressing the corporate structure at PIMCO. The new management and investment structure was put in place in January, and last Friday PIMCO's thorough succession planning allowed for immediate reaction. Within a couple of hours, Dan Ivascyn was appointed new Group CIO, and I think this transition process was managed very professionally.

I have every confidence in the executive leadership of PIMCO, with Doug Hodge as CEO and Jay Jacobs as President. The same holds true for Dan Ivascyn as Group CIO and the entire CIO leadership team. We are very confident that this team will carry the success and strengths of PIMCO into the future.

Now, I'm coming to what we can say about flows and profit. There's only been one Market Day since the resignation of Bill Gross at PIMCO, so it's too early to provide an estimate on potential outflows and subsequent impact on profits. We might expect some redemptions, but it's really too early to quantify that. But I know that PIMCO will work very hard to retain clients that they have an incredibly capable fixed income team, and I believe that clients will be well served in staying invested in PIMCO. We will provide you with October flow numbers when we publish our Q3 results on November 7.

I would also like to point out that many of you have addressed the question of key man risk and PIMCO succession many times with us over the last 12 months. And the question of potential redemptions in such an event was also frequently mentioned.

But now before we go into more of this, let Doug Hodge, the CEO of PIMCO explain the situation from PIMCO's point of view. Doug, please.

Douglas M. Hodge {BIO 3302044 <GO>}

Michael, thank you, and good afternoon and good morning to all of you who are on the call with us. So I'm going to cover three areas in my opening remarks. First, PIMCO's succession planning and process. Secondly, PIMCO's investment leadership team. And then thirdly, the client outreach and the client reactions which we have gathered so far.

So let me first turn to succession planning. But before I even begin, I think it's important to first acknowledge that Bill Gross is a uniquely talented investor with an incredible track-record of success. And over the course of 43 years, he contributed to the growth of an extraordinary firm with world-class investors focused on value-added investment management services for our clients.

However, it became clear over the course of this year that PIMCO's leadership and Bill had fundamental differences about how to take PIMCO forward. And as a part of PIMCO's responsibilities to our clients, our employees and our parent company, PIMCO has developed an updated, a fully specified succession plan to ensure that we were well-prepared to manage a seamless leadership transition in this portfolio management team should Bill decide to leave. And on Friday, Bill announced his resignation that he was leaving PIMCO immediately, and our succession plan was subsequently executed and announced.

So let me turn to our investment leadership team. As we announced on Friday afternoon, PIMCO's management board which is comprised of all the managing directors of PIMCO, by unanimous consent confirmed Dan Ivascyn as the firm's Group CIO joining five additional CIOs, each of whom are proven investors with their long and successful track record.

So Dan Ivascyn became our Group CIO, Andrew Balls, who is in London, became the CIO of Global Fixed Income; Mark Kiesel, resident here in Newport Beach, CIO of Global Credit; Scott Mather, also here in California, CIO of Total Return Strategies; Mihir Worah, CIO of Real Return and Asset Allocation and then finally Virginie Maisonneuve, who is also in London, CIO of Global Equities.

This is an extremely talented group and includes two portfolio managers who have been recognized as Fixed Income Manager of the Year by Morningstar over the last two years. Dan Ivascyn is the current Fixed Income Manager of the Year, and in 2012 Mark Kiesel was awarded that accolade.

Year-to-date, this group, who managed – who currently – who was managing over a three quarters of PIMCO's assets at the time of Bill's departure, 92% of the assets that this group has managed had CIOs and with the group CIO have outperformed their benchmark before fees by 95% of our assets over three years and 98% over five years. So this new structure represents the natural evolution of our firm's portfolio management structure and these are truly accomplished investors with superior track records.

But PIMCO's resources go beyond our CIOs. PIMCO has built a deep bench of talent with extensive investment and leadership experience including over 240 portfolio managers located across our seven trade platforms around the world. Speaking to our investment process, the investment committee has been and will continue to be a key decision-making body when it comes to our top-down investment strategies, and our sector and regional specialists around the world will continue to be the primary source of our bottom-up investment ideas for each and every PIMCO portfolio just as it has been for decades.

Bill Gross' responsibilities included, he was named portfolio manager of 37 public PIMCO funds which totals about $350 billion in market value. All of his portfolios, all of his funds have been reassigned to a team of highly experienced investors. This team approach is reflected of how PIMCO operates, and let me be clear that PIMCO's investment process is institutionalized and has not changed.

The U.S. Total Return Fund, the largest fixed income bond fund in the United States will be jointly managed by Scott Mather, Mark Kiesel and Mihir Worah. They are among the best fixed income managers in the world with 46 years of collective investment experience at PIMCO.

Let me turn now to what were our client communication and outreach and some of the client reactions which we have received so far. First, we have global client teams activated all over the world across our 13 global offices and have been actively reaching out to update our clients regarding a new structure. We've been working since Friday and all weekend and now into Monday in Asia and Europe.

We manage nearly $2 trillion in assets. We have nearly 3,000 institutional investors, and we serve tens of millions of individual investors around the world. The vast majority of our clients are standing with PIMCO. Some of our largest investors, such as CalPERS has already stated publicly that they are remaining with PIMCO, although they do intend to evaluate us carefully. We've also spoken with some of the largest sovereign wealth funds around the world, and I've made those calls personally, who have reaffirmed their commitment to PIMCO.

In addition, one of the largest global institutional consultants has also issued a highly supportive report on PIMCO's new portfolio management leadership. Yet for some of our clients and consultants, these organizational changes will trigger a review of our team and our processes. We welcome that review. We are actively working together with our clients as they are researching our new leadership team.

In other cases, consultants and clients who previously viewed the uncertainty regarding Bill Gross' succession as a negative, preventing a recommendation for PIMCO. Now, with this new leadership structure in place, this uncertainty has been lifted. Otherwise, it's really too early to provide an estimate - as Michael suggested, it's really too early to provide an estimate on potential flows and the subsequent impact on our profits.

So I'll stop there and end my remarks at this point.

Michael Diekmann {BIO 1733646 <GO>}

Thank you, Doug. And now, we turn it over to Dieter, please.

Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Thank you very much and also a warm welcome to the call from my side. I have only two key messages at this point in time. I think number one is as we did not say anything in our ad hoc communication which means there is actually nothing to say. So our Group outlook is unchanged and that means, as we said at the half year results, the upper end of the range of €10.5 billion is in the reach. And also, we will not change our timeline for the dividend communication. We will come back with the dividend policy before year end and that is completely unchanged.

Michael Diekmann {BIO 1733646 <GO>}

Great. Dieter, thank you very much. I think that leaves good time now for questions. And please feel free to ask.

Q&A

Operator

Thank you. Ladies and gentlemen, the question-and-answer session will be conducted electronically. We will take our first question from Farooq Hanif from Citi. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hello, everybody, and thanks so much for setting up this call and taking my question. I just have two questions. Could you talk a little bit more about the conversations you may have had with the clients and institutional investors leading up to this day, because you've obviously made a lot of changes and therefore it's not a new subject with them to broach about succession. So can you talk a little bit about much actually this would be a surprise?

And the second thing is, could you talk a little bit about how defensive your cost-to-income ratio could be if you do see – I'm making numbers up here, but if you saw €350 billion leaving over time from your sum (13:54). How variable is your prospect to deal with that from a profitability point of view? Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

Great. Thanks for the question. I would rightly pass it on to Doug.

A - Douglas M. Hodge {BIO 3302044 <GO>}

Well, let me answer the – I'll address each of those questions in turn. With respect to the conversation with clients prior to those resignation on Friday; really, this just goes back to earlier this year when Mohamed El-Erian resigned from PIMCO as our CEO and Co-CIO. There were a number of questions about succession planning. We've always had a succession plan at PIMCO. This date back and took on further definition in 2013 actually. So over a year ago, at a managing director off-site conducted here in California, where all of our managing directors, they give greater focus to this.

Now, when we had Co-CIOs that was always the presumption, both by us and I think the market as well, that if one of our CIOs couldn't perform in their duties for whatever reasons, the other CIO would easily step in. So upon Mohamed's departure, the executive committee of PIMCO along with the senior leadership engaged in a process to fully specific a succession plan for our CIO. That plan included the, as Michael alluded to earlier, changing our structure at the top of our portfolio management group, the advent of the deputy CIOs that was put in place last January and other measures that were fully specified in terms of how a protocol in terms of selecting a new CIO which was activated and then was culminated by the vote of our managing directors.

We were asked those questions by clients prior to Bill's decision to leave on Friday. We responded to them. In many respects, what has happened and the steps we have taken now provides clarity. So of course, we got some explaining to do as we introduced these new people. But I think they've also been given an opportunity and our clients have responded even prior to Friday and to this week as they've begin to further understand who these individuals are. And remember, please, they managed already before Bill left over three quarters of PIMCO's assets, and each of them in their own right have very top-rank, very superior track records. So this process is ongoing.

Looking forward, our plan is to have a spoken conversation with every institutional client around the world in the next 48 hours to 72 hours. Similarly, we're going to be reaching out to all of our distribution partners around the world, and communicating with individual investors through various means of electronic and digital communication with them.

Turning to the impact on our cost-income ratio. Our cost base is high flexible. We estimate that over 50% of our cost base is directly variable with revenues. So to your question, should all revenues fall, and we – frankly, we anticipate a high (17:21) redemption sharing in the early stages. That's to be expected with any transition of a senior person. We're ready for that.

Importantly, from an expense point of view, we've outsourced a large portion of our operations. And this expense is tied directly to our asset base. So there is a considerable flexibility in how we can manage our expenses in the event that outflows occur.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thanks very much. Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

Thank you. Next question, please.

Operator

We will take our next question from Michael Huttner from JPMorgan. Please go ahead.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Perfect. Thank you very much. And so my first question is, (18:07) non-compete agreements, and it seems certainly, on this side of the fence, they're quite common. It just seems so odd? And then the other question is, like Farooq asked on economics, does the structure or the size of the bonus pool changed with Bill Gross' departure. In other words, if the bonus pool was 30% of revenues, and he himself was entitled to say, 10%, does it drop to 20% or 25%? Those are my two questions. Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

Great. Michael thanks. Doug, you want to answer the questions?

A - Douglas M. Hodge {BIO 3302044 <GO>}

Certainly. With respect to, and I know in Europe, the commonly used term is a garden-leave. Why was there not a garden-leave. It's our practice – it's PIMCO's practice to adopt the appropriate policies consistent with local labor law and practices. And where possible, we do have required an enforceable notice period in non-competition agreements. However, here, in the State of California, it is generally not possible to prevent an employee from resigning immediately and then promptly joining a competitor.

And the second question was with respect to the bonus pool, and we don't comment on matters of compensation. Rather I would focus our attention on we will use; we are going to institute further retention packages to ensure that we retain our key people. And so we're actively looking at those, our compensation committee. We have, I think, a very competitive compensation program, but we're also looking at instituting further measures to retain and attract top-flight talent.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Okay. So from that, I take that there are no downward flex here?

A - Dieter Wemmer {BIO 4755450 <GO>}

Michael, it's Dieter here. That's correct. That is neutral.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Okay. Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

Okay. Next question, please.

Operator

From Berenberg, we will now take our next question from Peter Eliot.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you. Just one more question from me, please. Clearly, this news has introduced some uncertainty into the division which has the highest remittance ratio in the Group. And I know it's a very hypothetical question and we're still three months away, but I was just wondering if you want to comment at all as to what impact that sort of uncertainty might or might not have on any eventual decision on sort of the dividend policy in near-term or longer term? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Peter, it's Dieter here. I think when you think through a dividend policy and then communicate it, it should always be a multi-year solution. And the same as I assumed you have baked in your EPS forecast, key main risk and key main changes we would always do the same in the dividend policy. Therefore, I think from our perspective, it will not change what we have planned.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

Thank you. Next one, please.

Operator

We will take our next one from Andy Broadfield from Barclays. Please go ahead.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Hi there. Two questions, please. The first is just on the cost flexibility you spoke of before; I think you mentioned that 50% of the cost base was effectively variable. And how much of that 50% then is effectively variable comp, because that conflicts slightly with the comment you just made about strengthening, if you like, the incentives for those key people to remain?

Second question, and I hope this is not too competitively sensitive, but given the concerns around outflows and the speed of redemptions, just wondering what you can or have been able to do so far, or indeed if there is liquidity risk around some of the assets that will potentially create, I guess, a spiral of (22:29) underperformance and further redemptions? Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

Andy thanks. Good opportunity for Doug to specify a little bit about the cost flexibility; maybe that needs a little clarification. And then on the liquidity which, I think, is a good question.

A - Douglas M. Hodge {BIO 3302044 <GO>}

So with regard to the cost flexibility in the variable compensation, about 35% – 30% to 35% of that 50% that I referred to earlier is with respect to the variable compensation provisions in our compensation plan.

With regard to cash management and liquidity, we've entered this transition in a very strong liquidity position, not just the Total Return Fund, but all of PIMCO's portfolios and separate accounts. It has to do with several factors. The first is our positioning. And the second is our secular view, which is I think has been widely publicized the new neutral. And as a result, we have run our portfolios through the entirety of this year with a very high quotient of liquidity.

We monitor flows. We have forecasting mechanisms to anticipate future flows, and I think it's important to remember that across the wide spectrum of PIMCO portfolios, we do operate and invest in the largest most liquid sectors of the fixed income markets. If you look at the Total Return Fund, for example, it's roughly one-third invested in mortgage backed securities, one-third in treasuries and one-third in corporates. So two-thirds of the portfolio is in highly liquid tradable mortgages and treasuries.

PIMCO has never restricted fund flows from any mutual fund. Even during periods of 2008-2009 during the financial crisis, and of course market liquidity conditions were rather seen after this, the taper remarks by Chairman Bernanke last year, we provide liquidity to all of our clients and continue to work to improve our liquidity processes since then. The Total Return Fund specifically has met daily liquidity over the last 16 months where we've seen approximately $70 billion of withdrawal, which gives us confidence that our tried and tested liquidity processes are sufficiently robust to meet any additional client request.

A - Michael Diekmann {BIO 1733646 <GO>}

Thank you, Doug. Next question, please.

Operator

We will now move to Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Hi there. Three quick questions, for Doug, I think. Doug, in the press release on Friday from PIMCO, you talked about you had disagreements – more disagreements with Bill in recent months about where PIMCO was going forward I think is the word that you used. Now he is departed, what changes going forward? Maybe just I'm a bit confused as to what was it that his presence was preventing the firm doing? Is it more diversification of strategies or maybe just clarify, follow up on that press release on Friday.

And second question is just factual questions. In terms of the institutional versus retail split, we know what it is for PIMCO as a whole. For Bill Gross' assets; is it similar, sort of, 60/40 roughly institutional and retail? And finally, in relation to the previous answer, I think you suggested that two-thirds of the Total Return Fund was in highly liquid strategies. I mean, is that true of the whole of the €350 billion? So in other words, including the two or three large other funds that Bill Gross managed, are they all sort of roughly two-thirds liquid, one-third of liquid strategies? Thanks.

A - Michael Diekmann {BIO 1733646 <GO>}

Doug, please?

A - Douglas M. Hodge {BIO 3302044 <GO>}

Sure. So let me take each of those three questions in turn. First, you're right about the press release that referred to fundamental differences. I will share very clearly that those differences do not pertain to client portfolio investment strategy; rather they were, with regard to several non-investment strategy issues, the strategic direction of PIMCO, the resourcing and its management style, and our media strategy. So those were the ones that broadly were at issue with Bill, and as a result his decision to resign.

With regard to the composition of the portfolios that Bill manages, the institutional versus retail and recognize that this nomenclature of individual and institutional investors becomes increasingly blurred as all of our funds – we are on more investment platforms and provide more access to the fixed income markets than certainly any other active manager in the world. So there's many channels by which investors, both institutional and individual gain access to our products and our funds.

But our estimates are that approximately 70% of our assets that were managed by Bill are currently held by individuals through brokerage accounts, through retirement platforms and other channels, and roughly 30% are institutional investors who come through into our funds. And that what I'm describing to is primarily the Total Return Fund. If you look at some of the other funds, the individual investor percentage is probably a bit higher than that.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay.

A - Douglas M. Hodge {BIO 3302044 <GO>}

With regard to your third question which was about liquidity, if we look across the portfolios, not just the Total Return Fund, but across all portfolios, we have over $350 billion of liquidity. So our liquidity position is very solid, and as you can imagine, we're closely monitoring the flows. We're closely monitoring all of our funds. We do this as a routine. This is not an emergency plan in any respect. We have the processes in which we do this daily. In any case, we do liquidity projections, we raise liquidity in advance of flows, that is our process here, and we will continue to do so.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

So what you're saying is €350 billion of liquidity which you regard as fungible (29:33) across all strategies, is that fair?

A - Douglas M. Hodge {BIO 3302044 <GO>}

I would just simply say that we have ample liquidity to respond to any client redemptions or withdrawals.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay. And just trying to clarify the answers to the first question, basically, what you're saying is the changes that were made in January embodied the direction – the executive team, led by you, were taking PIMCO, and it was those kind of changes where there was friction. Is that fair?

A - Douglas M. Hodge {BIO 3302044 <GO>}

Yeah, I'm not going to comment on the specifics on that. I would just simply say that we've been very plain about the future of PIMCO. We have evolved this firm over the last 10 years and certainly over the last five years. We now invest in the full spectrum of fixed income risk both in the securitized markets and the unsecuritized markets where we have built a very large alternatives business. We're building an active equity franchise. And that's the future direction of the firm.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay. Thanks very much.

Operator

We will now move to William Hawkins from KBW. Please go ahead.

Q - William S. Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. My first question I hope this isn't repeating Andrew's, but I wasn't quite clear. You mentioned the amount of money that Bill Gross was managing in the public funds. I'm not quite clear about what his role was in what you guys call the non-traditional funds, and so the two-thirds of the funds that are non-traditional. And how much of that was he responsible for running directly, and how important was he in the mandate acquisition process for that part of the business; presumably, quite important.

And then secondly, I presume it's very early days, but do you guys see an opportunity to enhance further the synergies between PIMCO and Allianz? Historically, Allianz has taken a very clear hands-off approach to PIMCO, and it appears that Bill Gross has been a key reason for that. That's often led to the criticism of the conglomerate discounts for Allianz in its relationship with PIMCO. Do you think there may be opportunities for a more cooperative and deeper relationship between the two businesses now?

And then thirdly, you made it clear about why there are no non-compete issues in the contract, but I'm still wondering if you guys are sort of preparing any active defense against what could be quite targeted attacks on your funds by Bill Gross and his new house, because whilst, as you say though, you can't have a non-compete agreement, presumably, there are still fiduciary responsibilities that he owes to PIMCO and Allianz? Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

Okay. Doug?

A - Douglas M. Hodge {BIO 3302044 <GO>}

So if you – let's take you through those questions, in turn, if I may. If we look at the scope of Bill Gross' direct portfolio management responsibilities and the assets that he managed, they were localized within our core bond complex, in fact, to be even more specific, our core U.S. bond complex, most notably the Total Return Fund, but also some of the other funds that he managed as well.

And we have, as I explained and as has been shared with you through our press release, we have moved to a team approach taking truly our best investors – some of our best investors, Scott Mather, Mark Kiesel and Mihir Worah, to assume those responsibilities immediately. We also have a team of generalist portfolio managers, a large team of generalist portfolio managers, who have already been managing a good bit of those assets already.

If you look at the – and back to my earlier comment, over three quarters of PIMCO's assets before Bill's departure were the lead portfolio manager was a different individual, a different portfolio manager, a different team. So with regard to mandate acquisition, Bill was our CIO, and of course, had a large presence. But the reason people choose us and the reason people ultimately will stay with us is our investment performance, our process and our performance. And if you look at the assets and the strategies, and the portfolios that we manage and that have been managed by the other CIOs and the other teams around the world, we're really top of the rank track records.

So I think as I look forward, to your question, I think we're in a very solid position with respect to new business and retaining our current business. Already, some of our largest clients around the world, particularly those in Asia and Australia who I was speaking to through most of the evening here in California have already committed their support to us. So I'm confident that the vast majority of our clients will stand with us.

With regard to Allianz; Allianz is our partner. They have stood – we have been part of the Allianz Group for 15 years. We have been in close communication with Allianz. They are our partner. We always look for new ways to work with them, whether it's here in the United States in some of their annuity products or other parts of the – across the world with respect to Allianz's insurance businesses, in Germany, across Europe and elsewhere, we're always looking for opportunities. Allianz, not only is our partner, they are our largest client. And we work very hard to serve their interest with dedicated portfolio management and service teams around the world.

A - Michael Diekmann {BIO 1733646 <GO>}

And maybe the answer for the non-compete, Doug?

A - Douglas M. Hodge {BIO 3302044 <GO>}

Thank you. Thank you, Michael. As I referred to earlier, our employment policies are consistent with the rules and regulations in each of the local jurisdictions where we operate, where we have offices. We also have a very – I think a very competitive compensation program. Our people are typically paid at the very top end of industry standards. We measure that each year as we go through our annual compensation process. But we're also now looking at additional retention opportunities with respect to financial incentives that we may use to continue to retain our top talent here.

But I think there's another important element to this, which is as a result of moving to away from a founder-led structure to a team-led structure that this is going to provide for more inclusion, more participation, more engagement, by a broader set of portfolio managers and a broader set of PIMCO professionals than it ever has before. And that itself is the largest incentive to stay at PIMCO.

A - Michael Diekmann {BIO 1733646 <GO>}

Thank you, Doug. William, I would like to give a little bit more flavor to your question of synergies. I think the market does not really recognize yet how large these synergies are, because remember, PIMCO is managing the largest part of our insurance assets and with a very, very good track record. I think that is the biggest and most important synergy between PIMCO and ourselves. Then we have increasing product cooperation when it comes to how do we manage to get away from accumulation only, and to the decumulation cycle there, obviously PIMCO plays a key role.

And I would add, all the activities that probably have no financial benefits, but they're on the risk management side, risk assessment side on the economic outlook and on the advisory activities that we are undergoing together. So I think this is a much closer cooperation than the market recognizes so far. Now, as Doug has a very, very busy day ahead of him and he needs to go into his next call. Very soon, I would ask, maybe we can have one more question with him and then obviously Dieter and myself will stay to answer more questions. So please one more question for Doug.

Operator

We will take our next question from Nick Holmes from Société Générale. Please go ahead.

Q - Nick Holmes {BIO 21515144 <GO>}

Hi there. Thank you very much. Actually, my question is for you Michael, so perhaps you'd like to take somebody else instead of me and come back to me?

A - Michael Diekmann {BIO 1733646 <GO>}

Great. Nick, thank you very much. We'll return back to you in a second. Please one more question for Doug.

Operator

We will take our next question from Thomas Seidl from Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you, indeed I have two questions for Doug. I think one, in terms of the Total Return Fund, which obviously is the biggest here. You told us 70% is retail, 30% is institutional. Now, how does this look in terms of stickiness? Is it fair to say that retail is less sticky than the institutional, and within retail, how would you say, how much of the business is easy to defend and how much is more likely to go away? Secondly, the Morningstar ratings are all under issue, as far as I understand. In your experience, how much does it influence the outflow situation? And thirdly, was there a consideration, or why wasn't you consider right now bringing Mohamed El-Erian back into play with the change at management at PIMCO?

A - Douglas M. Hodge {BIO 3302044 <GO>}

So let's talk about the Total Return Fund. Back in my earlier reference, the 70% retail, 30% institutional, first, a large part of the retail – of that retail segment is defined contribution money, approximately 40%. About 40% of the 70% is defined contribution.

Secondly, for a large segment of that 70% those investors are receiving some form of professional advice with respect to their overall wealth management and with regards to PIMCO I'm sure. And those investors, I imagine, will be having conversations with their advisers over the course of this day and through this week. And we are in active engagement with all of our distribution partners around the world helping them understand the changes, informing them, answering all of their questions. In fact, when I leave here, that's where I'm headed to a large call with one of our large distribution partners.

With regard to Morningstar, indeed they are an influential – they have an influential role in the mutual fund marketplace, particularly here in the United States. We have already been in contact with Morningstar. We met with their team yesterday to describe our changes. They met with our key portfolio managers, Dan Ivascyn and others, and I imagine that they will be making their own assessments, and we will work closely with them just as we have for the last several decades.

With regard to Mohamed El-Erian, we have nothing but the highest regard for Mohamed. He made an important imprint on this firm during his time here and we highly respect him.

A - Michael Diekmann {BIO 1733646 <GO>}

Great Doug. Thank you very much. You have a good day, and thanks for being available for this call so early. And now we turn it back to Nick. Thanks for being so fair to leave the question time for somebody else.

Q - Nick Holmes {BIO 21515144 <GO>}

Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

Thank you.

Q - Nick Holmes {BIO 21515144 <GO>}

Can you hear me?

A - Michael Diekmann {BIO 1733646 <GO>}

Yes.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes, we are.

Q - Nick Holmes {BIO 21515144 <GO>}

Yes. I just wanted to come back, Michael, to the synergies you were discussing, and I wanted to ask really two things. The first is, are these really enough to justify your keeping PIMCO in the longer term? And secondly, what does Bill Gross' departure actually do to your view of those synergies? Does it make you more or less determined to keep PIMCO? Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

Look, for me, I'm not questioning the PIMCO, with Bill Gross or without Bill Gross. I think it's really – and I mean this genuinely. It has been such a great contributor to Allianz's success, and not only as a sort of asset management unit, but because it constantly enhances the value of our client money in the life insurance business. And so I think it's a real differentiator vis-à-vis our competitors. So now obviously there's always large interest in creating more synergies. Now sometimes when you want to create large synergies, you know you're creating large dissynergies, because this is a highly focused business where I think they are doing very well in focusing on managing client money as well as possible, and I'm looking and Jay Ralph is looking very closely at any demand from our organization to involve them in projects and so on where we clearly want to understand what is the benefit and what is the resource (43:46) like on their side and our side. So it's a real good corporation that I think works for them as well as for us.

Q - Nick Holmes {BIO 21515144 <GO>}

Thank you for that. Can I just press you with one follow up question, which is, do you think the synergies that you discussed could be developed further. I mean for example, there doesn't seem to be very much focus on capital light products, capital light savings products – insurance savings products that is – that Allianz running (44:22). You mentioned these synergies, but to be honest, they don't seem to be very much in evidence. I just wondered whether you think that you will be able to do significantly more in that sort of area.

A - Michael Diekmann {BIO 1733646 <GO>}

This one is an area that I explicitly addressed. I think they are very variable and the product development process when it comes to how do we make the shift from accumulation to decumulation. Obviously, for hybrid products, capital light products, I didn't want to exclude that one.

A - Dieter Wemmer {BIO 4755450 <GO>}

Nick it's Dieter here. I think that the capital light products, just to see it as a unit-linked and term product that is in the current environment not good enough. And I think we have actually moved it to the next level, this, our hybrid products and the focus on fixed index annuities in the U.S. And that is only possible when you are able to run complex fixed income strategies, because you must be able to invest relative to a liability benchmark and managing credit spreads in a risk-friendly way, and that is actually key for a life business going forward. And therefore, I think we are already on the next phase of life businesses.

Q - Nick Holmes {BIO 21515144 <GO>}

Okay. So sorry, just final question, we can conclude that you remain fully committed to PIMCO going forward?

A - Michael Diekmann {BIO 1733646 <GO>}

Definitely.

Q - Nick Holmes {BIO 21515144 <GO>}

Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

Thank you, Nick.

Operator

We will take our next question from Vinit Malhotra from Goldman Sachs. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. Hi. Thank you for this opportunity. I was just curious about one thing, which is, just going back to the control that Munich would now exercise in PIMCO. I am assuming from this conversation that there is not much change to that. And equally, it would be good to hear thoughts about this new structure and the new number of team structure; usually, is asset management better off in a more individualistic environment or a team environment? And this is just – I just want to know your thoughts on these two topics (46:44) control on how would teams work even (46:48) for PIMCO? Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

I'm not really sure Vinit whether I really understand what you're asking. Dieter, do you have...

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry, but I was trying to frame it - because Doug is not here anymore, so I was trying to frame it more - I was just trying to frame it in a sense that, with so many - with more teams and probably more bureaucracy in place, is the investment decision making process is still going to be as good as it was, in your view? And probably it is, but I just want to hear if those things come up in your thinking or conversation there (47:29)?

A - Michael Diekmann {BIO 1733646 <GO>}

I think the management structure now is much clear, frankly, because you have a group CIO that has not changed, but now you have - for every asset class, one CIO instead of having six deputy CIOs, which I think from evolution point of view is a real progress again.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. I think that did not go into the details of the team approach, it does not mean that in a team everybody is commenting and directing on every topic. I think they are all specialists in their areas and actually it is just been combined the wisdom of this team for the top-down strategies, the bottom-up contributions anyway comes from the individual portfolio managers.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. And the margin, the relationship between PIMCO and Allianz also is not changing much, I presume, that now there is not much more control that you're thinking of exercising on that subsequently (48:36), correct?

A - Michael Diekmann {BIO 1733646 <GO>}

Well, I think that is another misperception in the market that we are not exercising control. I think it's a real good example of exercising as much control as needed and not over managing or micro managing a very successful unit.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Indeed. All right. Thank you very much for that. Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

Thank you. So maybe we'll take one more question and then we'll leave everybody to make some money again.

Operator

We will take our next question from Michael Haid from MainFirst Bank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Just one question; you make the distinction between traditional fixed income products and non-traditional fixed income products. So just for clarification, is it right that the assets overlooked by Bill Gross were predominantly traditional plain vanilla fixed income products? And if so, it's fair to assume that the assets at risk at the moment are predominantly traditional fixed income products?

A - Michael Diekmann {BIO 1733646 <GO>}

Well, the first part is absolutely correct. He worked for on the core strategies of traditional and the nomenclature which are more U.S. businesses benchmark by Barclays Aggregate to say it simply in financial terms. I think going forward, if there was any way a movement from this strategy to the non-core non-traditional, and that was actually a big driver already for the positive net inflows in 2013 when you all remember that we had already there some core traditional outflows and the high net inflows in the non-traditional. And I think that is hopefully now going to be in this direction.

Right. May I suggest that we end here? Some of you may see Dieter tomorrow in London. Otherwise, Dieter and myself are available next week when we do our road show in the U.S. and happy to answer all the questions during these occasions. Thank you very much for your interest and stay with sympathy (51:08) on Allianz. Thanks.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen.