Date: July 15, 2026
To: Board of Retirement
From: F. Robert Reveles, Retirement Financial Investment Officer
Subject: PIMCO CIT Vehicle Considerations and Recommendation

Recommended Action:

Remain in the PIMCO mutual fund vehicle until more data is available.

Fiscal and Financial Impacts:

No immediate budget adjustment required; however, deferring a transition maintains management fees at the current annual rate of 46 bps versus 20 bps.

Strategic Plan Importance and Risk Assessment:

Reviewing the unique construction limits, correlations, and performance metrics promotes Goal 1 – Protect the Plan's long-term financial health and Goal 2 – Strengthen risk oversight by ensuring Board risk appetite is aligned with investment vehicle construction.

Background and Discussion:

At the April 15, 2026, Board of Retirement (BOR) meeting, Callan and staff discussed a new Collective Investment Trust (CIT) share class of the Total Return Fund offered to Callan clients by PIMCO. This follow-up report outlines the benefits and considerations of CIT structures, evaluates the PIMCO CIT strategy, attempts to bridge the gap between the unreliable shorter term data with the longer term legacy vehicles, and provides staff's recommendation regarding a transition from the legacy mutual fund into the proposed CIT.

What is a CIT and why use it?

Collective Investment Trusts (CITs) are tax-exempt, pooled vehicles maintained by banks or trust companies exclusively for institutional, tax-qualified investors, such as public pension and governmental 401(a) or 457(b) plans. Because they do not serve the general public, CITs operate under bank-level regulation rather than Securities and Exchange Commission (SEC) oversight, stripping out significant administrative and marketing overhead. These structures provide operational advantages, such as fee savings, negotiable fee structures, reduced cash drag, and increased tax efficiency through exemptions from mandatory capital gains distributions and foreign withholding taxes.

CITs introduce a few unique institutional considerations for a California local government pension fund. First, bank regulations grant the bank trustee the authority to establish redemption gates during periods of market stress, which can limit investor withdrawals and trigger multi-month payout delays. Second, because CITs are established under a specific bank's declaration of trust, assets can only be held on platforms that maintain direct operational and legal agreements with that trustee bank. Consequently, changing primary custodians can force the fund to completely liquidate its CIT position, convert it to cash, and re-establish the position with the new custodian. Finally, because CIT strategies can be highly customized, staff must ensure that the underlying trustee bank, which handles the accounting rather than the investment manager, can deliver timely asset, strategy, and performance reporting required to meet the fund's accounting and GASB reporting timelines. Fortunately, the SEI Trust Company is the PIMCO CIT trustee, a well-known and highly regarded institutional service provider. MCERA currently has, and has had, CIT investments with the organization.

Why use a Mutual Fund?

By contrast, traditional mutual funds offer total portfolio portability, allowing shares to clear globally through primary custodian networks and transfer "in-kind" without liquidation if the system changes custodians. Because they operate under SEC regulations, they provide high transparency through mandatory prospectuses and daily public pricing. Furthermore, mutual funds provide guaranteed daily liquidity, governed by a strict statutory redemption payout timeline of seven days. (Though this is typically only one day in practice.)

Like CITs, mutual funds have some limitations for an institutional investor. First, because they cater to the general public, portfolio managers often maintain elevated cash allocations to satisfy unpredictable retail redemptions, creating a structural cash drag. Second, mutual fund fees are generally non-negotiable and include higher administration and compliance overhead. Finally, these vehicles suffer from lower tax efficiency on international equities, as foreign withholding taxes on distributions can unnecessarily diminish net performance relative to a tax-exempt CIT structure.

Portfolio Construction Limits

Trustees will note that while the underlying PIMCO Total Return mutual fund has operated since May 11, 1987, and the broader CIT vehicle launched on November 30, 2009, the Callan CIT (CL) share class is only 21 months old, with an inception date of September 30, 2024. Consequently, performance data specific to this lower-cost vehicle remains limited. While its strategy mirrors the legacy CIT, tracking variations still occur. Trustees should review Table #1 closely as it outlines these key portfolio guidelines and limits.

Table #1

Strategy	Total Return Fund Core Plus	Total Return CIT Core Plus
Benchmark	Bloomberg U.S. Aggregate Index	Bloomberg U.S. Aggregate Index
Duration	Benchmark +/- 2 years	Benchmark +/- 2 years
Fees	46bps	20bps
Securities Lending	33.33%	Not permitted
High Yield Exposure	20%	10%
Non-U.S.(Developed) exposure	30%	20%
Emerging Markets exposure	15%	15%

Table #1 - Continued

Strategy	Total Return Fund Core Plus	Total Return CIT Core Plus
Currency exposure	20%	20%
Equity related	10%	Not permitted
Securities Types		
Below-IG ABS/CMO	Yes	No
Derivatives	Yes	Yes
Reverse Repurchase Agreements	Yes	No
Shorts	Yes	No
Segregated assets	Yes	No
Preferred stock	Yes	No
CBOs, CDO, or CLO	Yes	No

Performance

Longer-term historical data often favors the mutual fund over the CIT. Given the portfolio construction constraints outlined in the preceding table, this difference is expected. The mutual fund can take more active risk in niche sectors and securities, and over time, these exposures present the opportunity to generate excess returns.

The following tables contrast net performance across both long-term and short-term horizons. Tables #2 and #3 compare the mutual fund and CIT, while Tables #4, #5, and #6 compare the mutual fund to the Callan share class.

Table #2 - Historical Trailing Net Returns as of December 31, 2025

Period	Total Return Fund, **PTTRX (%)**	Total Return Fund, **CIT (%)**
1 Year	9.33	9.10
2 Years	5.91	5.71
3 Years	6.04	5.89
5 Years	0.31	0.11
10 Years	2.56	2.39

Table #3 - Calendar Year Net Returns

Period	Total Return Fund, **PTTRX (%)**	**T**otal Return Fund, **CIT (%)**
2025	9.33	9.09
2024	2.60	2.42
2023	6.30	6.27
2022	-14.09	-14.15
2021	-0.84	-1.35
2020	8.88	7.87
2019	8.26	8.95
2018	-0.26	-0.59
2017	5.12	4.21
2016	2.59	3.38
2015	0.73	0.98

Table #4 - Recent Trailing Net Returns as of May 31, 2026

Period	Total Return Fund, **PTTRX (%)**	**T**otal Return Fund, **CIT Class CL (%)**
1 Month	0.53	0.50
3 Month	-1.49	-1.23
6 Month	0.58	0.57
9 Month	3.68	3.42
12 Month	7.20	6.88

Table #5 - Fiscal Year-to-date Net Returns as of May 31, 2026

Total Return Fund, **PTTRX (%)**	**T**otal Return Fund, **CIT Class CL (%)**
5.10	4.85

Table #6 - Trailing 12-month Net Returns

Period	Total Return Fund, **PTTRX (%)**	Total Return Fund, **CIT Class CL (%)**
5/31/2026	7.20	6.88
4/30/2026	5.58	5.78
3/31/2026	5.33	5.52
2/28/2026	7.97	7.78
1/31/2026	8.79	8.79
12/31/2025	9.33	9.35
11/30/2025	7.56	7.64
10/31/2025	8.37	8.37
9/30/2025	4.35	4.68

While the mutual fund matched or outperformed the CL share class in the majority of the periods evaluated, it exhibited significant underperformance (greater than 10 basis points) during three distinct months. In October 2024, a 50-basis-point rise in the 10-year Treasury yield and widening agency MBS spreads impacted the strategy as duration was extended from 5.71 to 6.47. In May 2025, longer-term Treasury yields again rose alongside falling inflation expectations. Most recently, in March 2026, the conflict in the Middle East and strong U.S. inflation prints drove both inflation expectations and Treasury yields higher.

Risk Metrics

Due to its broader portfolio construction parameters, the mutual fund historically exhibits higher volatility than the CIT structure. The table below quantifies and compares the risk profiles of these vehicles through May 31, 2026, alongside the Dodge & Cox Income Fund since September 30, 2024. Though these annualized metrics are provided for completeness, Trustees should note that this historical data is limited to a sample size of 20 monthly observations. For comparison, alpha metrics are calculated relative to the 12-week Treasury bill, and the Bloomberg U.S. Aggregate Index is included as the broad market benchmark.

Table #7 – Risk Metrics

Annualized Geometric Return

PIMCO CIT CL	PIMCO CIT	PIMCO MF	D&C	BB AGG
4.15%	3.91%	4.04%	3.08%	2.62%

Standard Deviation

PIMCO CIT CL	PIMCO CIT	PIMCO MF	D&C	BB AGG
4.53%	4.61%	4.85%	4.56%	4.09%

Tracking Error

PIMCO CIT CL	PIMCO CIT	PIMCO MF	D&C
0.73%	0.81%	0.97%	0.61%

Table #7 – Continued

Alpha

PIMCO CIT CL	PIMCO CIT	PIMCO MF	D&C
1.64%	1.44%	1.66%	0.62%

Based on the metrics in Table #7, these short-term calculations mathematically favor the CIT CL share class. While other risk-adjusted return metrics were calculated, they are artificially inflated by the favorable environment and short time frame; therefore, they may not accurately represent long-term performance expectations and are omitted here. These metrics are highly sensitive to outliers. They reflect a unique, near-term macro-environment and carry significantly less weight than standard 3-, 5-, or 10-year measurement periods. Notably, the returns from January 2025 through February 2026 capture an environment where the PIMCO Total Return strategy delivered its strongest performance streak since calendar year 2012.

Correlations

Portfolio interaction is another important component of review. Table #8 presents the correlations of each vehicle against both the total portfolio and the total portfolio benchmark. Among the PIMCO vehicles evaluated, the mutual fund strategy offers the lowest correlation with the total portfolio.

Table #8 -

Correlation with Total Portfolio

	PIMCO CIT CL	PIMCO CIT	PIMCO MF	D&C	BB AGG
vs Portfolio	0.6273	0.6275	0.6027	0.5907	0.5619
vs Portfolio Benchmark	0.5871	0.5881	0.5611	0.5473	0.5176

To evaluate the uniqueness of the PIMCO CIT strategies, a separate correlation analysis was conducted on the vehicles' excess returns (active returns minus benchmark) relative to the mutual fund.

Table #9 -

Correlation of Excess Returns with PIMCO MF

PIMCO CIT CL	PIMCO CIT	D&C
0.8494	0.8311	0.7189

These results demonstrate the PIMCO strategies remain uniform across the fund vehicles. Although the CIT vehicles mirror the mutual fund, they do not replicate it entirely. Trustees will also notice the lower correlation of Dodge & Cox, confirming that its strategy is distinct from the PIMCO mutual fund approach.

Total Portfolio Performance Impact

Given the current allocation target of 10.50% of the total portfolio, each 25 basis point (bps) variance in performance between the mutual fund and CL class impacts the total portfolio by approximately 2.6 bps. Using the data in Table #5 (page 4), for the first 11 months of the fiscal year the vehicles diverged by 0.25%. Consequently, utilizing the CL share class instead of the mutual fund would have reduced the total portfolio's return by approximately 2.5 bps.

Fee Reduction

The PIMCO mutual fund has a 46 bps management fee, while the CIT CL share class has a 20 bps management fee. This reduction translates into approximately $231,000 savings in reported management fees at the current NAV.

Recommendation:

Staff recommend maintaining the current allocation in the PIMCO Total Return mutual fund, deferring any transition to the CL share class. Over the last 10 years, the mutual fund's broader portfolio construction limits have allowed it to outperform the legacy CIT by more than the 26 basis point fee differential during expansionary market periods and certain risk-off periods. While the mutual fund underperforms in other regimes, its long-term structural upside can outweigh the fixed fee savings of the CL share class over a full market cycle. Ultimately, there is a complex trade-off regarding risk. While the mutual fund exhibits higher standalone volatility due to its wider investment guardrails, its ability to access different sectors has resulted in a lower overall correlation to MCERA's total portfolio than the CIT structure. Because these diversification benefits are highly dependent on market regimes, staff view the CL share class's 21-month history as an insufficient sample size to evaluate its long-term impact on total portfolio risk. Therefore, staff propose to reevaluate the CL share class once it establishes a full three-year track record.

If, however, Trustees believe the portfolio construction limits of the CIT more closely align with Board risk tolerances, or that fee savings are a more important consideration, the Board should direct the change to the CL share class.