

MEMORANDUM

TO: Select Clients of SIA

FROM: Beth Stegner Peabody – President, Stegner Investment Associates, Inc. (“SIA”)

RE: PIMCO Headline News

DATE: September 30, 2014

Last Friday, Bill Gross resigned his position with PIMCO effectively immediately. His clashes with the firm’s executive committee have been exposed ever since the abrupt departure of the firm’s co-CIO in January of this year, so we were not completely surprised by this resignation. However, what is most striking about these developments is that Gross will immediately begin a new job as manager of a bond fund at rival Janus Capital Group.

This memo provides answers to questions clients might have in light of this very public series of events:

What is the impact of Bill Gross’ leaving as lead manager of the flagship PIMCO Total Return fund?

SIA has been included in several conference calls during the past two days with PIMCO’s senior management team that remains intact at the firm. Upon the announcement of his departure, the firm quickly appointed Dan Ivascyn as its new Group Chief Investment Officer and announced that three PIMCO veterans would take over management of the fund.

This is an experienced and well-respected group with two of the team members earning Morningstar’s Fixed-Income Fund Manager of the Year accolades in recent years. This team of sector specialists was often credited for giving Gross ideas that enhanced the fund’s performance.

Our conversations during the past two days with other investment professionals support the fact that a very deep bench of talent remains in place as managers of this fund.

How will this departure affect SIA’s investment strategies?

During the past two years, we implemented a new taxable bond strategy which reduced our exposure to PIMCO Total Return given our concerns about the size of the fund, Bill Gross’ age (71), and its increasing volatility combined with declining relative investment performance.

We reduced our exposure to PIMCO Total Return from a core holding of 50% of our taxable bond strategy to a non-core holding of less than 20% during this time frame.

For some portfolios we added exposure to another fund offered by PIMCO – PIMCO Income – which is also managed by Dan Ivascyn. While his role at the firm will change with the new appointment, we are not concerned at this time that these new responsibilities will have an impact on the ability of PIMCO Income to continue to post excellent relative performance returns.

SIA has placed both funds on our Watch List and we have begun our search for potential replacements, which might result in changes to our investment strategy. However, there is no immediate need to adjust our exposure solely because of this recent news.

Our investment strategy for municipal bonds is not impacted by issues concerning PIMCO.

