

■ MARKET OVERVIEW

Stocks crumbled under an onslaught of negative news in February. The Dow Jones Industrial Average plunged to the lowest level since May 1997. The S&P 500 closed at the lowest level since December 1996. Financial shares booked heavy losses, as government assurances failed to assuage fear of creeping bank nationalizations. Reuters reported a \$10 trillion decline in U.S. equity values since October 2007. Bloomberg reported \$11.6 trillion in global bailout and stimulus programs over the last nineteen months. Investors braced for a deep and long recession.

January unemployment rose to 7.6%, a sixteen-year high, as layoffs for the month approached 600,000. Vehicle sales fell to the lowest level since 1982. Durable goods orders fell an unprecedented sixth month, while manufacturing in the New York area contracted at record speed. On February 27, the Commerce Department updated its estimate of fourth quarter GDP. Economic output was revised down from -3.8% to -6.2%, the sharpest decline in twenty-six years.

The FDIC seized ten failed banks in February, bringing the total for 2009 to sixteen. In 2008, regulators assumed control of twenty-six institutions, including Washington Mutual, the biggest bank failure in U.S. history. Three institutions were seized in 2007. None were seized in 2005 or 2006. On February 27, Citigroup shares fell to an eighteen-year low after announcing the government could take ownership of more than a third of the company. The market value of Citigroup, once the world's largest bank, closed February 97% below its peak in December 2006.

On March 2, Standard & Poor's projected the first-ever aggregate quarterly loss for companies in the S&P 500 Index. Records date back to at least 1936. During the fourth quarter of 2007, S&P 500 companies reported a combined \$15.22 in operating earnings per share. In the fourth quarter of 2008, with 98% of firms reporting, aggregate losses per share were \$0.56. AIG posted a loss of \$61.7 billion in the fourth quarter, the largest in U.S. history. ▲

Market Performance (USD)

	February	YTD
S&P 500	-10.6	-18.2
NASDAQ Composite	-6.7	-12.6
Dow Jones Industrials	-11.4	-19.0
MSCI EAFE	-10.2	-19.0
MSCI EAFE Growth	-9.3	-17.1
MSCI EAFE Value	-11.2	-21.1
MSCI EM	-5.6	-11.7
MSCI ACWI xUS	-9.3	-17.3
MSCI Europe	-10.1	-20.0
MSCI Japan	-12.4	-18.3
Russell 1000	-10.3	-17.7
Russell 1000 Growth	-7.5	-12.0
Russell 1000 Value	-13.4	-23.3
Russell Midcap	-10.0	-16.6
Russell Midcap Growth	-7.6	-11.8
Russell Midcap Value	-12.5	-21.5
Russell 2000	-12.2	-21.9
Russell 2000 Growth	-10.4	-17.2
Russell 2000 Value	-13.9	-26.2
ML High Yield Master II	-3.5	1.7

As of 28-Feb-09

IN THIS ISSUE

- Market Overview1
- Perspective2
- Equity Update2
- Firm Update3
- Portfolio Manager Insights:
 - US Convertibles — Participate, Protect4
- Feature:
 - Property & Casualty Insurance — A Relatively Safe Port in the Financial Storm6
- Focus:
 - Japan — Opportunities in the Land of the Rising Sun8
- Chartbook12



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■ PERSPECTIVE

The Allianz Global Investors (AGI) family of asset management companies: NFJ, Nicholas-Applegate, Oppenheimer Capital, Pimco and RCM covers virtually every asset category, from corporate to municipal bonds, large-cap growth stocks to emerging markets stocks, commodities to real estate, growth to value, short-term debt to long-term debt. Most of these capabilities are available to both institutional and retail investors through a variety of products. Each asset management company specializes in one or more of these investment areas. However, until recently we did not have a dedicated capability within AGI to combine the different expertise of our affiliates to create client solutions.

Allianz Global Investors Solutions (AGIS) is a separate asset management company within the AGI group, based in San Diego. AGIS leverages two AGI-wide groups based in Munich: (1) the quantitative risk assessment and asset allocation expertise of RiskLab, and (2) a worldwide manager research group, Asset Management Consultancy for Allianz Group (AMC). AGIS allows us for the first time to combine the best intellectual capital from our asset management firms in a wide variety of possible investment solutions for our clients and their advisors, from target date funds to broader asset allocation funds. We are able to tailor these products to specific risk and return tolerances to be expected in a variety of market conditions.

AGIS currently provides sub-advisory services to six target date funds and offers asset allocation advisory services to 529 College Savings Plans. We will also be adding two broader, global asset allocation funds soon for a full range of fund options, from conservative to more aggressive, managed by our asset management affiliates. ▲

■ EQUITY UPDATE

STYLE AND MARKET CAPITALIZATION

Equity losses were broad-based last month, as economic turmoil rippled through the U.S. economy. Share prices fell in all ten sectors across each of the nine core Russell indexes (the Russell 1000, Russell Midcap and Russell 2000, plus their growth and value iterations). Exposure to banks was key to asset-class performance. With the lowest financial sector weighting (3.3%), the Russell 1000 Growth Index declined the least, -7.5%. With the highest financials weighting (36.8%), the Russell 2000 Value Index fell the most, -13.9%.

S&P 500 SECTORS AND INDUSTRIES

Bank stocks slid 18.1% in February, as investors sold the sector on falling profits and concerns that government takeovers could wipe out shareholders. The financial component of the S&P 500 has declined fifteen of the last seventeen months for a cumulative loss of 76.9%. As recently as April 30, 2008, financials was the largest S&P 500 sector, comprising 17.1% of the index. As of February 27, financials constituted 9.8% of the index, fifth largest among ten categories, and the lowest weighting since September 1992.

INTERNATIONAL EQUITY

Foreign stocks turned in their worst performance since October last month, as reports showed historic economic contractions in Europe and Japan. The MSCI All Country World Index x-USA fell 9.3%. For a second month running, more than forty of the forty-five countries in the index closed lower. Europe's economy shrank 5.8% (annualized) in the fourth quarter, the sharpest decline on records starting in 1995. The Japanese economy shrank 12.7%, the most since 1974. The FTSE Eurotop 300 Index fell to the lowest level since March 2003. Japan's broad Topix touched the lowest level since December 1983. ▲

■ FIRM UPDATE

Nicholas-Applegate continues to invest in intellectual capital by hiring top-notch talent. This quarter, the following professional joined the investment team:

David J. Oberto — *Associate, Analyst* — David Oberto has joined the Income and Growth Strategies team. He was previously an analyst in the Performance Measurement Department, where he was responsible for the daily calculations and verification of composite, attribution, portfolio and mutual fund performance. Prior to joining Nicholas-Applegate in 2007, David was a portfolio administrator, CDS account manager and trade closer for Bain Capital, where he was the point person on their credit default swap portfolio. He also interned at Gabelli Asset Management. David earned his B.S. in finance from Fordham University.

CELEBRATING ANNIVERSARIES

Nicholas-Applegate's US Systematic Mid Cap and US Small-Mid Cap Growth strategies recently celebrated their ten-year and three-year anniversaries, respectively. The US Systematic Mid Cap strategy applies a quantitative approach to identifying attractive mid-cap opportunities, while the US Small-Mid Cap Growth strategy applies a traditional approach.

US CONVERTIBLES OPEN

Nicholas-Applegate's US Convertibles strategy is open to both new and existing investors.

2009 INVESTMENT OUTLOOK

Chief Investment Officer Horacio Valeiras, CFA, shares his insights on the global economy and identifies asset classes, sectors and styles that are positioned to lead an economic revival in the *2009 Investment Outlook*. Please contact your Nicholas-Applegate representative for a copy or visit our Web site, www.nacm.com, to download a PDF version of the report.

STUDENTS OF THE MARKET

On December 12, Nicholas-Applegate hosted students and their teachers from The Toussaint Academy of the Arts and Sciences, which offers an array of educational and career-building services to homeless youth in San Diego. The students heard professionals from each department describe how and why they chose investment management as a career. The day's program included breakfast, a tour of the trading floor, a questions and answers session, and a gift bag containing a teenager's guide to investing. ▲

By Cathleen Bramlage

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■ PORTFOLIO MANAGER INSIGHTS: US CONVERTIBLES — PARTICIPATE, PROTECT

Convertible bonds are a compelling, but often overlooked asset class. Nicholas-Applegate believes convertibles make a suitable strategic allocation for all types of institutional investors regardless of market cycle. Today, with equities trading at depressed valuations and corporate bonds trading near historic spreads, the risk/reward profile for convertibles is extremely attractive.

Convertible bonds are hybrid securities that combine equity and debt features. The equity value is derived through the call option embedded in the security and enables holders to participate in equity price appreciation. The debt value of a convertible bond is derived from the stated coupon rate and claim to principal. As such, its price is subject to changes in interest rates and the creditworthiness of the issuer. The debt feature enables downside protection from a decline in the value of the equity. Through convertible securities, the investor participates in price appreciation in the equity, but with more limited downside risk because of the bond floor.

ment with little regard for the equity option. Total return alternatives exhibit the ideal characteristics of a convertible bond — participating in the upside movement of the stock while dampening the volatility on the downside. Lastly, equity alternatives are highly correlated with equity price movements.

Exhibit 1 illustrates the unique behavior of a convertible bond. As the underlying equity price increases, the convertible bond participates in the upside, becoming more equity sensitive. If the underlying equity price falls, the convertible bond protects on the downside, becoming more bond-like.

WHO ISSUES CONVERTIBLES?

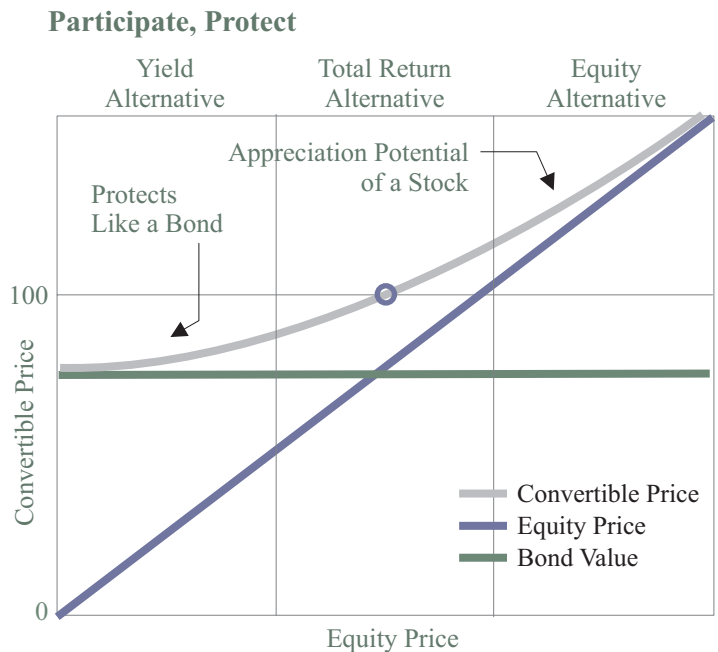
Companies issue convertible bonds for three primary reasons: cost dynamics, financial flexibility and market dynamics. From a cost perspective, the issuer pays a lower coupon rate than they would on straight debt, which can provide significant cash interest savings for the company. In addition, the equity value of

THE BEHAVIOR OF CONVERTIBLES

Convertibles can generally be characterized into one of three categories: yield alternatives, total return alternatives, or equity alternatives.

Yield alternatives, also called “busted” convertibles, are characterized by relatively high bond-like characteristics and little equity sensitivity. If the option price for converting to equity is far out of the money, the security acts almost like a pure debt instru-

Exhibit 1



Source: Nicholas-Applegate

the embedded call option is issued at a premium to the current underlying equity price. With regard to financial flexibility, convertibles have shorter call protection than straight debt and have fewer restrictive covenants. Finally, convertibles can be issued quickly compared to equities and appeal to a broader group of investors.

WHY CONVERTIBLES

Over time, convertibles provide higher yields and greater downside protection in comparison to equities. This has enabled convertibles to offer favorable risk-adjusted returns compared to U.S. equity indices. Furthermore, investors who have the ability to allocate between equities and bonds should consider convertibles as an additional asset class for enhancing portfolios. Since convertibles do not move in perfect unison with either equities or bonds, their addition can provide enhanced diversification and dampen the overall volatility of a portfolio.

CONVERTIBLES UNIVERSE

The convertibles universe is expansive, with nearly \$200 billion in issuance and over 500 issuers according to Merrill Lynch. The Merrill Lynch All Convertibles All Qualities Index has exposure to all industries common to broad market U.S. equity indices. Capitalizations are roughly equal-weighted between large, mid, and small. From a credit quality perspective, the index is also well diversified. Bonds with investment grade ratings make up more than 40% of the index. Some of the more recognizable issuers include Intel, Amazon, Costco and Johnson & Johnson.

CURRENT MARKET OPPORTUNITIES

While the duration of the economic downturn and eventual equity market recovery are unknown, at today's prices the risk/reward profile of the convertibles market is very favorable. Currently, convertibles are much more bond-like, offering downside protection as the corporate bond market is pricing in unprecedented levels of default rates. Therefore, it is unlikely that bond floors will fall dramatically from here. When the equity markets do recover, not only will investors participate in the upside of any equity market rebound, but they will also benefit from any credit spread tightening.

Today, with equities trading at depressed valuations and corporate bonds trading near historic spreads, the risk/reward profile for convertibles is extremely attractive.

For investors capable of looking beyond the current credit crisis, there are extraordinary investment opportunities. Investors can take advantage of current market dislocations — high quality names trading at very attractive yields. “In today's environment, where many plans are underweight their equity allocation, convertible bonds are an excellent alternative — not only will they offer downside protection, but they will participate in an equity market rebound,” according to Justin Kass, a portfolio manager with the Nicholas-Applegate US Convertibles strategy.

Nicholas-Applegate's US Convertibles strategy is open to new and existing investors. At Nicholas-Applegate, we invest in total return convertible securities which exhibit the optimal risk/reward profile. Typically, these convertibles demonstrate 70-80% upside participation in the underlying equity with less than 50% downside participation. We maintain a disciplined approach to portfolio management by focusing on companies that are exceeding expectations and improving their credit statistics. ▲

By Michael Memory



Todd R. Buechs

*Vice President,
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■ FEATURE: PROPERTY & CASUALTY INSURANCE — A RELATIVELY SAFE PORT IN THE FINANCIAL STORM

Investing in financial stocks has been a difficult proposition over the past two years due to extreme volatility and sharp declines in share prices caused by a seizure in the credit markets, the use of financial leverage and the impact of mark-to-market accounting. Many of the major financial indices are down 70% to 80% since July 2007, but the slide has not provided investors with many long-term investment opportunities, only value-traps. Please see Exhibit 2. The high profile collapses of Fannie Mae, Freddie Mac, American International Group (AIG), Washington Mutual, Wachovia and Lehman Brothers left many of the largest value investors holding worthless shares and have left growth managers with fewer financial stocks to select from. One sector that has outperformed recently is the Property and Casualty sector (P&C), and we believe it should continue to outperform in 2009 due to relatively simple business models and liquid balance sheets.

P&C insurance covers two types of risk: property and liability. P&C insurers generally write

property policies that protect structures, material and equipment against damage caused by fire, theft and weather and casualty policies to cover individuals or businesses against liabilities arising from negligence. The definitions are broad and there are many specialty lines of insurance that fall under the classification, including: casualty lines like Directors' and Officers' (D&O) insurance, personal lines like auto and umbrella insurance, aircraft insurance and terrorism insurance; and property lines like energy (includes offshore and onshore), wind insurance and cargo insurance. Another major category is reinsurance, or effectively insurance for insurers. Reinsurance allows primary insurance underwriters to lay off some of their risk to a particular class of insurance, geography or peril.

While the different lines and exposures are varied, P&C risks generally have short time horizons over which they will be realized (policies are generally written for a one-year period). Therefore, a P&C underwriter will know its exposure shortly after an accident or

event, whereas a life insurance company underwriting a life policy may carry an average risk for more than ten years. The relatively short duration of the risk a P&C insurer carries on the balance sheet generally means that, using prudent asset-liability matching, the asset side of the balance sheet is also of relatively short duration.

Exhibit 2

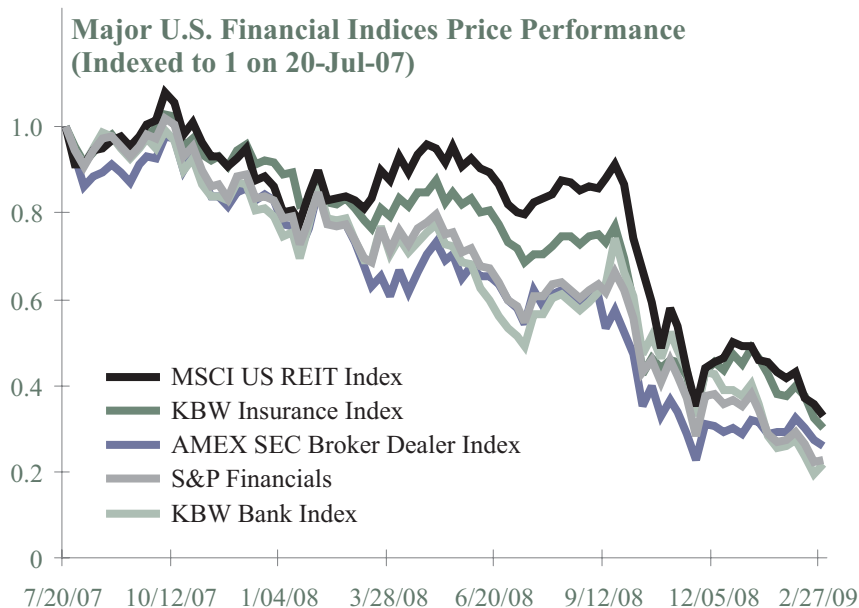
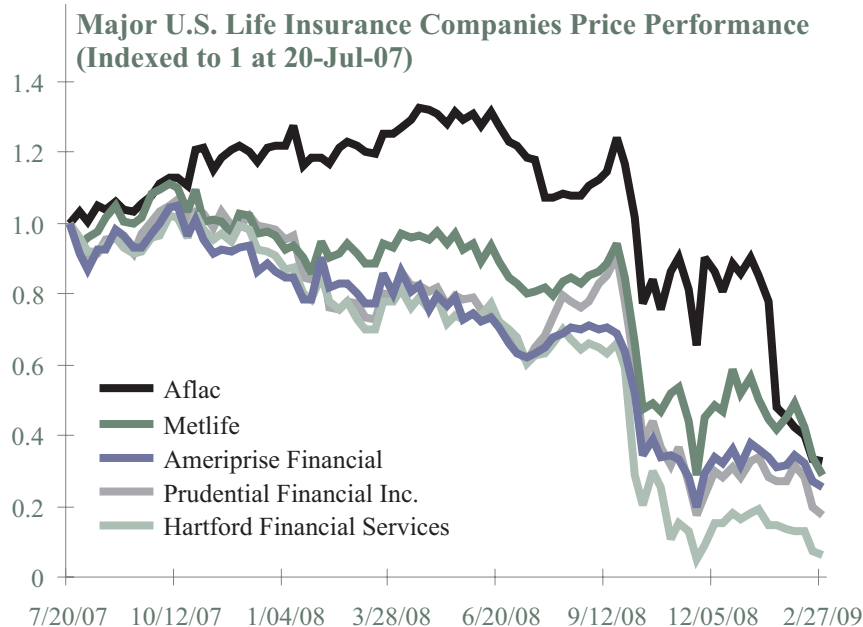


Exhibit 3



Source: FactSet
As of 27-Feb-09

Short duration assets reflect the P&C insurer's need to maintain sufficient liquidity to pay claims shortly after losses are experienced (i.e., Hurricanes Katrina and Wilma) and that need for liquidity determines the composition of the assets held on a P&C insurer's balance sheet; liquid, short-duration securities and cash. The longer-duration liabilities associated with life, health and disability insurance are what life insurers attempt to match with longer-duration assets like real estate, property, and commercial mortgages. Illiquid markets for these longer-duration asset classes

Exhibit 4

A Case for a Hardening Cycle

	Low		High	
Estimated industry capital BOY '08 (Commercial P&C)	537		537	
Estimated industry capital 1H'08 (Commercial P&C)	513	-4%	513	-4%
World CATS* (\$25B - \$20B USD)	-25	-5%	-50	-9%
Realized / Unrealized Losses on Investment Portfolio	-30	-6%	-50	-10%
AIG (total P&C capital \$32B USD)	-20	-4%	-24	-5%
Remaining Industry Capital	438	-18%	389	-28%

*CATS=Catastrophes

Source: ISO; Citigroup; Goldman Sachs; Nicholas-Applegate
As of 27-Feb-09

have, in turn, negatively impacted life insurers' balance sheets (capital) as the values of these assets have fallen.

Life insurance had always been considered a safe haven for investors during periods of weak equity markets, which made the dramatic underperformance of the life insurance stocks in 2008 unsettling. Please see Exhibit 3. The reasoning behind investing in life insurance stocks was that demand for life insurance was thought to be inelastic, the companies possessed solid balance sheets and superior risk management, and the companies were generating superior returns with the introduction of savings products. P&C, on the other hand, has been hampered by distinct pricing cycles, relatively low barriers to entry and subjection to catastrophic losses. The art of

P&C insurance is in the underwriting; the better the underwriting, the more profitable a firm can become. Therefore, a quality underwriting team that avoids major losses is only constrained by customer demand and the amount of capital they possess. The rates charged for insurance are then based on demand and industry capital (assuming rational competition). When there is too much industry capital available, rates suffer or soften, and when there is too little, rates climb or harden. Investing ahead of a hardening rate cycle is much more attractive, when rates climb and returns improve. However, hardening cycles can result in the proliferation of new firms chasing the high returns associated with higher rates, especially when the barriers to entry are so low, because the market renews its book of business on a yearly basis. This was quite evident after 9/11 when approximately twenty new Bermudian reinsurers were formed as capital was abundant from a variety of non-traditional sources (investment banks and hedge funds). The surge in capital contributed to the end of the hardening cycle.

continued on page 10



Greg Meier
Financial Writer

■ FOCUS: JAPAN — OPPORTUNITIES IN THE LAND OF THE RISING SUN

These are challenging times. America's subprime mortgage crisis has morphed into a global phenomenon, fueling severe, simultaneous recessions in the U.S., Europe and Japan. Equity prices are down dramatically, with the S&P 500, FTSE 300 and Nikkei 225 all off more than 50% from October 2007. Government officials worldwide are bailing out critical industries and enacting massive stimulus programs in hopes of derailing an even sharper fall in output and a global shift toward deflation. The situation is fluid. Economic prospects vary widely from country to country and sector to sector. Investing under these conditions requires discipline, experience and foresight.

THE SUBPRIME BOAT TO TOKYO

On several levels, Japanese firms entered the credit crunch from a stronger position than peers in Europe and the U.S. The country has direct experience with a hangover induced by double bubbles in real estate and equity prices. Twenty years after Japan's real estate binge cracked, land and stock prices remain more than 70% below their late-eighties highs. In the current decade, while many global financial institutions feasted on U.S. mortgage-backed securities, Japanese banks, for the most part, focused on reducing lending exposure and repaying government loans. Please see Exhibit 5. Entering 2008, Japan's auto industry was comparatively stronger, and Japanese consumers had healthier balance sheets and less leverage than global peers. These strengths remain intact. But, they did not shield Japan from an imported recession. While the subprime crisis infected peer countries via toxic securitized assets, for Japan, the crisis arrived via container ship. The convergence of two factors explains how:

Exhibit 5

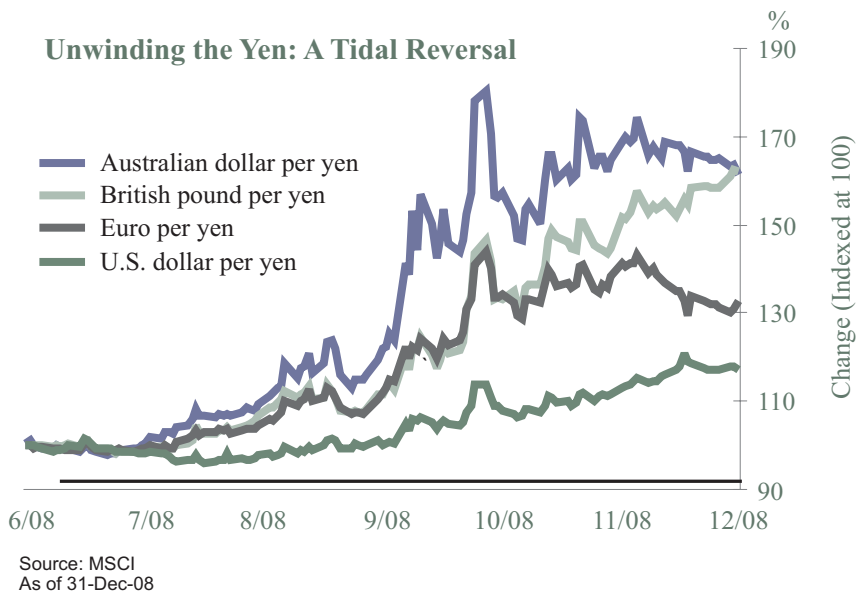
Writedowns Related to Subprime Crisis

Region	USD (billions)	% of total
Americas	807.3	68.5%
Europe	340.0	28.9%
Asia ex-Japan	13.5	1.1%
Japan	17.0	1.4%
Worldwide	1,177.8	100.0%

Source: Bloomberg
As of 02-Mar-09

- *Unwinding the Carry Trade.* The yen carry trade has been a profitable investment for many years. It involves borrowing in Japan, where government interest rates have approximated zero since 1995, and using proceeds to buy higher-yielding assets in other countries. As such, at its core, the carry trade requires selling yen and buying other currencies. Ceteris paribus, this selling depressed the value of the yen. As the financial crisis unfolded in 2008, risk aversion spiked globally. Investors stampeded out of riskier, higher-yielding instruments, unleashing a tidal reversal of the carry trade. The value of the yen surged in the six months to December 31, 2008, rising 61%, 62%, 33% and 17% versus the Australian dollar, British pound, euro and the U.S. dollar, respectively. Please see Exhibit 6. These gains increased the price of Japanese goods in the global marketplace.
- *Declining Retail Sales.* In mid-2008, with economic uncertainty heating up, consumer demand among Japan's largest trading partners, the U.S., China and European Union, started to slip. U.S. retail sales clocked six consecutive monthly declines through December, closing 2008 down an unprecedented 10%. European

Exhibit 6



sales fell on a year-over-year basis a record seven straight months. China posted six months of decelerating sales growth, the longest streak in thirteen years.

The combined impact of a strong yen and weak global demand weighed heavily on Japanese exporters. In November and December 2008 and January 2009, Japanese exports progressively set and broke records for the worst year-over-year declines in shipments on record. Please see Exhibit 7. The fall-off in exports left Japanese factory owners short on orders and long on capacity. As a

result, industrial production crumbled, with factory output down a record 10% in January alone.

INVESTING INTELLIGENTLY

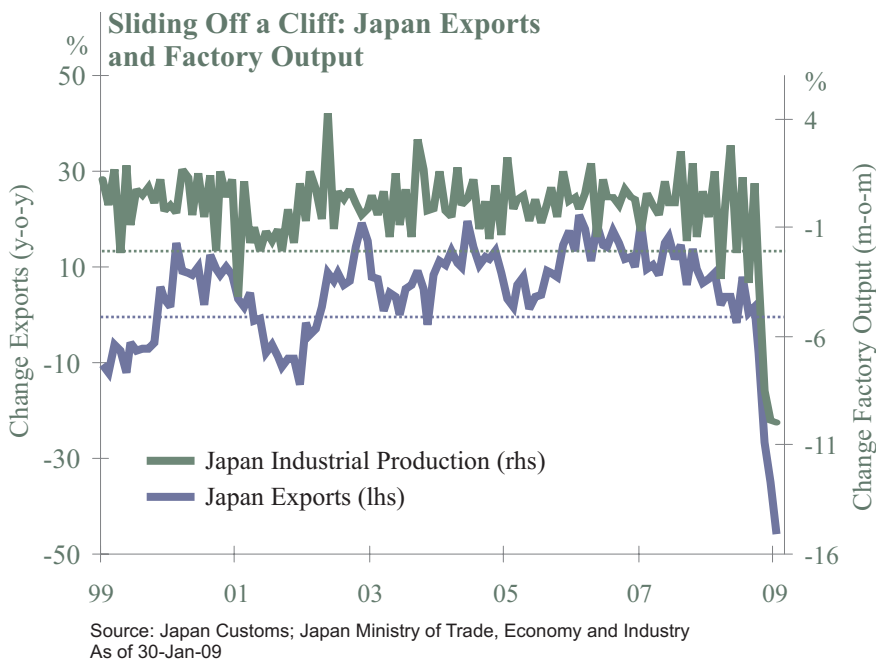
From a portfolio construction standpoint, Japan's macroeconomic environment offers challenges and opportunities. First, it's worth noting equity prices already bake in a lot of damage. As of February 24, 2009, companies in the Nikkei Stock Average sold at 0.85 times book value, the cheapest since at least July 1989, according to Nikkei, Inc. Consensus earnings estimates for 2009 for companies in the broader Topix index fell 32% in the month to February 23. That is

more than any other major country or region in the world, according to Deutsche Bank. Horacio Valeiras, CFA, Chief Investment Officer, suggests Japan could be ahead of the curve on earnings downgrades. Other countries may follow suit.

Sifting through company data, Pedro Marcal, Senior Vice President, Portfolio Manager, (International Growth, Global 130/30 and Pacific Rim), notes that Japan's investment environment is very stock specific. He is interested in companies with healthy balance sheets, strong yen-

denominated free cash flows and exposure to Japan's local economy. A member of Mr. Marcal's team, Yuka Marosek, Vice President, Analyst, sees opportunities in defensive domestic retailers. In part, this is because Japanese consumers aren't burdened with the degree of labor market deterioration found in other developed nations. Japan's jobless rate fell from 4.3% to 4.1% in January. In the U.S. and Europe, January unemployment topped 7.6% and 8.2%, respectively. One firm that has the attention of Ms. Marosek is a generic pharmaceutical manufacturer. Generic drugs are under-penetrated in Japan, a country with a rapidly aging population. Chris Herrera, Senior Vice

Exhibit 7



continued on page 10

Feature: Property & Casualty Insurance — A Relatively Safe Port in the Financial Storm

continued from page 7:

WHY 2009 IS DIFFERENT

This year, after catastrophes, negative mark-to-market adjustments of balance sheets, the fall of AIG and the exit of non-traditional providers of capital have removed between 18% and 28% of the industry's capital, we believe the P&C sector is poised to out-earn banks, diversified financials, real estate and REITs and life insurance companies. Please see Exhibit 4. The destruction or removal of capital has positioned the P&C sector for improved rates, and the fall of AIG has opened many lines of insurance to companies accustomed to a junior position behind AIG. And while the destruction of capital has not led to a surge in rates in the January renewal season, industry data have shown that rates in many of the more vanilla commercial lines have stopped falling, and some specialty lines, including D&O and offshore energy, are experiencing increases of 5% to 15%, according to industry sources. We believe these early data points indicate the potential for greater rate increases as industry catastrophe losses from 2008 firm and AIG continues to flounder.

PORTFOLIO POSITIONING

In order to position a portfolio for the coming hardening market, investors should consider P&C underwriters with low-risk, liquid balance sheets with limited exposure to more esoteric asset classes like CDOs, CLOs, CMBS, and RMBS. I also prefer specialty underwriters that already possess solid market share and pricing information that can be translated into pricing power. Finally, AIG competitors may benefit from AIG's strained capital position through underwriting and hiring away talent. ▲

by Todd R. Buechs

Focus: Japan — Opportunities in the Land of the Rising Sun

continued from page 9:

President, Portfolio Manager, (International Small Cap Growth and Global Select), remains neutral on Japan, in part because the rest of the developed world is under similar duress. Stock ideas he sees working are companies benefiting from positive change due to macroeconomic and internal factors. From a sector and industry standpoint, Mr. Herrera is finding opportunities in the health care and consumer space. Portfolios he manages own one of Japan's largest producers of instant noodles. "This company is expanding both its geographic reach and its product range," said Mr. Herrera. "The slowing economic environment is a plus for the firm because consumers are trading down the value chain, buying less expensive products."

THE SUN ALSO RISES

There is little doubt 2009 will be a difficult year. In the long run, the current downturn should benefit Japan's economy — clearing detritus of imprudent and non-competitive businesses while improving market share and margins for smart competitive firms. While locally intentioned, the global impact of massive doses of monetary stimulus could catalyze an end to Japan's long-running struggle with deflation. Eventually, economic conditions will stabilize. In past recessions, equities typically recovered first. In the meanwhile, a disciplined, bottom-up approach to investing may be best equipped for illuminating dangers and opportunities before they arise. ▲

by Greg Meier

DISCLOSURE:

There is no guarantee that any opinion, forecast, or objective will be achieved. The information herein is provided for informational purposes only and should not be construed as a recommendation of any security, strategy or investment product.

Securities and sectors discussed herein reflect general market commentary and should not be construed as a recommendation (current or past) of the company or any of its portfolio managers.

The asset and industry reports contained herein are unaudited. The summation of dollar values and percentages reported may not equal the total values, due to rounding discrepancies. Unless otherwise noted, Nicholas-Applegate is the source of illustrations, performance data, and characteristics. Unless otherwise noted, equity index performance is calculated with gross dividends reinvested and estimated tax withheld, and bond index performance includes all payments to bondholders, if any. Indexes may not represent the investment style of any Nicholas-Applegate strategy. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index.

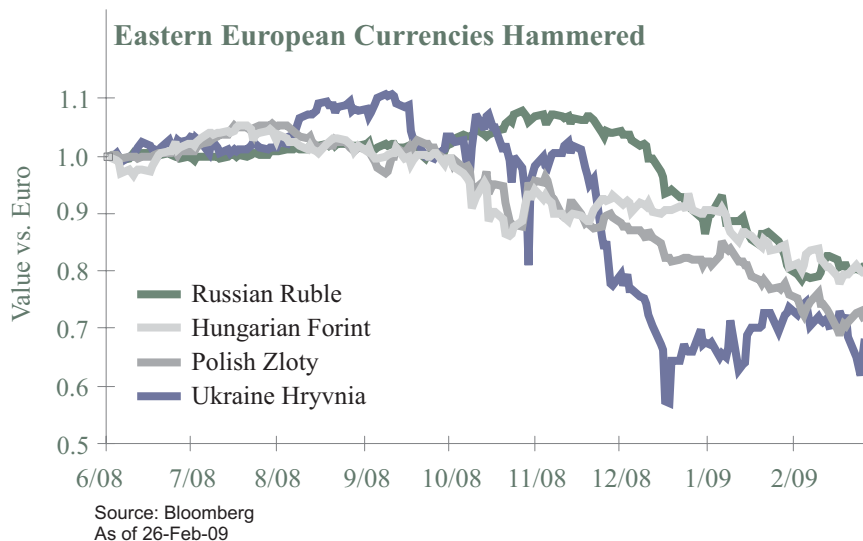
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limited and should not be relied upon as an indicator of future results.

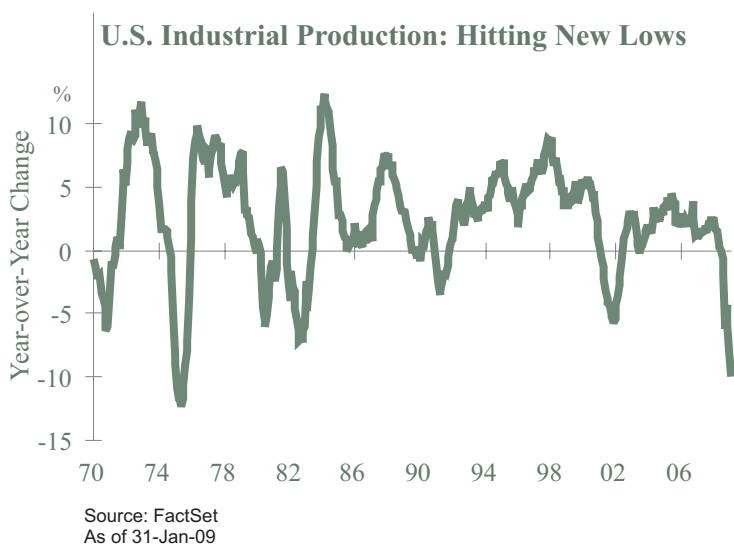
References to specific securities, issuers and market sectors are for illustrative purposes only. This presentation should not be construed as a general guide to investing, or a recommendation regarding any investor's specific circumstances. Although the manager attempts to limit portfolio risk, risk management does not imply low risk. All investments are subject to some degree of market and investment-specific risk. The value of investments can go down as well as up, and a loss of principal may occur. No part of this material may be copied or duplicated, or distributed to any third party without written consent.

Small- and mid-cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the markets for these stocks may adversely affect the value of these investments. Investments in overseas markets may pose special risks, including currency fluctuation and political risks, and the portfolio is expected to be more volatile than a U.S.-only portfolio. These risks are generally intensified for investments in emerging markets.

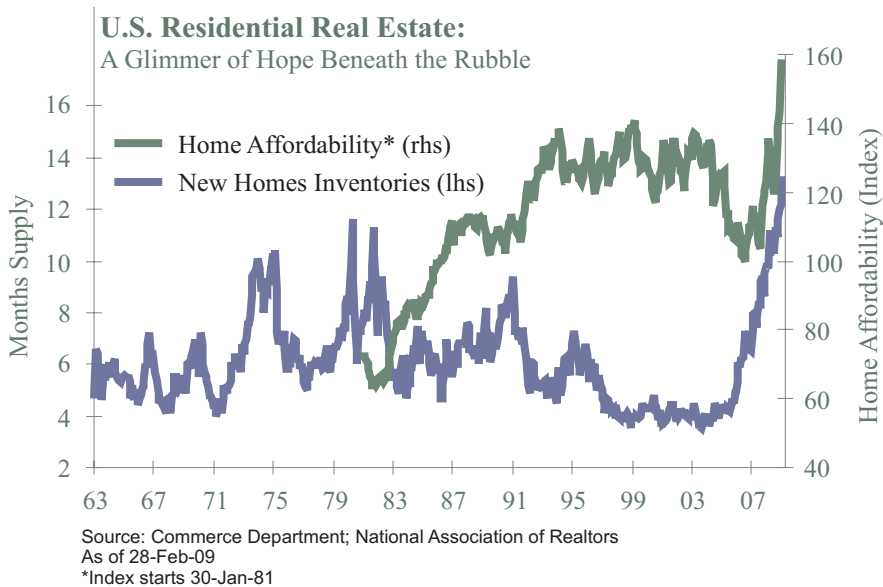
Convertible securities are often rated below investment grade or not rated because they fall below debt obligations and just above common equity in order of preference or priority on the issuer's balance sheet. Hence an issuer with investment grade senior debt may issue convertible securities with ratings less than investment grade or not rated.



Currencies of Eastern European countries have fallen precipitously over the last several months as a flight to the euro and away from local legal tender takes place. These currencies, which were once highly correlated to the euro, are now falling sharply with several at all-time lows versus the euro. This means local investors in Eastern countries who were once attracted to lower borrowing rates of the euro have seen their payments skyrocket with local currency weakness. The result is a downward spiral for those borrowers who are already being hit by the global economic climate.



Business capex and consumer spending reductions have led to an abrupt, severe slowdown in industrial production. Recent lows are approaching levels not seen since the 1970s.



Unprecedented affordability and newly unveiled government subsidy programs combine to suggest the housing market could be in sight of a recovery. It's about time. Home sales have been in freefall since 2005. Many current economic problems can be traced directly or indirectly to imploding home values. A housing recovery may stymie some of the bank losses that have decimated investor confidence. These are high hopes in tough times and they face powerful headwinds: Job losses are accelerating and people fearing unemployment don't typically buy homes.