PIMCO

PIMCO Dynamic Credit and Mortgage Income Fund (PCI)

PERFORMANCE SUMMARY

Risk appetites improved considerably in Q2 following positive developments in the macro backdrop, including the easing of lockdown measures, some improvement in economic data, as well as continued fiscal and monetary policy support. Global equities rallied – with the S&P 500 posting its best quarter since 1998 at 20.5% – credit spreads tightened considerably, and the dollar weakened. Sovereign yield moves were broadly mixed with curves steepening in some regions, though central bank activity generally anchored rates at low levels. U.S. 10yr yields were little changed.

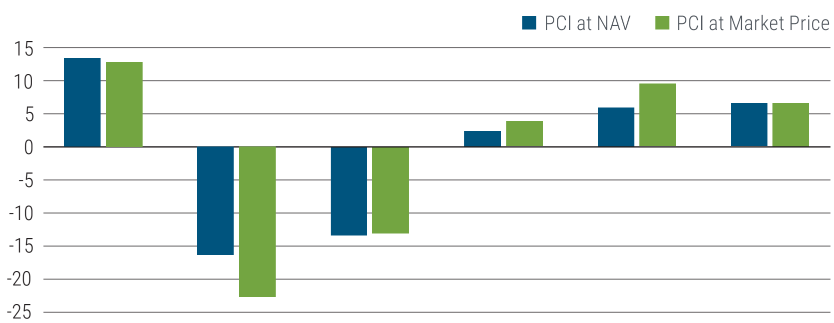
CONTRIBUTORS

- Exposure to U.S. residential mortgage credit
- Exposure to corporate credit
- Exposure to emerging market debt

DETRACTORS

- Exposure to asset backed securities
- Exposure to U.S. commercial real estate debt

Average annual total returns (%) as of 30 June 2020



	3-mos	YTD	1-yr.	3-yrs.	5-yrs.	Inception
NAV	13.41	-16.36	-13.43	2.37	5.96	6.61
MOP	12.87	-22.73	-13.22	3.85	9.56	6.65

Past performance is not a guarantee or a reliable indicator of future results. An investment in the fund involves risk, including loss of principal. Investment return and the value of shares will fluctuate. Returns are calculated by determining the percentage change in net asset value (NAV) or market price (as applicable) in the specific period. The calculation assumes that all dividends and distributions, if any, have been reinvested. NAV and market price returns reflect performance net of fees, do not reflect broker sales charges or commissions in connection with the purchase or sales of fund shares and include the effect of any expense reductions. Returns for a period of less than one year are not annualized. Returns for a period of more than one year represent the average annual return. Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods, returns at market price can also be influenced by factors such as changing views about the fund, market conditions, supply and demand for the fund's shares or changes in fund dividends and distributions.

FUND INFORMATION

Inception Date	31 January 2013
Symbol	PCI
CUSIP	72202D106
Assets (in millions):[1]	
Common Net Assets	$2,626.66
Outstanding Preferred Shares	$0
Total Managed Assets	$4,674.69
Portfolio manager(s)	Alfred Murata Dan Ivascyn Mark Kiesel
Total Effective Leverage	43.81%
Total Leveraged-Adjusted Effective Duration (yrs.)	5.00
Market Price Distribution Rate[2]	11.33%
NAV Distribution Rate[2]	11.52%
Undistributed Net Investment Income[2]	(-$0.35)
Total expense ratio	4.63%

Net expense ratio excluding interest expense is 2.12%. Interest expense can result from portfolio investment transactions and is not paid to PIMCO.

Gross expenses reflect the accounting treatment of certain investments (e.g., reverse repurchase agreements) but do not reflect actual expenses paid to PIMCO.

1 Total Managed Assets include net assets applicable to common shareholders (total common assets) + preferred assets + reverse repurchase agreements + credit default swaps + floating rate notes issued in Tender Option Bond (TOB) transactions, as applicable. In TOB transactions, a fund may sell a fixed rate municipal bond to a broker who places that bond in a special purpose trust from which floating rate notes and Inverse Floaters are issued.

2 As of 30 June 2020. Distribution rate is calculated by annualizing the most recent distribution per share and dividing by the NAV or Market Price as of the reported date. Distribution rate information is current as of the latest quarter end. The distribution rate does not include, and is not expected to result in, a return of capital ("ROC"). Because a distribution may at times include a ROC, the distribution rate should not be confused with yield or performance. Please see the disclosures for additional information regarding distributions and the distribution rate.

PORTFOLIO POSITIONING

We continue to emphasize diversification and focus on capturing complexity and liquidity premia to improve risk-adjusted returns. Since the selloff in March, non-agency MBS have seen a significant recovery. We remain focused on non-agency MBS purchased at discounts to par, which provide a potential source of income and capital appreciation and benefit from more resilient fundamentals. We have emphasized assets with seniority in the capital structure and low loan-to-value ratios that we expect to better withstand a deterioration in home prices and consumer credit fundamentals.

Within corporate credit, we favor a defensive approach at a time of heightened volatility and believe a caution-first approach is warranted in an effort to protect against permanent capital impairment. We believe investment grade credit is one of the more attractive areas at present valuations given the uncertain environment. We rely on our bottom-up capabilities and focus on companies with high barriers to entry, pricing power, and asset coverage. We also maintain our focus on credits that we believe to be less correlated to broad corporate credit such as special situations and restructuring related credits. The Fund maintains exposure to bank capital particularly in banks with high equity capital ratios.

We remain selective within our Emerging Markets (EM) allocation. While some retracement of the March selloff has taken place for some countries, spreads in general remain at elevated levels despite generally strong fundamentals. We prefer higher quality EM external debt and avoid countries that have become vulnerable due to the fall in oil prices and/or tourism.

Portfolio Characteristics as of 30 June 2020

	Market value weighted %	Duration weighted %
Government related[4]	0.93	37.59
Mortgage	51.04	51.97
Non-Agency Mortgage	48.90	51.51
Agency MBS	2.14	0.46
High Yield Credit	15.49	12.59
Non-U.S. Developed	13.90	-12.80
Emerging Markets[5]	4.83	6.01
Investment Grade Credit	3.22	5.91
Municipal	0.16	0.12
Other[6]	2.26	0.04
Net Other Short Duration Instruments[7]	8.18	-1.43

QUARTER IN REVIEW

Exposure to U.S. residential mortgage credit was the largest contributor to performance this quarter as spreads tightened meaningfully across the sector. We expect senior non-agency MBS fundamentals to remain resilient in the face of slower growth and elevated unemployment as homeowner equity remains robust at 40%+, based on PIMCO calculations.

Exposure to corporate credit and particularly high yield credit also contributed to performance this quarter. Credit rallied over the quarter alongside improving liquidity conditions due in large part to support from the Federal Reserve's corporate purchase program, which improved access to funding markets for many companies.

Portfolio structure is subject to change without notice and may not be representative of current or future allocations.

4 May include nominal and inflation-protected Treasuries, Treasury futures and options, agencies, FDIC-guaranteed and government-guaranteed corporate securities, and interest rate swaps.

5 Short duration emerging market instruments include an emerging market security or other instrument economically tied to an emerging market country by country of risk with an effective duration less than one year and rated investment grade or higher or, if unrated, determined to be of similar quality by PIMCO. Emerging Markets include the value of short duration emerging market instruments previously reported in another category.

6 May include convertibles, preferreds and Yankee bonds.

7 Net Other Short Duration Instruments include securities and other instruments (except instruments tied to emerging markets by country of risk) with an effective duration less than one year and rated investment grade or higher or, if unrated, determined by PIMCO to be of comparable quality, commingled liquidity funds, uninvested cash, interest receivables, net unsettled trades, broker money, short duration derivative (for example, eurodollar futures) and derivatives offsets. With respect to certain categories of short duration securities, the adviser reserves the discretion to require a minimum credit rating higher than investment grade for inclusion in this category. Derivatives Offsets include offsets associated with investments in futures, swaps and other derivatives. Such offsets may be taken at the notional value of the derivative position, which in certain instances may exceed the actual amount owed on such positions.

Duration is a measure of the fund's price sensitivity to changes in interest rates expressed in years. Total Leverage -Adjusted Duration represents the Fund's effective portfolio duration taking into account its use of leverage, including both portfolio leverage (e.g., reverse repos, credit default swaps, and tender option bonds), and any structural leverage, such as auction-rate preferred shares, if any, issued by the Fund. Effective duration is the duration for a bond with an embedded option when the value is calculated to include the expected change in cash flow caused by the option as interest rates change.

EM debt posted positive returns on the back of a significant compression in EM spreads as the global efforts of policymakers and central banks took effect throughout the quarter. The results of those efforts are illustrated in the improved liquidity within various risk markets, looser global financial conditions, and the overall improvement in investor sentiment.

OUTLOOK AND STRATEGY

The global economy has started to recover from the sharpest (and likely the shortest) recession in modern times. Our baseline forecast is for a bumpy and uneven recovery with pre-crisis levels of economic activity unlikely to be reached before 2022 in most Western economies. While a near-term mechanical bounce in economic activity in response to the lifting or easing of lockdown measures looks likely, we expect the subsequent climb to be long and arduous. The main source of uncertainty lies outside economic or policy spheres: a rapidly evolving COVID-19 pandemic that could easily push the economy into better or worse trajectories than our baseline over the cyclical six- to 12-month horizon.

We are taking a selective approach with a focus on defensive and non-cyclical sectors. In particular, we emphasize a high quality bias, liquidity, and diversified sources of return. We continue to see value in more defensive sectors but are also finding opportunities in certain sectors that have lagged more than we believe is justified. Within corporate credit, we tend to avoid generic corporate credit and focus on investment opportunities we believe to be less correlated to corporate credit beta, including special situations and restructurings. We like bank capital for its liquidity, relatively defensive characteristics, and strong bank balance sheets.

Despite the current economic conditions, we remain confident in the underlying fundamentals of housing related securities. Securitized debt including senior non-Agency MBS remain our highest conviction sectors. We continue to find select opportunities within higher quality emerging market countries where yield levels remain attractive. We seek to be selective across sovereign exposures and quasi-sovereign credits, and seek to scale positions modestly given potential for volatility.

MANAGEMENT PROFILE

The expert portfolio management team draws on PIMCO's time-tested investment process: our rigorously developed global macro outlook, bottom-up credit analysis and research teams' deep reservoir of specialized investment expertise.

Alfred T. Murata
Managing Director
Portfolio Manager

Mark R. Kiesel
CIO Global Credit and
Managing Director

Dan J. Ivascyn
Group Chief Investment
Officer and Managing Director

PIMCO

A closed-end fund is not continuously offered. After the initial public offering, shares are sold on the open market through a stock exchange. Additional information regarding the fund can be found in the fund's most recent shareholder report. This material is presented only to provide information and is not intended for trading purposes.

Preferred shares consists of preferred assets divided by total net assets. Total effective leverage consists of preferred assets + reverse repurchase agreements + credit default swaps + floating rate notes Issued, as applicable, divided by Total net assets. Total leverage-adjusted effective duration represents the fund's effective portfolio duration taking into account its use of leverage, including both portfolio leverage (i.e., reverse repos, credit default swaps and tender option bonds), and any structural leverage, such as auction-rate preferred shares, if any, issued by the fund. Duration is the measure of a bond's price sensitivity to interest rates and is expressed in years. Effective duration is the duration for a bond with an embedded option when the value is calculated to include the expected change in cash flow caused by the option as interest rates change.

A word about risk: Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Mortgage- and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee, there is no assurance that private guarantors will meet their obligations. **High yield, lower-rated securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. Investing in **foreign-denominated and/or -domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. The use of **leverage** may cause a portfolio to liquidate positions when it may not be advantageous to do so to satisfy its obligations or to meet segregation requirements. Leverage, including borrowing, may cause a portfolio to be more volatile than if the portfolio had not been leveraged. Income from **municipal bonds** is exempt from federal income tax and may be subject to state and local taxes and at times the alternative minimum tax. **Sovereign securities** are generally backed by the issuing government. Obligations of U.S. government agencies and authorities are supported by varying degrees, but are generally not backed by the full faith of the U.S. government. Portfolios that invest in such securities are not guaranteed and will fluctuate in value. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. **Diversification** does not ensure against loss.

There is no assurance that any fund, including any fund that has experienced **high or unusual performance** for one or more periods, will experience similar levels of performance in the future. High performance is defined as a significant increase in either 1) a fund's total return in excess of that of the fund's benchmark between reporting periods or 2) a fund's total return in excess of the fund's historical returns between reporting periods. Unusual performance is defined as a significant change in a fund's performance as compared to one or more previous reporting periods.

It is important to note that differences exist between the fund's daily internal accounting records, the fund's financial statements prepared in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. It is possible that the fund may not issue a Section 19 Notice in situations where the fund's financial statements prepared later and in accordance with U.S. GAAP or the final tax character of those distributions might later report that the sources of those distributions included capital gains and/or a return of capital. Please see the fund's most recent shareholder report for more details.

The Fund's distribution rate may be affected by numerous factors, including, but not limited to, changes in realized and projected market returns, Fund performance, and other factors. There can be no assurance that a change in market conditions or other factors will not result in a change in the Fund distribution rate at a future time. Distribution rates are not performance. Distribution rate is calculated by annualizing the most recent distribution per share and dividing by the NAV or Market Price as of the reported date. The distribution rate does not include, and is not expected to result in, a return of capital ("ROC"). Because a distribution may at times include a ROC, the distribution rate should not be confused with yield or performance. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the composition of distributions. Final determination of a distribution's tax character will be made on Form 1099 DIV sent to shareholders each January.

As with any stock, the price of the fund's common shares will fluctuate with market conditions and other factors. Shares of closed-end management investment companies frequently trade at a price that is less than (a "discount") or more than (a "premium") from their net asset value. If the fund's shares trade at a premium to net asset value, there is no assurance that any such premium will be sustained for any period of time and will not decrease, or that the shares will not trade at a discount to net asset value thereafter. Additionally, the fund's distribution rate may be affected by numerous factors, including changes in realized and projected market returns, fund performance, and other factors. There can be no assurance that a change in market conditions or other factors will not result in a change in the fund distribution rate at a future time.

Beta is a measure of price sensitivity to market movements. Market beta is 1.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This material contains the current opinions of the manager and such opinions are subject to change without notice. This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

CMR2020-0804-1292783