

# MEMORANDUM

**To: Clients and Consultants of Wurts & Associates**  
**From: Philip Schmitt, Manager Research Group**  
**Date: January 28, 2014**  
**Re: Personnel Changes at PIMCO (No Action Required)**

---

On January 21<sup>st</sup> PIMCO announced that Mr. Mohamed El-Erian has resigned as CEO and co-CIO from Pacific Investment Management Company (PIMCO) with intentions to leave the company in mid-March. Given that Mr. El-Erian was widely seen as the heir apparent to PIMCO's co-founder and co-CIO Mr. Bill Gross, this is a material event affecting PIMCO. Nonetheless, Wurts is not recommending termination based upon this development.

According a statement released by the company, Mr. El-Erian will transition from his roles within PIMCO but will remain a member of the Allianz International Executive Committee. He will also advise the Board of Management of Allianz, PIMCO's parent company, with respect to global economic and policy issues.

Mr. El-Erian previously left the firm in 2006 to run the Harvard University endowment and returned in 2008, taking on a more visible public role of representing the company in recent years. Prior to his original affiliation with PIMCO, Mr. El-Erian spent fifteen years at the International Monetary Fund where he rose to deputy director.

Mr. El-Erian's current roles will be divided among several individuals. Mr. Douglas Hodge will assume the role of CEO. Mr. Hodge joined the firm in 1989 and is a Managing Director and COO. Prior to his current role, Mr. Hodge was responsible for managing the firm's overseas Asian operation. Mr. Hodge will not have portfolio management duties but will instead focus on running the organization as CEO.

Mr. El-Erian's co-CIO role has been split into two Deputy CIO positions filled by Mr. Andrew Balls and Mr. Daniel Ivascyn. Mr. Balls is a Managing Director in the firm's London office where he heads up the firm's European operation; he is also a member of the Investment Committee. Prior to joining the firm in 2006, Mr. Balls was a writer for the Financial Times. Mr. Ivascyn is also a Managing Director and Head of Mortgage Credit Portfolio Management in addition to acting as the lead for the firm's alternative strategies. Prior to joining the firm in 1998, Mr. Ivascyn worked in the asset-backed

securities group at Bear Stearns. Mr. Ivascyn was recently named Portfolio Manager of the Year in 2013 by Morningstar for his work on the PIMCO Income Fund (PIMIX).

Mr. El-Erian was co-Portfolio Manager for both the PIMCO Global Multi-Asset Strategy (PGAIX) and the PIMCO Global Advantage Strategy (PSAIX). Effective this week, Mihir Worah, a Managing Director at PIMCO and head of the firm's Real Return portfolio management team, has been added to the Global Multi-Asset team with the intent of replacing Mr. El-Erian who co-managed the fund with Curtis Mewbourne and Vineer Bhansali. With regard to the Global Advantage Strategy, Andrew Balls and Ramin Toloui will continue to act as co-Portfolio Managers and will manage the fund with no additional changes.

Our key concern regarding this announcement is the abrupt nature of the departure of a senior executive and standing Investment Committee member. A spokesperson for the firm said that there were no indications that Mr. El-Erian was dissatisfied with his roles as CEO and co-CIO and that his relationship with Mr. Gross was not a factor in his decision to leave. Additionally, the transition of multiple senior executives within the organization into new leadership roles will no doubt lead to changes in processes, which may eventually alter how PIMCO executes its business. As of September 30, 2013, PIMCO managed more than \$1.9 trillion in asset with roughly 2,500 employees globally.

The firm's investment strategy is predicated on the blend of top-down, macro-economic forecasting and bottom-up security analysis and is set annually by the Investment Committee during the Secular Economic Forum (see addendum). The team approach for implementing the strategy we believe will continue without disruption to client portfolios in the near-term. As a standing member of the firm's Investment Committee, Mr. El-Erian exerted considerable influence over broad thematic views but he was not responsible for bottom-up investment decisions.

From a performance perspective, the firm's bond portfolios have struggled recently as interest rates have risen, and as a result, according to Morningstar investors liquidated more than \$41 billion from the flagship PIMCO Total Return Fund (PTTRX) in 2013, with \$4.1 billion liquidations occurring in December alone. Mr. El-Erian was instrumental in broadening the firm's push into equity and alternative strategies in an effort to expand beyond traditional fixed income management; however, these strategies have struggled to gain traction and the perception of PIMCO as a "bond shop" remains.

PIMCO by assets is the largest bond mutual fund manager in the world and has considerable resources allocated to investment research. The firm has developed a deep reservoir of talent upon which they can draw from and will continue to leverage in the future. Going forward, we will closely monitor these changes within the management team to determine if any fundamental modifications to the firm's philosophy are occurring.

In the near-term, Wurts & Associates is comfortable with the separation of Mr. El-Erian's responsibilities; we believe Messrs. Balls and Ivascyn are capable leaders within the organization; and we believe that the manner in which PIMCO manages investment portfolios will not be negatively impacted. Longer-term, we are cautious that while the PIMCO process remains the same, Mr. El-Erian's considerable influence on broad thematic views will shift to others and the organization will experience some change. The firm continues to experience substantial withdrawals from a broad spectrum of retail and institutional funds, but there is no confirmation that any are a direct result of Mr. El-Erian's announcement. If sustained, these asset redemptions could lead to a trading cost burden borne by investors in various funds, which could also result in lower alpha or excess returns if substantial in size. While we do not recommend clients take action based solely on the announcement, continued monitoring is certainly warranted, and clients should discuss with their consultant any specific implications for their portfolios.

## Addendum

### PIMCO Economic Forums

PIMCO believes that secular economic, social and political trends exert the most powerful and sustained influences on today's bond markets. The company's annual Secular Forum is designed to inform and influence the firm's positioning of duration, credit exposure, yield curve positioning, and other risk measures. Leaders in the fields of finance, economics, politics and academia gather at the company's headquarters in Newport Beach to discuss and debate the global markets. It is during this three-day event that Messrs. El-Erian and Gross along with the other members of the Investment Committee develop the firm's broad macro-economic viewpoints. These longer-horizon expectations are then updated and supplemented by the more tactical quarterly investment forums and weekly Investment Committee meetings. Mr. El-Erian's contributions to the Secular Forum were broad based and thematic in nature; we expect other members of the Investment Committee will absorb joint responsibility in this process going forward.

### Biographies

**Mr. Andrew Balls** is a managing director in the London office, a member of the Investment Committee and head of European portfolio management. He leads PIMCO's European investment team (which is based in London and Munich) and manages a range of global and European portfolios, including PIMCO's Global Advantage strategy, combining developed and emerging fixed income markets. He is also a member of the PM Management Group, overseeing PIMCO's global interest rate and foreign exchange teams. Mr. Balls was previously a portfolio manager in Newport Beach and the firm's global strategist. Prior to joining PIMCO in 2006, he spent eight years at the Financial Times as an economics correspondent and columnist in London, New York and Washington, DC. Mr. Balls has 15 years of investment experience and holds a bachelor's degree from Oxford and a master's degree from Harvard University.

**Mr. Vineer Bhansali, Ph.D.** is a managing director and portfolio manager in the Newport Beach office. He currently oversees PIMCO's quantitative investment portfolios. From 2000, Mr. Bhansali also headed PIMCO's firm wide analytics department. Prior to joining PIMCO in 2000, Mr. Bhansali was a proprietary trader in the fixed income trading group at Credit Suisse First Boston and in the fixed income arbitrage group at Salomon Brothers in New York. Previously, Mr. Bhansali was head of the exotic and hybrid options trading desk at Citibank in New York. Mr. Bhansali is the author of numerous scientific and financial papers and of the books "Bond Portfolio Investing and Risk Management," "Pricing and Managing Exotic and Hybrid Options," and "Fixed Income Finance: A Quantitative Approach". Mr. Bhansali has 23 years of investment experience and holds a Ph.D. in theoretical particle physics from Harvard University. Additionally, Mr. Bhansali has a master's degree in physics and an undergraduate degree from the California Institute of Technology.

**Mr. Curtis A. Mewbourne** is a managing director and generalist portfolio manager in the New York office where he manages institutional accounts and mutual funds across a wide range of strategies. Mr. Mewbourne serves as a member of the global operating committee, the PM management group and the PIMCO Foundation investment committee. Prior to joining PIMCO in 1999, Mr. Mewbourne was a bond trader at Salomon Brothers and at Lehman Brothers. Recently, Mr. Mewbourne was nominated for Morningstar's Fixed Income Manager of the Year award in 2010. He has 21 years of trading and portfolio management experience. Mr. Mewbourne holds an engineering degree in computer science from the University of Pennsylvania.

**Mr. Ramin Toloui** is an executive vice president in the Singapore office and global co-head of emerging markets portfolio management. Prior to joining PIMCO in 2006, Mr. Toloui spent seven years in the international division of the U.S. Department of Treasury, including as the director of the Office of the Western Hemisphere, managing a team of economists and advising senior U.S. government officials on financial policies in Latin America. Mr. Toloui previously served as senior advisor to the Under Secretary for International Affairs during the crises in Brazil, Uruguay and Turkey in 2001-2003. Mr. Toloui has 15 years of international finance experience and holds an undergraduate degree from Harvard University and a master's degree in international relations from Oxford University, where he was a Rhodes Scholar.

**Mr. Mihir P. Worah** is a managing director in the Newport Beach office, a portfolio manager, and head of the real return portfolio management team. Mr. Worah was previously a member of the analytics team and worked on real and nominal term structure modeling and options pricing. Prior to joining PIMCO in 2001, Mr. Worah was a postdoctoral research associate at the University of California, Berkeley, and the Stanford Linear Accelerator Center, where he built models to explain the difference between matter and anti-matter. In 2012 he co-authored "Intelligent Commodity Indexing," published by McGraw-Hill. Mr. Worah has 12 years of investment experience and holds a Ph.D. in theoretical physics from the University of Chicago.

## Organization Chart

