PIMCO

The year 2014 is proving to be among PIMCO's most eventful.

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Stewardship Grade Scorecard
PIMCO

Corporate Culture:	**C**
Fund Board Quality:	**D**
Manager Incentives:	**C**
Fees:	**C**
Regulatory History:	**Neutral**
Overall Stewardship Grade:	**C**

PIMCO Stewardship Grade -- C

Summary

PIMCO's new normal, without founder and former chief investment officer William H. Gross, hinges on deft leadership from a relatively new multi-chief investment officer structure. Daniel Ivascyn, who was promoted to group CIO in September 2014 upon Gross' departure for competitor Janus JNS, is also leading the investment committee that shapes portfolios for the firm's fixed-income and multiasset funds. The firm named six deputy CIOs in 2014's first quarter after then-CEO and co-CIO Mohamed El-Erian unexpectedly announced his departure. The CIOs oversee broad swaths of the firm's investment operations. These changes to PIMCO's leadership and investment processes are significant, but the firm remains a leading global fixed-income manager with broad, deep resources.

PIMCO undoubtedly will face further redemptions that may further unsettle its staff and, in turn, investment returns. (Flagship PIMCO Total Return PTTRX was in net outflows for the 16 months prior to Gross' departure.) Other threats include high expenses on many noninstitutional share classes and an SEC investigation into securities pricing in the exchange-traded fund version of the Total Return strategy. Plus, there are only three independent directors overseeing the funds--too few voices representing fundholders.

These risks are not insurmountable, but they warrant caution and a continued Parent rating of Neutral.

Corporate Culture -- C

PIMCO's corporate culture will undoubtedly change now that founder and chief investment officer William H. Gross has departed. While the firm's success had a lot to do with the intense culture Gross created and oversaw, many strains had emerged in the past few years, diminishing PIMCO's corporate culture. Now that Gross has left abruptly for Janus JNS, new leaders and the deep well-resourced team will have to step up and create a workable environment that isn't centered so much around a single leader.

Daniel Ivascyn, previously a deputy CIO and 2013 Morningstar Fixed-Income Fund Manager of the Year for his charge PIMCO Income PIMIX, has replaced Gross as group CIO overseeing a new multiple-CIO structure. He now works with the firm's five new CIOs to shape investment policy and oversee the managers of the firm's strategies. This team of six, which also includes Mark Kiesel, Mihir Worah, Andrew Balls, Scott Mather, and Virginie Maisonneuve, was formed in 2014's first quarter after CEO and co-CIO Mohamed El-Erian unexpectedly left the firm.

Two top leadership-level departures in less than six months will test this relatively new structure.

In the years leading up to El-Erian and Gross' departures, the firm had experienced a number of other changes in its senior investment leadership. Two under-the-radar departures occurred in 2008 and 2009, for example, when Pasi Hamalainen retired and Zhu Changhong was recruited by the Chinese government to run its then-$2.5 trillion in foreign-exchange reserves, respectively. Neither Hamalainen nor Zhu's name was attached to high-profile mutual funds, but each had been a member of PIMCO's investment committee (then an even-smaller, more exclusive group than it has since become) and had been widely considered to be a valuable contributor to the firm's investment strength in his own right. Veteran generalist manager Bill Powers left the firm in 2010, and, although his focus on institutional accounts meant he wasn't well known to mutual fund investors either, he, too, had been a very senior member of the Investment Committee. Another former member of that group, Paul McCulley, held tremendous responsibility as a watcher-in-chief of the world's central banks, leader of the firm's cyclical economic forums, and head of PIMCO's short-term bond desk before he retired at the end of 2010. (McCulley returned to PIMCO in the months following El-Erian's departure and remains an economic advisor.) There were other notable departures of successful managers over the same years, including those of high-yield desk leaders Ray Kennedy (2007) and Mark Hudoff (2009), Treasury Inflation-Protected Securities luminary John Brynjolfsson (2008), global-bond specialist Sudi Mariappa (2011), and government-mortgage maven Scott Simon (2013).

The last very senior-level member of the Investment Committee other than El-Erian and Gross, long-tenured PIMCO veteran Chris Dialynas, made a November 2013 announcement that he would be taking a sabbatical beginning in early 2014. He is expected to return during the fourth quarter of 2014.

Morningstar had weighed the potential impact of each departure over the past six-plus years. And while some were more worrisome than others, PIMCO has always had a deep-enough bench to withstand the changes; that confidence in its staffing has historically proved to be well placed.

El-Erian's departure was clearly a game changer for several reasons, though. Most obviously, he was Gross' hand-picked and named successor, suggesting that he would likely take over as sole chief investment officer whenever Gross was to step down. Furthermore, his departure, coupled with the uncertainty surrounding Dialynas' return, meant that no single remaining member of the Investment Committee had the kind of senior-statesman profile of those who had departed in recent years. Meanwhile, El-Erian protege Marc Seidner, who had taken on increasingly greater responsibilities during his tenure at the firm, announced his own departure from PIMCO immediately after El-Erian's was made public.

Gross' subsequent departure, however, suggests his leadership did not go unchecked following El-Erian's exit. To be sure, the firm's investment professionals are some of the industry's brightest and best. The firm boasts more than 200 people in portfolio management roles around the globe, and among them at least 70 considered key contributors with a median average of roughly 17 years of experience. In addition, PIMCO's demonstrated history of picking leaders to fill in for those who have moved on suggests the firm has proved to have an uncanny ability to thrive in the wake of key personnel losses. In addition to moving to the co-CIO structure in 2014, PIMCO effectively filled in for Paul McCulley in 2010 with expanded roles for central-banking maven Tony Crescenzi and Saumil Parikh.

That new blood brings much more than fancy new titles to the table, and each member of the Investment Committee brings a resume of impressive accomplishments. Like Parikh's, Crescenzi's name became more well-known following McCulley's retirement, and he already had more than 30 years of experience and five books under his belt. Worah essentially built the firm's successful real assets strategies and team, with impressive results from PIMCO Real Return PRRIX and other inflation-protected offerings. Balls' reputation has revolved a great deal around his knowledge of and experience with global economics, while Mather has shone with excellent performance records at several, mostly global-bond-focused portfolios. Meanwhile, Mark Kiesel and Dan Ivascyn have each taken home a Morningstar Fund Manager of the Year Award: Kiesel for his work on PIMCO Investment Grade Corporate Bond PIGIX in 2012 and Ivascyn for his work on PIMCO Income in 2013 with comanager Alfred Murata.

It remains to be seen whether these managers together can smoothly steer PIMCO's massive asset base without Gross. Arguably, the firm's culture may be improved without Gross' at-times severe and reputed retaliatory temperament. But the firm's atmosphere has long been characterized as a pressure cooker, and any change to a firm's investment culture potentially upsets the mojo that made it successful in the first place. Remove the firm's founder and thought leader, and that risk could escalate. If other leaders jump ship, it would add to the strain.

Another complicating factor is outflows from PIMCO's investment strategies. The firm's flagship Total Return fund has faced 16 straight months of outflows. One way to view those outflows is as a vote against Gross and the turmoil at PIMCO, but it's safe to assume that PIMCO's investor base--individuals, advisors, retirement plans, and institutions--will be re-examining its holdings in the coming months and not all will stick around. That scrutiny will be time-consuming and potentially distracting for PIMCO, and it may ultimately lead to earnings pressure on the firm and its parent company, Allianz AZSEY, that could result in a smaller staff or higher fund fees.

Those risks are significant but not insurmountable. The firm has strong and capable corporate leaders in the form of CEO Doug Hodge and president Jay Jacobs. Ivascyn, the new CIO, has been on the ascent at PIMCO for years and was largely viewed as the insiders' choice for the firm's next investment leader. He and the deputy CIOs have been leading committee meetings on a rotating basis since early 2014, and each has been overseeing several portfolio managers and, by extension, all of the specialist desks and the assets for which each skipper is responsible. (Most of these personnel management duties had previously fallen on El-Erian.) Those developments arguably lessen the impact of Gross' departure.

It's crucial to note that PIMCO's essential investment process remains at the core of everything the firm does. The tone was set early on by Gross, who favored a total-return approach to bond investing, which has since become de rigueur but that was novel as recently as the early 1990s. Those investing with Gross have often found themselves looking at comparatively modest income payouts but total returns that have almost always been much better than average.

Although the complexity of PIMCO's strategies, tactics, and favored investing tools often lends an aggressive flavor, a fierce attention to risk is built into the firm's investment and operational processes. The workings of PIMCO's Investment Committee illustrate the relationship between its approaches to performance and risk control. The committee typically meets four times per week, for hours at a time, to debate matters of the market and economics. Other colleagues are invited to come to present ideas, while some rotate through for stints on the committee in order to encourage a diversity of views. PIMCO outsiders are also brought in to make presentations, and managers are given incentives to second-guess the Investment Committee.

One risk that the firm has addressed is liquidity. Total Return has easily met redemptions thus far because it traditionally focused plenty of fund assets in very, very liquid securities, including Treasuries, agency-backed mortgages, and even cash. Between bond interest payments, mortgage principal flows, bond maturities, and calls, so much cash comes in every day that meeting even the sizable redemptions from 2013 was a relatively easy exercise. (Total Return's fund assets shrunk by 17% in the 12 months through August 2014.) As such, Total Return fundholders should not be overly concerned that the fund will be compromised in its ability to meet near-term redemptions.

There are, of course, plenty of other issues relevant to PIMCO's culture. The firm has been more prolific in its rollout of new funds in the past few years, for example, and, despite its very anemic record with new equity-focused offerings in particular, the deliberate style with which the firm has done so has been, and continues to be, indicative of a mostly investor-friendly culture. PIMCO does not have a record of rolling out niche funds simply to take advantage of popular trends. Rather, most have been driven by ideas and developments in institutional management or, in some cases, developments in financial markets that have made one strategy or another newly feasible.

Morningstar continues to harbor some concern about size. Even in the wake of recent redemptions, PIMCO Total Return still comprised more than $220 billion in investor assets as of the end of August 2014 and remains the world's largest actively managed mutual fund. Gross had said that Total Return's girth makes managing it more challenging, but it has been among the largest bond funds in existence for a long, long time, and its long-term risk-adjusted record has remained strong. The firm's ability to build on that record under its new managers Scott Mather, Mark Kiesel, and Mihir Worah will likely depend on whether it can retain command of big-picture macroeconomic and sector themes that had been at the root of that success under Gross.

Even at its reduced asset base, however, the impact of Total Return's size remains a question that Morningstar continues to study and examine.

In the meantime, there are other in-house examples of PIMCO funds whose size does raise even stronger questions about the firm's unwillingness to close large funds. Even with a smaller portfolio than it boasted a couple of years ago, PIMCO High Yield PHIYX, with more than $11 billion in assets as of September 2014, is the second-largest chunk of fund assets in the category if combined with $2.1 billion sibling PIMCO High Yield Spectrum PHSAX, and PIMCO manages additional high-yield assets in other funds and institutional accounts. Unlike Total Return, whose fortunes are more tied to macroeconomic and sector calls, these two funds are arguably much more dependent on bottom-up research and bond-picking--the kind that becomes more and more difficult to execute at a high level when a fund's size minimizes the impact of the smaller deals that dominate the at-times illiquid high-yield sector. On a somewhat different note, PIMCO All Asset PAAIX and PIMCO All Asset All Authority PAUIX, both led by Rob Arnott, are the biggest single investor in a number of underlying PIMCO funds, exposing those funds' other investors to the risk of substantial or sudden inflows or outflows. The question for such funds is whether PIMCO sacrifices the interests of existing shareholders in favor of its own growth of assets under management.

If there is one element of the size question that does give reason for pause, though, it's the question of what might happen should PIMCO's overall business shrink, whether as a result of a loss of confidence in the firm or even simply a trend of investor rotation away from the fixed-income markets that dominate its business. That's a much more difficult puzzle to assemble given the many possible paths the situation could take and the variety of potential responses from the leadership of PIMCO or even Allianz. It's a near certainty, however, that a sustained reduction in the firm's assets under management could trigger staff reductions and potentially make it much more difficult to retain talent. It's another element of the story that Morningstar will certainly continue to monitor.

Arguably just as important to PIMCO's Corporate Culture grade is the cost picture for investors in PIMCO's noninstitutional share classes in particular. Several are priced high relative to similarly structured peers and sometimes emphatically so relative to the economies of scale that the firm enjoys. It's difficult to pin down why this issue has failed to gain more attention within PIMCO or the funds' boards, but it may catch on if investors are not as willing to pay the higher fees, especially without Gross at the helm.

Other PIMCO representatives have offered that the world-class caliber of its management is ample justification for its fees. There is some merit to that argument, but PIMCO's noninstitutional share classes sometimes carry fees that are simply too high to recommend, no matter how good the management. And even then, while the funds' institutional shares are competitive on a relative basis with their various cohorts, they tend to lack fee breakpoints--Total Return is a glaring example--and charge a lot more than one might expect given their size. Of all the funds in the marketplace, this enormous portfolio should by all rights boast a truly low expense ratio in its peer group. And that's really the ultimate issue, especially for a fund group that has some of the best economies of scale of any in the world.

There's no question that PIMCO's overall culture and what it has produced for investors deserve significant recognition. On some levels, this firm still approaches or achieves best-in-class status. The aforementioned cost and asset size issues, however, have been enough to keep it from earning Morningstar's highest grade for some time. And despite all of the reasons for optimism, there is a heightened level of uncertainty in the post-Gross era surrounding the questions of whether PIMCO's latest senior staffing transitions will prove beneficial to investors; whether recent and future senior-level departures indicate a persistent side effect of the firm's pressure-cooker culture; whether that culture will improve under new leadership; and even whether the prospect of rockier bond markets or anemic performance could cause the temperature to rise even further. Those areas of uncertainty, combined with the aforementioned cost and size issues, cause us to maintain PIMCO's Corporate Culture grade at C.

Fund Board Quality -- D
A mutual fund board's sole purpose is to act as an advocate for fundholders, helping to ensure they are treated fairly and honorably. Only mutual fund directors have a seat at the negotiating table when it comes to hiring mutual fund advisors and setting fees, for example. Most boards of directors take their responsibility seriously, but those that stand out have established a track record of independence and shareholder-friendly practices.

For the purposes of governance, PIMCO's open-end funds are divided into two groups. The PIMCO Equity Series Trust includes three of the firm's international-equity offerings, one alternative offering, and three allocation funds. The PIMCO Funds Trust encompasses the firm's other, nearly 90 open-end funds. (There are also two separate Variable Insurance Trusts and an ETF Trust.) All told, PIMCO offers more than 160 funds among its five trusts.

When there is turmoil at a fund company, it is especially important to have an effective board in place. Yet the PIMCO boards themselves are in some turmoil. Continued disruption among PIMCO's independent trustees raises significant concern about the board's independence as well as its long-established setup. More specifically, two of the PIMCO Funds Trust's five independent trustees, William Popejoy and Vern Curtis, recently left the board (as well as the Variable Insurance Trusts and ETF Trust), leaving its composition at just three independent trustees and two interested trustees and at just 60% independent. This level falls short of industry norms; most fund boards are at least 75% independent.

These unexplained departures come in the wake of losses on the newer PIMCO Equity Trust, which also lost two independent trustees in mid-2013, including Davis, who stepped down in June 2013, and Allan Hubbard, who left in mid-August 2013. These seats had not been refilled as of August 2014. Those changes left the equity board with just three members, including interested chairman Brent Harris, who also chairs the PIMCO Funds Trust.

Although PIMCO says that board is seeking trustee replacements, most board members report it can take easily more than a year or even two to come fully up to speed as a new director. That learning curve at PIMCO seems particularly steep considering the firm's large fund lineup and complex portfolios.

These partings highlight the smallness of PIMCO's boards and--especially combined with the complexity apparent at PIMCO--argue for a larger board that can withstand change and provide fundholders with a deeper level of expertise, particularly as the firm moves into newer areas for it, including equities, ETFs, and alternatives.

It's also concerning to see the funds' boards shrink during a time of change and stress for the fund company. Bill Gross' sudden departure has implications for the firm and its funds. Although Mohamed El-Erian's exit in March 2014 caused PIMCO to address and plan for Gross' eventual succession, the firm has still lost one of the savviest fixed-income investors out there. And while the board's job is to oversee the funds' operations and not to manage the firm on a day-to-day basis, the board may be in for more of a test, as Gross' departure, as well as what is likely to be a more challenging interest-rate environment, could have implications for performance and fund flows.

Another elusive issue that falls under the board's domain is the way in which PIMCO accounts for and reports the expenses of its funds. In essence, the firm breaks down the bulk of its funds' costs into the two large line items of "investment advisory fees" and "supervisory and administrative fees." What's especially noteworthy about that construct is the parity between those two line items. The firm's flagship Total Return fund places the issue into sharp focus.

For the fiscal year ended March 2014, Total Return's advisory fees totaled more than $641 million, while its supervisory and administrative fees clocked in at $608 million. The proximity of those numbers is perplexing simply because the first number should represent what shareholders are paying for the expert, value-added services of an active money manager, while the second should account for the relatively commodified costs that are otherwise associated with operating a fund and servicing shareholder accounts. Even if one were to argue that some providers of "supervisory and administrative" services warrant more compensation than others, it doesn't make sense that the true cost of servicing one of the best-run mutual funds in the history of the business is anywhere remotely close to the fair value of its investment advisory services. Ultimately, though, it's a matter of transparency and allowing shareholders to understand whether the board is doing enough to make sure that investors aren't overpaying for commodified services, and while the annual report does describe what kinds of expenses are included in the "supervisory and administrative fees" line item, it does not break down those costs, as other competitors do.

That said, PIMCO and the board both argue that investors should look past the technical nature of these breakdowns and simply evaluate fund costs as they appear in total. That's not an entirely problematic suggestion for the firm's institutional share classes, whose price tags are generally reasonable. But it doesn't quite address the issue with regard to many of the firm's other share classes, which carry fairly high total expense ratios. By and large, fees for PIMCO some of the share classes sold through advisors or directly to investors (as opposed to institutional classes) are not competitive. PIMCO argues that the high returns generally produced by management justify the premium prices charged by PIMCO funds. The firm's assets under management and the funds overseen by this board have grown tremendously, though, and even despite recent outflows, have significant scale. Several remain among the largest in their respective categories.

The ultimate problem, however, is that it really doesn't, and shouldn't, matter how PIMCO would like to position its fund costs. It's up to the funds' board to oversee such issues in a way that best serves shareholders. The opacity of these data, combined with its girth, suggests that the board has not done all that it can to aggressively negotiate for better economies of scale or to at least help investors better understand why the fees they pay are appropriate. That includes not only making sure that cost data are transparent but also that shareholders are getting the best deal possible for the services that are being provided.

These long-standing issues surrounding fee disclosure and economies of scale--PIMCO Total Return doesn't have any management-fee breakpoints, for example--combined with newer concerns about the disruption to the funds' boards and their independence are enough to consider the current quality of the boards inferior and thus earn PIMCO a lowered Board Quality grade of D.

Fund Manager Incentives -- C

Portfolio managers who invest alongside their fundholders not only show a conviction in their investment approach and portfolios but also are better able to share in a true fundholder experience as they endure the same tax and cost consequences as their shareholders. Further, Morningstar's research has found that portfolio managers who invest significantly in their funds simply perform better on average, particularly on a risk-adjusted basis. For these reasons, Morningstar's Manager Incentives grade is determined primarily by how heavily and predominantly a fund family's managers own the funds they oversee. Specifically, Morningstar considers what percentage of assets are in funds in which at least one portfolio manager has at least $1 million invested (the highest ownership range reported to the SEC).

PIMCO's Manager Incentives score has been carried largely by the manager-ownership level in PIMCO Total Return, which today comprises roughly 40% of the fund company's open-end mutual fund assets even after significant redemptions from that offering. Bill Gross had long maintained a more-than-$1 million investment in the fund.

With Gross' investment out of the Manager Incentives calculation and without a significant investment from PIMCO Total Return's new management team, which includes lead manager Scott Mather, Mark Kiesel, and Mihir Worah, PIMCO's portfolio managers' financial alignment with their fundholders would look very weak overall. The level of assets in funds in which at least one manager has more than $1 million invested would drop to less than 20% of total firm assets. In part, Mohamed El-Erian's departure from the firm in early 2014 brought the firm's Manager Incentives grade to a C from a B. Gross' departure could work to lower the grade further.

Morningstar is maintaining PIMCO's Manager Incentives grade at a C for now, because it's likely at least one of the portfolio managers will have (or already has) a significant investment in the firm's flagship fund. However, investors should expect the investment and disclosure to come sooner rather than later and should monitor any communication from PIMCO in the coming days and weeks.

Meanwhile, PIMCO otherwise has work to do on the manager-ownership front. New group CIO Dan Ivascyn's investment in one of his charges, PIMCO Income, recently moved to the more-than-$1 million mark, and Worah, who also remains a deputy CIO and head of global multiasset and real return investments, has shown conviction in his investment processes, with a cumulative investment in the range of $850,000 to more than $2.5 million in the six offerings he oversees. However, other senior investment leaders should do more to align their financial interests with fundholders'. Kiesel, who is a deputy CIO and leads PIMCO's corporate investing efforts, has less than $20,000 collectively in his three charges, while Mather, deputy CIO and member of PIMCO's investment committee, is not invested in his four other funds.

To some extent, a smaller manager investment may be expected at a predominantly fixed-income shop. It's not unreasonable to expect limited investment in municipal-bond funds, for example, or other narrowly focused fixed-income funds. Nonetheless, too many of PIMCO's funds, representing about 30% of assets, have no manager investment at all, though those include several previously headed by Gross that will now pass to new managers, as well as other funds that had previously been assigned to El-Erian. It would be encouraging to see a broader representation of PIMCO managers with a substantive level of investment in their funds as a sign of conviction in those strategies and their fee structures.

Morningstar also considers a firm's manager-compensation plan in its manager-incentives assessment and may factor in particularly strong or deficient characteristics of such setups. PIMCO's plan, however, neither boosts nor detracts from its Manager Incentives score.
As is common in the fund industry, PIMCO's manager compensation can be broken down into three pieces: base salary, a bonus, and equity or long-term incentive compensation. Although a series of positive factors may be considered when determining managers' earnings, they may also receive compensation tied to the performance of the firm, which can be seen as a potential conflict of interest, insofar as the interests of firm stockholders and fund shareholders may be misaligned. Furthermore, compensation for portfolio managers can also be linked to the amount and nature of assets managed by the portfolio manager, which can act as incentive for managers to take shortcuts to chase performance or overgrow assets.

PIMCO's compensation plan can also be linked to performance, which is a plus for shareholders. Specifically, it's based on one-, two-, and three-year dollar- and account-weighted pretax investment performance versus predetermined appropriate benchmarks. That said, a compensation structure that stresses longer-term investment performance would better align managements' interests well with those of fund shareholders, and Morningstar notes a trend toward including five-year results in portfolio-manager bonus schemes. On the whole, PIMCO's manager-compensation structure has its pluses, but its potential focus on size of assets and short-term performance are notable shortcomings.

Fees -- C

Morningstar calculates a fund family's Fees grade based on the average Morningstar Fee Level percentile for all the family's funds. These percentiles compare each fund share class with similar share classes of funds in the same fee-level group, ranging from 1 (for the cheapest funds in each group) to 100 (for the most expensive). To find a family's overall fee-level percentile, Morningstar takes the straight average of the fee-level percentiles for all the funds in the family, counting each share class separately.

Morningstar's research indicates that a fund's price tag is among the best predictors of its future relative performance. Funds with below-average price tags are likely to outperform typical rivals; those with above-average expense ratios are more likely to underperform.

PIMCO's Average Fee Level is 48 and thus earns the firm a C for Fees overall. The firm has a fairly even distribution of share-class fee levels, with roughly 20% of share classes populating each of Morningstar's five groupings--Low, Below Average, Average, Above Average, and High.

For the most part, PIMCO's institutional share class expense ratios are low or below average; however, they require a $1 million minimum investment, though investors may find them in their 401(k) plans. Many of PIMCO's A share classes are also low or below average. In many cases, the Institutional and A share classes together represent each fund's largest portion of assets, so PIMCO is giving the majority of its fundholders a good deal, relative to competitors.

Meanwhile, PIMCO's "PLUS" series of funds, such as its StocksPLUS funds, tend to run with expense ratios that are Low or Below Average (though even there, there are some more-expensive vehicles). These funds are essentially index funds backed by actively managed collateral, so it stands to reason that they would be cheaper than their category peers. Also, PIMCO's small suite of fairly young equity funds is competitively priced, as PIMCO looks to break into the crowded field of active-equity managers.

However, the firm's no-load D shares tend to be Above Average or High. Furthermore, the firm's target-date series, which, granted, is quite small, is not competitively priced compared with other target-date series.

Of particular note, though, is the curious case of PIMCO Total Return, the industry's second-largest fund with more than $220 billion in assets as of the end of August 2014. As suggested above, that fund's Institutional and A share classes both carry Below Average expense ratios; its other share classes, though, are Average to High. However, a fund so large might have further economies of scale to pass on to fundholders of all share classes. There appear to be no management-fee breakpoints, according to the fund's most recent Statement of Additional Information. At the fund's level of assets, such breakpoints could have a meaningful impact on its expense ratio.

Regulatory History -- Neutral

Because investors should expect fund companies to comply with laws and regulations, the highest Regulatory History rating a firm can receive is Neutral. PIMCO confirmed in September 2014 that the Securities and Exchange Commission is investigating securities pricing within the exchange-traded fund version of its Total Return strategy. The findings of the investigation have not yet been made public, and firm has not been accused of wrongdoing, so it gets full credit for Regulatory History.