

Gross leaves PIMCO for Janus

After more than four decades at Pacific Investment Management Company, PIMCO, Co-Founder Bill Gross has chosen Janus Capital Group as his new home. On September 26, 2014, the famed “Bond King” announced his move, effective the following Monday, September 29th. Beginning October 6, Mr. Gross will manage the firm’s Global Unconstrained Bond Fund at their new office location in Newport Beach, California and take responsibility for the firm’s global macro fixed income strategies.¹

In regards to his move, Mr. Gross stated, “I look forward to returning my full focus to the fixed income markets and investing, giving up many of the complexities that go with managing a large, complicated organization. I chose Janus as my next home because of my long standing relationship with and respect for CEO Dick Weil and my desire to get back to spending the bulk of my day managing client assets.”¹

Progression at PIMCO

While Bill Gross’ departure may have taken the investment world by surprise, PIMCO kept its composure. Many believe that it may have been PIMCO’s decision to split. In fact, on September 26th, the day Gross announced his departure, PIMCO announced its new leadership structure. With Douglas Hodge and Jay Jacobs continuing to serve as CEO and President, respectively, Daniel Ivascyn will serve as Group Chief Investment Officer, succeeding Gross. Ivascyn will lead a team of CIOs overseeing the global, global credit, equities, U.S. core strategies, and real return & asset allocation investment categories. Three members of this team, Scott Mather, Mark Kiesel and Mihir Worah were appointed as the Portfolio Managers of PIMCO’s flagship fund previously managed by Gross, the Total Return bond fund.²

CEO, Mr. Douglas Hodge commented, “As part of our responsibilities to our clients, employees and parent, PIMCO has been developing a succession plan for some time to ensure that the firm is well prepared to manage a seamless leadership transition in its Portfolio Management team. We have passed the torch of leadership to a team of investors who are among the very best in the investment management industry. They are seasoned, highly skilled professionals who embody PIMCO’s values and have established track records of delivering value to clients.” Similarly, Mr. Ivascyn remarked, “We have assembled a team of world-class investors over the course of many years, and established a time-tested top-down, bottom-up investment process that will guide our investment philosophy and continue to serve our clients well into the future. Our CIO’s

¹ William H. Gross Joins Janus Capital. Janus Capital Group. 26 September 2014.
<http://ir.janus.com/file.aspx?IID=4050265&FID=25432118>

² PIMCO Elects Daniel Ivascyn as Group Chief Investment Officer. Press Release. PIMCO. 26 September 2014.
<http://www.pimco.com/EN/PressReleases/Pages/PIMCO-Elects-Daniel-Ivascyn-as-Group-Chief-Investment-Officer.aspx>

and I are fully committed to consistently deliver to our clients the investment excellence that they have rightly come to expect of us.”²

The Effect on Investors

While PIMCO is seeing this event as a positive change, investors should still be cautious. If your Plan offers the PIMCO Total Return bond, revisit your bond strategy. Events like this one highlight the importance of a set strategy for investment. Also, take into account the facts of the situation. Bill Gross is 70 years old. This succession plan was in place long before his departure from the company; participants should find comfort in that. As Gross said, he was responsible for managing a whole company, not just funds. Now, there are three seasoned investment professionals serving as Portfolio Managers for this fund, without having to tend to the management of the company as well. In the PIMCO Total Return Update, Mark Kiesel explains, “I think it’s important to highlight that all three of us have already been part of the Total Return investment process for many years. The fact is that no one individual could possibly know the ins and outs of every corner of the bond market. As with every other generalist portfolio manager at PIMCO, Bill Gross relied on us - along with the firm’s 240 other portfolio managers - for help in generating the trade ideas that have driven the strategy’s strong historical performance. So we’re intimately familiar with the portfolio and its holdings, and when we took over the strategy there were no surprises. It was a seamless transition.”³

The Future of PIMCO

Although the recent performance of the PIMCO Total Return Fund has been sub-par, the 3-year performance is ranked at the top 28th percentile by Morningstar.⁴ PIMCO’s other popular offerings, the PIMCO GNMA and the PIMCO Real Return, are ranked in the top 10% over the past 5 years. Ultimately, PIMCO will remain a premier bond manager but must weather the storm of assets following Bill Gross out the door.

³ PIMCO Total Return Update. Strategy Spotlight. PIMCO. September 2014.
<http://www.pimco.com/EN/Insights/Pages/PIMCO-Total-Return-Update-2014.aspx>

⁴ Morningstar Performance Rankings as of 9/30/2014