PIMCO Floating Rate Strategy Fund
Form N-2/A
January 15, 2010
Table of Contents

As filed with the Securities and Exchange Commission on January 15, 2010

1933 Act File No. 333-_____

1940 Act File No. 811-21601

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

x	**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**
¨	**Pre-Effective Amendment No.**
¨	**Post-Effective Amendment No.**
	and
x	**REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940**
x	**Amendment No. 7**

PIMCO Floating Rate Strategy Fund

(Exact Name of Registrant as Specified in Charter)

1345 Avenue of the Americas

New York, New York 10105

(Address of Principal Executive Offices)

(Number, Street, City, State, Zip Code)

(212) 739-3222

(Registrant s Telephone Number, including Area Code))

Thomas J. Fuccillo, Esq.

c/o Allianz Global Investors Fund Management LLC

1345 Avenue of the Americas

New York, New York 10105

(Name and Address (Number, Street, City, State, Zip Code) of Agent for Service)

Copies of Communications to:

David C. Sullivan, Esq.

Ropes & Gray LLP

One International Place

Boston, Massachusetts 02110

Approximate Date of Proposed Public Offering:

As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box ¨.

It is proposed that this filing will become effective (check appropriate box):

x when declared effective pursuant to section 8(c).

Calculation of Registration Fee Under the Securities Act of 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price[1]	Amount of Registration Fee
Common Shares, par value $0.00001	103,627 Shares	$9.65	$1,000,001	$71.30

1 Estimated solely for the purpose of calculating the registration fee as required by Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low sales prices reported on the New York Stock Exchange consolidated reporting system of $9.65 on January 12, 2010.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS	**SUBJECT TO COMPLETION**	**January 15, 2010**

[LOGO]

PIMCO [Income Strategy] Fund II

[ ] Common Shares

Issuable Upon Exercise of Rights

[Note: On December 23, 2009, the Board of Trustees of the Fund approved a change of the Fund s name from PIMCO Floating Rate Strategy Fund to PIMCO Income Strategy Fund II, a related rescission of the Fund s policy to normally invest at least 80% of its net assets (plus any borrowings for investment purposes) in floating rate assets, and related changes to the Fund s investment strategies. These changes will take effect on March 1, 2010, following the provision of 60 days written notice to shareholders in accordance with Rule 35d-1 under the Investment Company Act of 1940. This registration statement reflects the changes although they have not yet become effective. The Fund will request that the registration statement be declared effective on or after the effective date of the changes.]

PIMCO [Income Strategy] Fund II (the Fund) is a diversified closed-end management investment company which was organized under the laws of The Commonwealth of Massachusetts on June 30, 2004. The Fund s investment objective is to seek high current income, consistent with the preservation of capital.

The Fund is issuing transferable rights (Rights) to its common shareholders of record (Record Date Shareholders) as of 5:00 p.m., Eastern time, on [ ] (the Record Date), entitling the holders of those Rights to subscribe for up to an aggregate of [ ] of the Fund s common shares of beneficial interest (the Offer). Record Date Shareholders will receive [ ] Right[s] for each outstanding whole common share held on the Record Date. The Rights entitle their holders to purchase [ ] new common share[s] for every [ ] Right[s] held ([ ]-for-[ ]). In addition, both Record Date Shareholders who fully exercise their Rights and holders of Rights acquired during the subscription period will be entitled to subscribe for additional common shares of the Fund that remain unsubscribed as a result of any unexercised Rights. This over-subscription privilege is subject to a number of limitations, and Record Date Shareholders will have the first priority right to subscribe for such additional shares.

The Fund s outstanding common shares are listed and trade on the New York Stock Exchange (NYSE) under the symbol PFN, as will the common shares offered for subscription in the Offer. The Rights are transferable and will be admitted for trading on the NYSE under the symbol [ ] throughout the term of the Offer, which may afford non-subscribing Record Date Shareholders the opportunity to sell their Rights for cash value. See The offer on page [ ] of this prospectus for a complete discussion of the terms of the Offer.

The subscription price (the Subscription Price) will be determined based upon a formula equal to [ ]% of the average of the last reported sale prices of the Fund s common shares on the NYSE on the Expiration Date (as defined below) and the [ ] preceding trading days (the Formula Price). If, however, the Formula Price is less than [ ]% of the Fund s net asset value per common share on the Expiration Date, then the Subscription Price will be [ ]% of the Fund s net asset value per common share on that day. **The Offer will expire at 5:00 p.m., Eastern time, on [ ], unless extended as described in this prospectus.**

Because the Expiration Date of the subscription period will be [ ] (unless the Fund extends the subscription period), Rights holders may not know the Subscription Price at the time of exercise and will be required initially to pay for both the common shares subscribed for pursuant to the primary subscription and, if eligible, any additional common shares subscribed for pursuant to the over-subscription privilege at the estimated Subscription Price of $[ ] per common share and, except in limited circumstances, will not be able to rescind their subscription.

Table of Contents

The Fund s net asset value per common share at the close of business on [ ] (the last trading date prior to the date of this prospectus on which the Fund determined its net asset value) was $[ ], and the last reported sale price of a common share of the Fund on the NYSE on that day was $[ ].

Record Date Shareholders who do not fully exercise their Rights will, upon completion of the Offer, own a smaller proportional interest in the Fund than they owned prior to the Offer. In addition, because the Subscription Price per common share may be less than the then current net asset value per common share, the completion of the Offer will likely result in an immediate dilution of the net asset value per common share for all existing common shareholders. Such dilution is not currently determinable because it is not known how many common shares will be subscribed for, what the net asset value or market price of the common shares will be on the Expiration Date or what the Subscription Price will be. Such dilution could be substantial. If such dilution occurs, common shareholders will experience a decrease in the net asset value per common share held by them, irrespective of whether they exercise all or any portion of their Rights. The distribution to Record Date Shareholders of transferable Rights, which may themselves have intrinsic value, will afford such shareholders the potential of receiving cash payment upon the sale of the Rights, receipt of which may be viewed as partial compensation for the economic dilution of their interests. No assurance can be given that a market for the Rights will develop, or as to the value, if any, that the Rights will have. See The offer Investment Considerations.

If you have questions or need further information about the Offer, please write [ ], the Fund s information agent for the Offer, at [ ] or call [ ].

Exercising your subscription rights and investing in the Fund s common shares involves a high degree of risk and may be considered speculative. Before exercising your subscription rights and investing in the Fund s common shares, you should read the discussion of the material risks of investing in the Fund, including the risks of leverage and of investing in below investment grade/high yield securities, in Principal risks of the Fund beginning on page [ ]. Certain of these risks are summarized in Prospectus summary Principal Risks of the Fund beginning on page [ ].

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest and retain it for future reference. A Statement of Additional Information, dated [ ], 2009, containing additional information about the Fund has been filed with the Securities and Exchange Commission (the Commission) and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page [ ] of this prospectus. You may request a free copy of the Statement of Additional Information, request the Fund s most recent annual and semiannual reports, request information about the Fund and make shareholder inquiries by calling [ ] or by writing to the Fund at c/o Allianz Global Investors Fund Management LLC, 1345 Avenue of the Americas, New York, New York 10105. You may also obtain a copy of the Statement of Additional Information (and other information regarding the Fund) from the Commission s Public Reference Room in Washington, D.C. by calling (202) 551-8090. The Commission charges a fee for copies. The Fund s most recent annual and semiannual reports are available, free of charge, on the Fund s website (http://[ ]). You can obtain the same information, free of charge, from the Commission s web site (http://www.sec.gov).

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per share	Total(1)
Estimated subscription price(2)	$ [ ]	$ [ ]
Estimated sales load(2)(3)	$ [ ]	$ [ ]
Estimated offering expenses	$ [ ]	$ [ ]
Estimated proceeds, after expenses, to the Fund(2)	$ [ ]	$ [ ]

(footnotes on inside front cover)

[Name of Dealer Manager]

2

Table of Contents

The Fund seeks to achieve its investment objective by ordinarily investing in a diversified portfolio of floating- and/or fixed-rate debt instruments. The average portfolio duration of the Fund normally will be in a low to intermediate range (*i.e.*, zero to eight years). The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s) or below BBB- by either Standard & Poor s, a division of The McGraw-Hill Companies (S&P), or Fitch, Inc. (Fitch)) or that are unrated but judged by the Fund s sub-adviser, Pacific Investment Management Company LLC (PIMCO), to be of comparable quality, and also may invest without limit in investment grade securities. The Fund has the flexibility to allocate and re-allocate its assets in varying proportions among floating- and fixed-rate debt instruments as well as among investment grade and non-investment grade securities, and may choose to focus more heavily or exclusively on an asset class (*i.e.*, floating or fixed; investment grade or non-investment grade) at any time and from time to time based on PIMCO s assessment of relative values, market conditions and other factors. The Fund is actively managed in accordance with PIMCO s top down short-term (cyclical) and longer-term (secular) economic outlook, using strategies that focus on credit quality analysis, broad market diversification among industries and sectors and other risk management techniques. See Investment objective and policies Investment Strategies for further description of these and other investment management techniques used by PIMCO for the Fund. The Fund may invest in issuers of any credit quality (including bonds in the lowest ratings categories) if PIMCO determines that the particular obligation offers an attractive yield relative to its risk profile. **Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as high yield securities or junk bonds. High yield securities are subject to greater risk of loss of principal and interest and may be less liquid than investment grade securities.** The Fund normally invests predominantly in U.S. dollar-denominated debt securities, which may include those issued by foreign corporations or supranational government agencies. The Fund may invest up to 25% of its total assets in debt instruments denominated in foreign currencies, and may invest up to 25% of its total assets in securities of issuers economically tied to emerging market countries. Various types of securities and other investments in which the Fund may invest are described under Investment objective and policies Portfolio Contents and Other Information in this prospectus. The Fund cannot assure you that it will achieve its investment objective.

The Fund s common shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

(footnotes from front cover)

(1) Assumes that all Rights are exercised at the estimated Subscription Price.

(2) Estimated on the basis of [ ]% of the last reported sale price of a common share of the Fund on the NYSE on [ ].

(3) [ ] will act as dealer manager for the Offer (the Dealer Manager). The Fund has agreed to pay the Dealer Manager a fee for its financial advisory, marketing and soliciting services equal to [ ]% of the Subscription Price per common share for each common share issued pursuant to the exercise of Rights and the over-subscription privilege. The Dealer Manager will reallow to broker-dealers in the selling group to be formed and managed by the Dealer Manager selling fees equal to [ ]% of the Subscription Price per common share for each common share issued pursuant to the exercise of Rights as a result of their selling efforts. In addition, the Dealer Manager will reallow to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights solicitation fees equal to [ ]% of the Subscription Price per common share for each common share issued pursuant to the exercise of Rights as a result of their soliciting efforts, subject to a maximum fee based on the number of common shares held by each broker-dealer through The Depository Trust Company (DTC) on the Record Date. The fees and expenses of the Offer will be borne by the Fund and indirectly by all of its common shareholders, including those who do not exercise their Rights. The Fund and Allianz Global Investors Fund Management LLC, the Fund s investment manager, have each agreed to indemnify the Dealer Manager for losses arising out of certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Table of Contents

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not, and the Dealer Manager has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not, and the Dealer Manager is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common shares.

Table of Contents

Prospectus summary

This is only a summary. This summary may not contain all of the information that you should consider before investing in the Fund. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information, especially the information set forth under the heading Principal risks of the Fund.

The Fund	PIMCO [Income Strategy] Fund II is a diversified closed-end management investment company. The Fund commenced investment operations on October 29, 2004, following the initial public offering of its common shares. Throughout this prospectus, PIMCO [Income Strategy] Fund II is referred to simply as the Fund. See The Fund.
Purpose of the Offer	The Board of Trustees of the Fund (the Board), Allianz Global Investors Fund Management LLC, the Fund s investment manager (AGIFM or the Investment Manager), and Pacific Investment Management Company LLC, the Fund s sub-adviser (PIMCO or the Sub-Adviser), have determined that it would be in the best interests of the Fund and its shareholders to increase the assets of the Fund, in order to more fully take advantage of current and prospective investment opportunities that may enable the Fund to increase overall investment yield on its investments, consistent with preservation of capital. The Board, the Investment Manager and the Sub-Adviser believe the current market environment offers the Fund compelling opportunities to deploy additional capital to take advantage of attractive investment opportunities and to enhance the Fund s future risk-adjusted returns by cost-efficiently altering investment allocations from bank loans to fixed rate instruments, more fully reflecting the investment opportunities available in the credit market. The Board, the Investment Manager and the Sub-Adviser also believe that increasing the Fund s assets available for investment may enable the Fund to enhance the Fund s market liquidity, increase the stability of future dividend distributions and reduce the Fund s expense ratio modestly, while achieving other net benefits to the Fund. The Board, the Investment Manager and the Sub-Adviser believe that the Offer is currently the most effective way to raise additional assets for the Fund while offering common shareholders the opportunity to buy additional common shares at a discounted price. The Offer may not be successful. The completion of the Offer will likely result in an immediate dilution of the net asset value per common share for all existing common shareholders of the Fund, including those who fully exercise their rights. See The offer Purpose of the Offer on page [ ].
Important Terms of the Offer	The Fund is issuing transferable rights (Rights) to its common shareholders of record (Record Date Shareholders) as of 5:00 p.m., Eastern time, on [ ] (the Record Date), entitling the holders of those Rights to subscribe for up to an aggregate of [ ] of the Fund s common shares (the Shares) (the Offer). Record Date Shareholders will receive [ ] Right[s] for each outstanding whole common share held on the Record Date. The Rights entitle their holders to purchase [ ] new common share[s] for every [ ] Right[s] held ([ ]-for-[ ]). Fractional Shares will not be issued upon the exercise of Rights; accordingly, Rights may be exercised only in integer multiples of [ ], except that any Record Date Shareholder who is issued fewer than [ ] Rights may subscribe, at the Subscription Price (defined below), for one full Share. Assuming the exercise of all Rights, the Offer will result in an approximately [ ]% increase in the Fund s common shares outstanding. The Offer is not contingent upon any number of Rights being exercised. The subscription period commences on [ ] and ends at 5:00 p.m., Eastern time, on [ ], unless otherwise extended (the Expiration Date). See The offer Important Terms of the Offer on page [ ].

Table of Contents

The Fund expects to declare a monthly distribution in [ ]. Such distribution will not be payable with respect to Shares that are issued pursuant to the Offer after the record date for such dividend.

The Fund will bear the expenses of the Offer and all such expenses will be borne indirectly by the Fund s common shareholders. These expenses include, but are not limited to, the expenses of preparing and printing the prospectus for the Offer and the expenses of Fund counsel and the Fund s independent registered public accounting firm in connection with the Offer.

Important Dates to Remember

Record Date:	[ ]
Subscription Period:	[ ] to [ ]*
Confirmation Date of Over-Subscription Amounts:	[ ]*
Final Date Rights Will Trade on NYSE:	[ ]*
Expiration Date and Pricing Date:	[ ]*
Payment for Shares Due or Notices of Guarantees of Delivery Due:	[ ]*
Confirmation Mailed to Participants:	[ ]*
Final Payment for Shares Due:	[ ]*
Delivery of Shares:	[ ]*

* See The offer Payment for Shares on page [ ].

Unless the Offer is extended.

Subscription Price

The subscription price for the Shares (the Subscription Price) will be determined based on a formula equal to [ ]% of the average of the last reported sale price of the Fund s common shares on the New York Stock Exchange (the NYSE) on the Expiration Date and the [ ] preceding trading days (the Formula Price). If, however, the Formula Price is less than [ ]% of the Fund s net asset value per common share on the Expiration Date, then the Subscription Price will be [ ]% of the Fund s net asset value per common share on that day. Because the Expiration Date of the subscription period will be [ ] (unless we extend the subscription period), Rights holders may not know the Subscription Price at the time of exercise and will be required initially to pay for both the Shares subscribed for pursuant to the primary subscription and, if eligible, any additional Shares subscribed for pursuant to the over-subscription privilege at the estimated Subscription Price of $[ ] per Share and, except in limited circumstances, will not be able to rescind their subscription. See The offer The Subscription Price on page [ ].

Over-Subscription Privilege

Record Date Shareholders who exercise all the Rights issued to them (other than those Rights that cannot be exercised because they represent the right to acquire less than one Share) are entitled to subscribe for additional Shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment. If sufficient remaining Shares are available, all Record Date Shareholders over-subscription requests will be honored in full. In addition, any non-Record Date Shareholders who exercise Rights are entitled to subscribe for remaining Shares that are not otherwise subscribed for by Record Date Shareholders. If sufficient Shares are not available to honor all over-subscription requests, unsubscribed Shares will be allocated pro rata among those Record Date Shareholders who over-subscribe based on the number of common shares of the Fund they owned on the Record Date. Shares acquired pursuant to the over-subscription privilege are subject to certain limitations and to allocation. See The offer Over-Subscription Privilege on page [ ].

Sale and Transferability of Rights

The Rights will be listed for trading on the NYSE under the symbol [ ] during the course of the Offer. Trading in the Rights on the NYSE may be conducted until the close of trading on the NYSE on the last business day prior to the Expiration Date. The Fund and [ ], the dealer manager of the Offer ([ ] or the Dealer Manager), will use their best efforts to ensure that an adequate trading market for the Rights will exist, although there can be no assurance that a market for the Rights will develop. Assuming a market exists for the Rights, the Rights may be purchased and sold through usual brokerage channels or sold through the Subscription Agent (defined below).

Record Date Shareholders who do not wish to exercise any of the Rights issued to them pursuant to the Offer may instruct the Subscription Agent to sell any unexercised Rights through or to the Dealer Manager. Subscription certificates representing the Rights to be sold through or to the Dealer Manager must be received by the Subscription Agent by 5:00 p.m., Eastern time, on [ ] (or, if the subscription period is extended, by 5:00 p.m., Eastern time, two business days prior to the extended Expiration Date).

Alternatively, the Rights evidenced by a subscription certificate may be transferred until the Expiration Date in whole or in part by endorsing the subscription certificate for transfer in accordance with the accompanying instructions. See The offer Sale and Transferability of Rights on page [ ].

Method for Exercising Rights

Rights are evidenced by subscription certificates that will be mailed to Record Date Shareholders (except as described below under Requirements for Foreign Shareholders) or, if their common shares are held by Cede & Co. or any other depository or nominee, to Cede & Co. or such other depository or nominee. Rights may be exercised by filling in and signing the subscription certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed subscription certificate to the Subscription Agent, together with payment at the estimated Subscription Price for the Shares. Completed subscription certificates and payments must be received by the Subscription Agent by 5:00 p.m., Eastern time, on the Expiration Date at the offices of the Subscription Agent. Rights also may be exercised by contacting your broker, banker or trust company, who can arrange, on your behalf, to guarantee delivery of payment and of a properly completed and executed subscription certificate. A fee may be charged for this service by your broker, banker or trust company. See The offer Method for Exercising Rights on page [ ] and The offer Payment for Shares on page [ ].

Rights holders who have exercised their Rights will have no right to rescind their subscription after receipt of the completed subscription certificate together with payment for Shares by the Subscription Agent, except as described under The offer Notice of Net Asset Value Decline on page [ ].

Requirements for Foreign Shareholders

Subscription certificates will not be mailed to Record Date Shareholders whose addresses are outside the United States (for these purposes, the United States includes the District of Columbia and the territories and possessions of the United States) (Foreign Shareholders). The Subscription Agent will send a letter via regular mail to Foreign Shareholders to notify them of the Offer. The Rights of Foreign Shareholders will be held by the Subscription Agent for their accounts until instructions are received to exercise the Rights. If instructions have not been received by 5:00 p.m., Eastern time, on [ ], three business days prior to the Expiration Date (or, if the subscription period is extended, on or before three business days prior to the extended Expiration Date), the Rights of Foreign Shareholders will be transferred by the Subscription Agent to the Dealer Manager, who will either purchase the Rights or use its best efforts to sell the Rights. The net proceeds, if any, from sale of those Rights by or to the Dealer Manager will be remitted to these Foreign Shareholders.

Distribution Arrangements

[ ] will act as Dealer Manager for this Offer. Under the terms and subject to the conditions contained in the Dealer Manager Agreement among the Dealer Manager, the Fund and the Investment Manager, the Dealer Manager will provide financial structuring services and marketing assistance in connection with the Offer and will solicit the exercise of Rights and participation in the over-subscription privilege. The Fund has agreed to pay the Dealer Manager a fee for its financial structuring, marketing and soliciting services equal to [ ]% of the aggregate Subscription Price for the Shares issued pursuant to the exercise of Rights and the over-subscription privilege. The fees paid to the Dealer Manager and other expenses of the Offer will be borne by the Fund and indirectly by all of its common shareholders, including those who do not exercise the Rights. The Dealer Manager will reallow a portion of its fees to other broker-dealers who have assisted in soliciting the exercise of Rights. The Fund and the Investment Manager have each agreed to indemnify the Dealer Manager for losses arising out of certain liabilities, including liabilities under the Securities Act of 1933, as amended (the Securities Act).

Prior to the expiration of the Offer, the Dealer Manager may independently offer for sale Shares it has acquired through purchasing and exercising the Rights, at prices it sets. Although the Dealer Manager may realize gains and losses in connection with purchases and sales of Shares, such offering of Shares is intended by the Dealer Manager to facilitate the Offer and any such gains or losses are not expected to be material to the Dealer Manager. The Dealer Manager s fee for its financial structuring, marketing and soliciting services is independent of any gains or losses that may be realized by the Dealer Manager through the purchase and exercise of the Rights and the sale of Shares. See Distribution Arrangements on page [ ].

Investment Manager

The Investment Manager serves as the investment manager of the Fund. Subject to the supervision of the Fund s Board, the Investment Manager is responsible for managing, either directly or through others selected by it, the investment activities of the Fund and the Fund s business affairs and other administrative matters. The Investment Manager receives an annual fee, payable monthly, in an amount equal to 0.75% of the Fund s average weekly total managed assets. Total managed assets means the total assets of the Fund (including any assets attributable to any preferred shares and borrowings that may be outstanding) minus accrued liabilities (other than liabilities representing borrowings). For purposes of calculating total managed assets, the liquidation preference of any preferred shares outstanding is not considered a liability. The Investment Manager is located at 1345 Avenue of the Americas, New York, New York 10105. Organized in 2000, the Investment Manager provides investment management and advisory services to a number of closed-end and open-end investment company clients. The Investment Manager is a wholly-owned indirect subsidiary of Allianz SE, a publicly-traded European insurance and financial services company. As of [ ], 2010, the Investment Manager and its investment management affiliates had approximately $[ ] in assets under management.

	The Investment Manager has retained its affiliate, PIMCO, as a sub-adviser to manage the Fund s portfolio investments. See Sub-Adviser below.
Sub-Adviser	PIMCO serves as the Fund s sub-adviser responsible for managing the Fund s portfolio investments. Subject to the supervision of the Investment Manager, PIMCO has full investment discretion and makes all determinations with respect to the investment of the Fund s assets. PIMCO is located at 840 Newport Center Drive, Newport Beach, California 92660. Organized in 1971, PIMCO provides investment management and advisory services to private accounts of institutional and individual clients and to a number of open-end and closed-end investment companies. As of [ ], 2010, PIMCO had approximately $[ ] in assets under management. The Investment Manager (and not the Fund) pays a portion of the fees it receives to PIMCO in return for PIMCO s services.
Subscription Agent	The subscription agent for the Offer is [ ] (the Subscription Agent).
Information Agent	The information agent for the Offer is [ ] (the Information Agent). If you have questions or need further information about the Offer, please write the Information Agent at [ ] or call [ ].
Listing	The Fund s outstanding common shares are listed and trade on the NYSE under the trading or ticker symbol PFN, as will the Shares offered for subscription in the Offer. The Rights are transferable and will be listed for trading on the NYSE under the symbol [ ] during the course of the Offer.
Use of Proceeds	The net proceeds of the Offer will be invested in accordance with the Fund s investment objective and investment strategies set forth below. Assuming current market conditions, the Fund estimates that the net proceeds of the Offer will be substantially invested in accordance with its investment objective and investment strategies within [ ] to [ ] months of the completion of the Offer. Pending such investment, it is anticipated that the proceeds of the Offer will be invested in [short-term debt securities]. Following the completion of the Offer, the Fund may increase the Fund s leverage. See Use of leverage.
Benefits to the Investment Manager and the Sub-Adviser	The Investment Manager and the Sub-Adviser will benefit from the Offer because the investment management fee paid by the Fund to the Investment Manager and the subadvisory fee paid by the Investment Manager to the Sub-Adviser each are based on the Fund s average weekly total managed assets, meaning the total assets of the Fund (including any assets attributable to any preferred shares and borrowings that may be outstanding) minus accrued liabilities (other than liabilities representing borrowings). It is not possible to state precisely the amount of additional compensation the Investment Manager and the Sub-Adviser will receive as a result of the Offer because it is not known how many Shares of the Fund will be subscribed for and because the proceeds of the Offer will be invested in additional portfolio securities which will fluctuate in value. However, assuming (i) all Rights are exercised, (ii) the Fund s average weekly net asset value during [ ] is $[ ] per common share (the net asset value per common share on [ ]) (iii) the Subscription Price is $[ ] per Share ([ ]% of the last reported sale price of the Fund s common shares on [ ]), and (iv) for purposes of this example, the Fund increases the amount of leverage outstanding while maintaining approximately the same percentage of total assets

Table of Contents

attributable to leverage, and after giving effect to Dealer Manager fees and other offering expenses, the Investment Manager and the Sub-Adviser would receive additional investment management fees and subadvisory fees of approximately $[ ] and $[ ], respectively, for the calendar year [ ], and would continue to receive additional investment management fees and subadvisory fees, respectively, as a result of the Offer, based on the Fund s average weekly total managed assets attributable to the Shares issued in the Offer, thereafter.

Investment Objective

The Fund s investment objective is to seek high current income, consistent with the preservation of capital. The Fund seeks to achieve its investment objective by ordinarily investing in a diversified portfolio of floating- and/or fixed-rate debt instruments. The average portfolio duration of the Fund normally will be in a low to intermediate range (*i.e.*, zero to eight years). The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade (below Baa3 by Moody s or below BBB- by either S&P or Fitch) or that are unrated but judged by PIMCO to be of comparable quality, and also may invest without limit in investment grade securities.

The Fund has the flexibility to allocate and to re-allocate its assets in varying proportions among floating- and fixed-rate debt instruments as well as among investment grade and non-investment grade securities, and may choose to focus more heavily or exclusively on an asset class (*i.e.*, floating or fixed; investment grade or non-investment grade) at any time and from time to time based on PIMCO s assessment of relative values, market conditions and other factors.

Various types of securities and other instruments in which the Fund may invest are described under Portfolio contents below. The Fund cannot assure you that it will achieve its investment objective.

Investment Strategies

The Fund is actively managed in accordance with PIMCO s top down short-term (cyclical) and longer-term (secular) economic outlook, using strategies that focus on credit quality analysis, broad market diversification among industries and sectors and other risk management techniques. In selecting investments for the Fund, PIMCO attempts to identify floating- and/or fixed-rate debt instruments that provide high current income through fundamental research, driven by independent credit analysis and proprietary analytical tools. Investment decisions are based primarily on PIMCO s assessment of the issuer s credit characteristics and the position of the particular security in the issuer s capital structure, in light of PIMCO s outlook for particular industries, the economy and the market generally. At the same time, PIMCO may use a variety of techniques, such as credit default swaps, designed to control risk and to minimize the Fund s exposure to issues that PIMCO believes are more likely to default or otherwise to depreciate in value over time and to detract from the Fund s overall return to investors. The Fund cannot assure you that such securities will ultimately continue to pay current income or be paid in full at maturity.

Credit Quality. The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade or that are unrated but judged by PIMCO to be of comparable quality. The Fund will not invest more than 20% of its total assets in securities that are, at the time of purchase, rated CCC/Caa or lower by each agency rating the security or that are unrated but judged by PIMCO to be of comparable quality. The Fund may invest in issuers of any credit quality (including debt securities in the lowest ratings categories and securities that are in default or the issuers of which are in bankruptcy) if PIMCO determines that the particular security offers an attractive yield relative

Table of Contents

to its risk profile. Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal, and are commonly referred to as high yield securities or junk bonds. Debt securities in the lowest investment grade category also may be considered to posses some speculative characteristics by certain rating agencies. The Fund s credit quality policies apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a rating agency or PIMCO downgrades its assessment of the credit characteristics of a particular issue.

Independent Credit Analysis. PIMCO relies heavily on its own analysis of the credit quality and risks associated with individual debt instruments considered for the Fund, rather than relying exclusively on rating agencies or third-party research. In the case of senior floating rate loans in which the Fund may invest (Senior Loans), PIMCO analyzes and takes into account the legal/protective features associated with the securities (such as their position in the borrower s capital structure and any security through collateral) in assessing their credit characteristics. PIMCO has a devoted team of professionals that conducts fundamental credit research and analysis of individual issuers, industries and sectors and uses proprietary analytical tools (such as computer databases and Web-based applications) to assess and to monitor credit risk. The Fund s portfolio manager utilizes this information in an attempt to manage credit risk and to identify issuers, industries or sectors that offer attractive yields relative to PIMCO s assessment of their credit characteristics. This aspect of PIMCO s capabilities is particularly important to the extent that the Fund focuses on Senior Loans and/or below investment grade securities. PIMCO s ability to analyze Senior Loans may be limited to the extent that the portfolio manager and analysts avoid the receipt of material, non-public information about the issuers of Senior Loans. See Principal risks of the Fund Confidential Information Access Risk.

Duration. The average portfolio duration of the Fund will normally be in a low to intermediate range (*i.e.*, zero to eight years), although it may be longer at any time and from time to time based on PIMCO s assessment of market conditions and other factors. PIMCO may utilize certain strategies, including investments in structured notes or interest rate futures contracts or swap, cap, floor or collar transactions, for the purpose of reducing the interest rate sensitivity of the Fund s portfolio, although there is no assurance that it will do so or that such strategies will be successful.

Portfolio Contents

The Fund seeks to achieve its investment objective by ordinarily investing in a diversified portfolio of floating- and/or fixed-rate debt instruments. The Fund may invest a substantial portion of its floating-rate assets in Senior Loans. Other floating rate debt instruments in which the Fund may invest include catastrophe and other event-linked bonds, bank capital securities, unsecured bank loans, corporate bonds and other debt securities, money market instruments and certain types of mortgage-backed and other asset-backed securities that pay interest at rates which adjust whenever a specified interest rate changes and/or reset on predetermined dates (such as the last day of a month or calendar quarter). The Fund also considers floating rate assets to include securities with durations of less than or equal to one year and fixed rate securities with respect to which the Fund has entered into derivative instruments to effectively convert the fixed rate interest payments into floating rate interest payments. The Fund also may invest in a wide variety of fixed-rate debt securities, including corporate bonds, convertible securities and mortgage-backed and other asset-backed securities issued on a public or private basis. The Fund may make use of a variety of other

Table of Contents

instruments, including collateralized debt obligations, preferred shares, commercial paper, U.S. Government securities, zero-coupon and inflation-indexed bonds, real estate investment trusts (REITs), structured notes and other hybrid instruments and credit-linked trust certificates. Certain debt instruments, such as convertible bonds, also may include the right to participate in equity appreciation. The principal and/or interest rate on some debt instruments may be determined by reference to the performance of a benchmark asset or market, such as an index of securities, or the differential performance of two assets or markets, such as the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

The Fund may also hold common stocks and other equity securities from time to time, including those it has received through the conversion of a convertible security held by the Fund or in connection with the restructuring of a debt security. The Fund may invest in securities that have not been registered for public sale, including securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act of 1933 and other securities issued in private placements. The Fund may also invest in securities of other investment companies, including exchange-traded funds (ETFs). The Fund may invest in securities of companies with small market capitalizations.

As noted above, the Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade, and may also invest without limit in investment grade securities.

The Fund expects to invest predominantly in U.S. dollar-denominated debt securities, which may include those issued by foreign corporations or supra-national government agencies. The Fund may invest up to 25% of its total assets in debt instruments denominated in foreign currencies, including obligations of non-U.S. governments and their respective sub-divisions, agencies and government-sponsored enterprises. The Fund may invest up to 25% of its total assets in securities of issuers economically tied to emerging market countries.

The Fund may utilize various derivative strategies involving the purchase or sale of credit default swaps, total return swaps and other swap agreements, call and put options (including options on futures contracts), futures and forward contracts, short sales and other derivative instruments for investment purposes, leveraging purposes or in an attempt to hedge against market, interest rate, currency and other risks in the portfolio. The Fund may also seek to obtain market exposure to the securities in which it invests by entering into a series of purchase and sales contracts.

The Fund may invest without limit in illiquid securities. Illiquidity is generally determined using the Securities and Exchange Commission s standard applicable to open-end investment companies (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). PIMCO will determine the liquidity of the Fund s investments by reference to market conditions and contractual provisions.

The Fund cannot change its investment objective without the approval (a) of the holders of a majority of the outstanding common shares and any preferred shares (including the Fund s currently outstanding auction market preferred shares (the Preferred Shares)) voting together as a single class, and (b) of the holders of a majority of the outstanding preferred shares (including the

Table of Contents

Preferred Shares) voting as a separate class. A majority of the outstanding shares (whether voting together as a single class or voting as a separate class) means (i) 67% or more of such shares present at a meeting, if the holders of more than 50% of those shares are present or represented by proxy, or (ii) more than 50% of such shares, whichever is less.

Upon PIMCO s recommendation, for temporary defensive purposes and in order to keep the Fund s cash fully invested, the Fund may deviate from its investment objective and strategies and invest some or all of its total assets in investment grade debt securities, including high quality, short-term debt securities. The Fund may not achieve its investment objective when it does so.

Use of Leverage

The Fund has utilized leverage since shortly after it began investment operations, including through the issuance of Preferred Shares. As of [ ], 2010, the aggregate dollar amount (*i.e.*, liquidation preference) of the Fund s outstanding Preferred Shares was $[ ] million, which then represented approximately [ ]% of the Fund s total assets (including assets attributable to the Preferred Shares). Information regarding the terms and features of the Preferred Shares is provided under Description of capital structure in this prospectus.

The Fund may also add leverage to its portfolio by utilizing reverse repurchase agreements, dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities (together Borrowings). As of [ ], 2010, the Fund had reverse repurchase agreements outstanding representing approximately [ ]% of the Fund s total assets (including the leverage obtained through the use of the instruments), such that the Fund s total leverage attributable in the aggregate to Preferred Shares and Borrowings then represented approximately [ ]% of the Fund s total assets.

The Fund may also enter into transactions other than those noted above that may give rise to a form of leverage including, among others, credit default swap contracts, futures and forward contracts and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions. Although it has no current intention to do so, the Fund may also determine to issue other preferred shares to add leverage to its portfolio.

Following completion of the Offer, the Fund may increase the amount of its leverage outstanding. The Trust may do so by engaging in additional Borrowings, including through the use of reverse repurchase agreements, in order to maintain the Fund s desired leverage ratio at that time, taking into account the additional assets raised through the issuance of Shares in the Offer. The Fund may also add leverage through the use of credit default swaps and other derivative transactions and/or the other techniques noted above. There is no assurance, however, that the Fund will determine to add leverage following the Offer, as the Fund intends to utilize leverage opportunistically and may choose to increase or decrease its use of leverage over time and from time to time based on PIMCO s assessment of the yield curve environment, interest rate trends, market conditions and other factors. In addition, if the Fund determines to add leverage following the Offer, it is not possible to predict with accuracy the precise amount of leverage that would be added, in part, because it is not possible to predict the number of Shares that ultimately will be subscribed for in the Offer.

Table of Contents

The Fund s net assets attributable to its Preferred Shares and the net proceeds the Fund obtains from Borrowings or other forms of leverage will be invested in accordance with the Fund s investment objective and policies as described in this prospectus. So long as the rate of return, net of applicable Fund expenses, on the debt obligations and other investments purchased by the Fund exceeds the dividend rates payable on the Preferred Shares together with the costs to the Fund of other forms of leverage it utilizes, the investment of the Fund s net assets attributable to leverage will generate more income than will be needed to pay the costs of the leverage. If so, the excess may be used to pay higher dividends to Common Shareholders than if the Fund were not so leveraged.

Regarding the expenses associated with the Fund s leverage, the terms of the Preferred Shares provide that they would ordinarily pay dividends at a rate set at auctions held every seven days, subject to a maximum applicable rate calculated as a function of the Preferred Shares then-current rating and a reference interest rate. However, the weekly auctions for the Preferred Shares, as well as auctions for similar preferred shares of other closed-end funds across the U.S. industry, have failed since February 2008, and the dividend rates on the Preferred Shares since that time have been paid at the maximum applicable rate. The Fund expects that the Preferred Shares will continue to pay dividends at the maximum applicable rate for the foreseeable future and cannot predict whether or when the auction markets for the Preferred Shares may resume normal functioning. See Principal risks of the Fund Leverage Risk and Description of capital structure for more information.

Leveraging is a speculative technique and there are special risks and costs involved. The Fund cannot assure you that its Preferred Shares and any Borrowings or other forms of leverage (such as the use of derivatives strategies) will result in a higher yield on your common shares. When leverage is used, the net asset value and market price of the common shares and the yield to Common Shareholders will be more volatile. See Principal risks of the Fund Leverage Risk. In addition, dividend, interest and other expenses borne by the Fund with respect to its Preferred Shares and any Borrowings or other forms of leverage are borne entirely by the Common Shareholders (and not by the holders of Preferred Shares) and result in a reduction of the net asset value of the common shares. In addition, because the fees received by the Investment Manager and by PIMCO are based on the total managed assets of the Fund (including any assets attributable to any preferred shares and borrowings that may be outstanding), the Investment Manager and PIMCO have a financial incentive for the Fund to have Preferred Shares outstanding and to use certain other forms of leverage (*e.g.*, reverse repurchase agreements and other Borrowings), which may create a conflict of interest between the Investment Manager and PIMCO, on the one hand, and the Common Shareholders, on the other hand.

Under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance the value of the Fund s total net assets is at least 200% of the liquidation value of the outstanding Preferred Shares and the newly issued preferred shares plus the aggregate amount of any senior securities of the Fund representing indebtedness (*i.e.*, such liquidation value plus the aggregate amount of senior securities representing indebtedness may not exceed 50% of the Fund s total net assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its common shares unless, at the time of such declaration, the value of the Fund s total net assets satisfies the above-referenced 200% coverage requirement.

The 1940 Act also generally prohibits the Fund from engaging in most forms of leverage other than preferred shares (including through the use of reverse repurchase agreements, dollar rolls, bank loans, commercial paper or other credit facilities, credit default swap contracts and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions, to the extent that these instruments are not covered as described below) unless immediately after the issuance of the leverage the Fund has satisfied the asset coverage test with respect to senior securities representing indebtedness prescribed by the 1940 Act, *i.e.*, the value of the Fund s total assets less liabilities (other than the leverage and other senior securities) is at least 300% of the principal amount of such leverage (*i.e.*, effectively limiting the use of leverage through senior securities representing indebtedness to 33 $^{1}/3$% of the Fund s total assets, including assets attributable to the leverage). The Fund is not permitted to declare any cash dividend or other distribution on common shares unless, at the time of such declaration, this 300% asset coverage test is satisfied. The Fund may (but is not required to) cover its commitments under these instruments by the segregation of liquid assets or by entering into offsetting transactions or owning positions covering its obligations. For instance, the Fund may cover its position in a reverse repurchase agreement by segregating liquid assets at least equal in amount to its forward purchase commitment. To the extent that certain of these instruments are so covered, they will not be considered senior securities under the 1940 Act and therefore will not be subject to the 300% asset coverage requirement otherwise applicable to forms of leverage (other than preferred shares) used by the Fund. However, these transactions, even if covered, may represent a form of economic leverage and create special risks. The use of these forms of additional leverage increases the volatility of the Fund s investment portfolio and could result in larger losses to Common Shareholders than if the strategies were not used. See Principal risks of the Fund Leverage Risk. Failure to maintain certain asset coverage requirements could result in an event of default under certain Borrowings that may be used by the Fund.

The Fund s ability to utilize leverage is also limited by asset coverage requirements and other guidelines imposed by rating agencies (currently Moody s and Fitch) that provide ratings for the Preferred Shares, which may be more restrictive than the limitations imposed by the 1940 Act noted above. See Description of capital structure for more information.

The Fund also may borrow money in order to repurchase its shares or as a temporary measure for extraordinary or emergency purposes, including for the payment of dividends or the settlement of securities transactions which otherwise might require untimely dispositions of portfolio securities held by the Fund.

Principal Risks of the Fund

The following is a summary of the principal risks associated with an investment in the Fund. Investors should also refer to Principal risks of the Fund in this prospectus and Investment Objective and Policies in the Statement of Additional Information for a more detailed explanation of these and other risks associated with investing in the Fund.

Market Discount Risk. As with any stock, the price of the Fund s common shares will fluctuate with market conditions and other factors. If common shares are sold, the price received may be more or less than the original investment. Net asset value will be reduced immediately following the Offer by a sales load and other expenses paid or reimbursed by the Fund. The common shares are designed for long-term investors and should not be treated as trading vehicles. Common shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Fund s common shares may trade at a price that is less than the Subscription Price. This risk may be greater for investors who sell their shares relatively shortly after subscription.

High Yield Risk. In general, lower rated debt securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative effect on the net asset value of the Fund s common shares or common share dividends. The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade (below Baa3 by Moody s or below BBB- by either S&P or Fitch) or that are unrated but judged by PIMCO to be of comparable quality, including debt securities that are in default or the issuers of which are in bankruptcy. The Fund will not invest more than 20% of its total assets in securities that are, at the time of purchase, rated CCC/Caa or lower by each agency rating the security or that are unrated but judged by PIMCO to be of comparable quality. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as high yield securities or junk bonds. The prices of these lower grade bonds are generally more volatile and sensitive to actual or perceived negative developments, such as a decline in the issuer s revenues or revenues of underlying borrowers or a general economic downturn, than are the prices of higher grade securities. Bonds in the lowest investment grade category also may be considered to possess some speculative characteristics by certain rating agencies.

The Fund may purchase distressed securities that are in default or the issuers of which are in bankruptcy, which involve heightened risks. An economic downturn could severely affect the ability of highly leveraged issuers to service their debt obligations or to repay their obligations upon maturity. Lower-rated securities are generally less liquid than higher-rated securities, which may have an adverse effect on the Fund s ability to dispose of a particular security. For example, under adverse market or economic conditions, the secondary market for below investment grade securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and certain securities in the Fund s portfolio may become illiquid or less liquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell these securities only at prices lower than if such securities were widely traded. See Principal risks of the Fund Liquidity Risk.

The Fund s credit quality policies apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a rating agency or PIMCO downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, PIMCO may consider such factors as PIMCO s assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other rating agencies. Analysis of creditworthiness may be more complex for issuers of high yield securities than for issuers of higher quality debt securities.

Although Senior Loans in which the Fund may invest will often be secured by collateral, there can be no assurance that liquidation of any such collateral would satisfy the borrower s obligation in the event of default or that such collateral could be readily liquidated. However, PIMCO believes that Senior Loans generally tend to have more favorable recovery rates than most other types of loans. In the event of bankruptcy of a borrower, the Fund could experience

Table of Contents

delays or limitations in its ability to realize the benefits of any collateral securing a Senior Loan. To the extent the Fund focuses on Senior Loans or other below investment grade debt obligations, PIMCO s capabilities in analyzing credit quality and associated risks are particularly important, and there can be no assurance that PIMCO will be successful in this regard. See Investment objective and strategies Portfolio Contents High Yield Securities (Junk Bonds) for additional information. Due to the risks involved in investing in high yield securities, an investment in the Fund should be considered speculative.

Credit Risk. Credit risk is the risk that one or more of the Fund s investments in debt securities or other instruments will decline in price, or fail to pay interest, liquidation value or principal when due, because the issuer of the obligation or the issuer of a reference security experiences an actual or perceived decline in its financial status. In addition to the credit risks associated with high yield securities, the Fund could also lose money if the issuer of other debt obligations, or the counterparty to a derivatives contract, repurchase agreement, loan of portfolio securities or other obligation, is, or is perceived to be, unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. The downgrade of a security may further decrease its value.

Interest Rate Risk. Generally, when market interest rates rise, the prices of debt obligations fall, and vice versa. Interest rate risk is the risk that debt obligations and other instruments in the Fund s portfolio will decline in value because of increases in market interest rates. This risk may be particularly acute because market interest rates are currently at historically low levels. The prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as interest rates change. Because the Fund will normally have a low to intermediate average portfolio duration (*i.e.*, zero to eight years), the common share net asset value and market price per common share will tend to fluctuate more in response to changes in market interest rates than if the Fund invested mainly in short-term debt securities. During periods of rising interest rates, the average life of certain types of securities may be extended due to slower than expected payments. This may lock in a below market yield, increase the security s duration and reduce the security s value. In addition to directly affecting debt securities, rising interest rates may also have an adverse effect on the value of any equity securities held by the Fund. The Fund s use of leverage, as described below, will tend to increase common share interest rate risk. PIMCO may utilize certain strategies, including investments in structured notes or interest rate futures contracts or swap, cap, floor or collar transactions, for the purpose of reducing the interest rate sensitivity of the Fund s portfolio, although there is no assurance that it will do so or that such strategies will be successful.

Investments in floating rate debt instruments, although generally less sensitive to interest rate changes than longer duration fixed rate instruments, may nevertheless decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate instruments will not generally increase in value if interest rates decline. Inverse floating rate debt securities may also exhibit greater price volatility than a fixed rate debt obligation with similar credit quality. To the extent the Fund holds floating rate instruments, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the net asset value of the common shares.

Table of Contents

Distressed and Defaulted Securities Risk. The Fund may invest in the debt securities of financially distressed issuers. Investments in the securities of financially distressed issuers involve substantial risks. These securities may present a substantial risk of default or may be in default at the time of investment. The Fund may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings. In any reorganization or liquidation proceeding relating to an investment, the Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment. Among the risks inherent in investments in a troubled issuer is the fact that it frequently may be difficult to obtain information as to the true financial condition of such issuer. PIMCO s judgments about the credit quality of the issuer and the relative value of its securities may prove to be wrong.

Liquidity Risk. The Fund may invest without limit in illiquid securities *(i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose readily of illiquid securities when that would be beneficial at a favorable time or price or at prices approximating those at which the Fund currently values them. Further, the lack of an established secondary market for illiquid securities may make it more difficult to value such securities, which may negatively affect the price the Fund would receive upon disposition of such securities. The Senior Loans in which the Fund invests will likely not be registered with the Securities and Exchange Commission or any state securities commission and generally will not be listed on a national securities exchange. PIMCO will determine the liquidity of the Fund s investments by reference to market conditions and contractual provisions.

Leverage Risk. The Fund utilizes leverage on an ongoing basis for investment purposes, including through its outstanding Preferred Shares and also from time to time through the use of reverse repurchase agreements and other Borrowings. See Use of leverage for details.

Leverage creates several major types of risks for Common Shareholders, including:

the likelihood of greater volatility of net asset value and market price of common shares than a comparable portfolio without leverage;

the possibility either that common share dividends will fall if the costs of leverage rise, or that dividends paid on common shares will fluctuate because such costs vary over time; and

the effects of leverage in a declining market or a rising interest rate environment, as leverage is likely to cause a greater decline in the net asset value of the common shares than if the Fund were not leveraged and may result in a greater decline in the market value of the common shares.

In addition to using Preferred Shares and Borrowings, the Fund may also enter into other transactions that may give rise to a form of leverage including, among others, credit default swap contracts, futures and forward contracts and other derivatives transactions, loans of portfolio securities, short sales and when issued, delayed delivery and forward commitment transactions. The Fund s use of such transactions gives rise to associated leverage risks described herein, and may adversely affect the Fund s income and distributions. The Fund may manage some of its derivative positions by segregating an amount of cash or liquid securities equal to the face value or the market value, as applicable, of those positions. The Fund also may offset derivatives positions against one another or against other assets to manage effective market exposure resulting from derivatives in its portfolio. To the extent that any offsetting positions do not behave in relation to one another as expected, the Fund may perform as if it is leveraged through use of these derivative strategies. See Use of leverage.

The Fund s use of leverage creates the opportunity for increased common share net income, but also creates special risks for Common Shareholders. There can be no assurance that the Fund s leveraging strategies will be successful. Leverage is a speculative technique that may expose the Fund to greater risk and increased costs. The net proceeds the Fund obtains from its use of leverage are invested in accordance with the Fund s investment objective and strategies as described in this prospectus. If the rate of return, net of applicable Fund expenses, on the investments purchased by the Fund exceeds the costs of such leverage to the Fund (including dividends, interest and other repayment obligations), then, all other things being equal, the use of such leverage by the Fund may allow the Fund to pay higher dividends to Common Shareholders than if the Fund were not so leveraged. If, however, the costs of leverage rise relative to the rate of return on the Fund s portfolio, the interest and other costs to the Fund of leverage could exceed the rate of return on the investments held by the Fund, thereby reducing the return to Common Shareholders. In such case, the Fund s ability to pay dividends and meet its asset coverage requirements on the Preferred Shares also would be reduced. Any decline in the net asset value of the Fund s investments could result in the Fund being in danger of failing to meet its asset coverage requirements or of losing its Aaa rating (in the case of Moody s) or AAA rating (in the case of Fitch) on the Preferred Shares. In an extreme case, the Fund s current investment income might not be sufficient to meet the dividend requirements on the Preferred Shares. In order to counteract such an event, the Fund might need to liquidate investments in order to fund a redemption of some or all of the Preferred Shares. Liquidation at times of adverse economic conditions may result in a capital loss to the Fund. The Preferred Shares have, and any Borrowings by the Fund or counterparties to the Fund s other leveraging transactions, if any, would have, seniority over the common shares.

Because the fees received by the Investment Manager and the Sub-Adviser are based on the total managed assets of the Fund (including any assets attributable to any Preferred Shares and borrowings that may be outstanding), the fees will be higher when leverage is utilized and the Investment Manager and the Sub-Adviser therefore have a financial incentive for the Fund to have Preferred Shares outstanding and to use certain other forms of leverage (*e.g.*, reverse repurchase agreements and other Borrowings), which may create a conflict of interest.

Additional Risks Associated with the Fund s Preferred Shares. [To be provided by amendment.]

Issuer Risk. The value of debt instruments may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer s goods and services, as well as the historical and prospective earnings of the issuer and the value of its assets.

Table of Contents

Smaller Company Risk. The general risks associated with debt instruments or equity securities are particularly pronounced for securities issued by companies with small market capitalizations . Small capitalization companies involve certain special risks. They are more likely than larger companies to have limited product lines, markets or financial resources, or to depend on a small, inexperienced management group. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply than other securities. They may also have limited liquidity. These securities may therefore be more vulnerable to adverse developments than securities of larger companies, and the Fund may have difficulty purchasing or selling securities positions in smaller companies at prevailing market prices. Also, there may be less publicly available information about smaller companies or less market interest in their securities as compared to larger companies. Companies with medium-sized market capitalizations may have risks similar to those of smaller companies.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. PIMCO and the portfolio manager will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

Convertible Securities Risk. Convertible securities generally offer lower interest or dividend yields than non-convertible debt securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, a convertible security s market value tends to reflect the market price of the common stock of the issuing company when that stock price approaches or is greater than the convertible security s conversion price. The conversion price is defined as the predetermined price at which the convertible security could be exchanged for the associated stock. As the market price of the underlying common stock declines, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, it may not decline in price to the same extent as the underlying common stock. In the event of a liquidation of the issuing company, holders of convertible securities would be paid before the company s common stockholders but after holders of any senior debt obligations of the company. Consequently, the issuer s convertible securities generally entail less risk than its common stock but more risk than its debt obligations.

The Fund may invest in synthetic convertible securities, which are created through a combination of separate securities that possess the two principal characteristics of a traditional convertible security; that is, an income-producing security (income-producing component) and the right to acquire an equity security (convertible component). The income-producing component is achieved by investing in non-convertible, income-producing securities such as bonds, preferred stocks and money market instruments. The convertible component is achieved by purchasing warrants or options to buy common stock at a certain exercise price, or options on a stock index. The values of synthetic convertible securities will respond differently to market fluctuations than a traditional convertible security because a synthetic convertible is composed of two or more separate securities or instruments, each with its own market value. Synthetic convertible securities are also subject to the risks associated with derivatives. See Principal risks of the Fund Derivatives Risk. In addition, if the value of the underlying common stock or the level of the index involved in the convertible element falls below the strike price of the warrant or option, the warrant or option may lose all value.

Table of Contents

Preferred Securities Risk. In addition to equity securities risk (see Principal risks of the Fund Equity Securities and Related Market Risk), credit risk (see Principal risks of the Fund Credit Risk) and possibly high yield risk (see Principal risks of the Fund High Yield Risk), investment in preferred stocks involves certain other risks. Certain preferred stocks contain provisions that allow an issuer under certain conditions to skip or defer distributions. If the Fund owns a preferred stock that is deferring its distribution, the Fund may be required to report income for tax purposes despite the fact that it is not receiving current income on this position. Preferred stocks often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer s call. In the event of redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred stocks are subordinated to bonds and other debt securities in an issuer s capital structure in terms of priority for corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt securities. Preferred stocks may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than many other securities, such as common stocks, corporate debt securities and U.S. Government securities.

Foreign (Non-U.S.) Investment Risk. The Fund may invest some or all of its assets in U.S. dollar-denominated debt obligations of foreign issuers or supra-national government agencies. The Fund may invest up to 25% of its total assets in debt instruments denominated in foreign currencies, including obligations of non-U.S. governments and their respective sub-divisions, agencies and government-sponsored enterprises. The Fund s investments in foreign issuers and in securities denominated in foreign currencies involve special risks.

For example, the value of these investments may decline in response to unfavorable political and legal developments, unreliable or untimely information or economic and financial instability. Foreign securities may experience more rapid and extreme changes in value than investments in securities of U.S. issuers. The securities markets of many foreign countries are relatively small, with a limited number of companies representing a small number of industries. Issuers of foreign securities are usually not subject to the same degree of regulation as U.S. issuers. Reporting, accounting and auditing standards of foreign countries differ, in some cases significantly, from U.S. standards. Also, nationalization, expropriation or other confiscation, currency blockage, political changes or diplomatic developments could adversely affect the Fund s investments in foreign securities. In the event of nationalization, expropriation or other confiscation, the Fund could lose its entire investment in foreign securities. To the extent that the Fund invests a significant portion of its assets in a particular foreign country or a concentrated geographic area (such as Europe or Asia), the Fund will generally have more exposure to regional economic risks associated with foreign investments. Also, adverse conditions in a certain region can adversely affect securities of other countries whose economies appear to be unrelated. The costs of investing in foreign countries frequently are higher than the costs of investing in the United States. Additionally, investments in securities of foreign issuers generally will be denominated in foreign currencies, subjecting the Fund to foreign currency risk. See Principal risks of the Fund Foreign Currency Risk.

Emerging Markets Risk. The Fund may invest up to 25% of its total assets in debt securities of issuers economically tied to emerging market countries. Foreign investment risk may be particularly high to the extent that the Fund invests in securities of issuers based in or securities denominated in the currencies of emerging market countries. Investing in securities of issuers based in underdeveloped emerging markets entails all of the risks of investing in securities of foreign issuers noted above, but to a heightened degree. These heightened risks include: (i) greater risks of expropriation, confiscatory taxation, nationalization and less social, political and economic stability; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in a lack of liquidity and in price volatility; (iii) certain national policies which may restrict the Fund s investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests and requirements that government approval be obtained prior to investment by foreign persons; (iv) certain national policies that may restrict the Fund s repatriation of investment income, capital or the proceeds of sales of securities, including temporary restrictions on foreign capital remittances; (v) the lack of uniform accounting and auditing standards; (vi) less publicly available financial and other information regarding issuers; (vii) potential difficulties in enforcing contractual obligations; and (viii) higher rates of inflation, higher interest rates and other economic concerns. The Fund may invest to a significant extent in emerging market securities that are issued in local currencies, subjecting the Fund to a greater amount of foreign currency risk. See Principal risks of the Fund Foreign Currency Risk. Also, investing in emerging market countries may entail purchases of securities of issuers that are insolvent, bankrupt, in default or otherwise of questionable ability to satisfy their payment obligations as they become due, subjecting the Fund to a greater amount of credit risk and/or high yield risk. See Principal risks of the Fund Credit Risk and Principal Risks of the Fund High Yield Risk.

Foreign Currency Risk. The Fund s common shares are priced in U.S. dollars and the distributions paid by the Fund to Common Shareholders are paid in U.S. dollars. However, a significant portion of the Fund s assets may at any time be denominated in foreign (non-U.S.) currencies and income received by the Fund from many foreign debt obligations will be paid in foreign currencies. The Fund may also invest in or gain exposure to foreign currencies themselves for investment or hedging purposes. The Fund s investments in or exposure to foreign currencies or in securities or instruments that trade, or receive revenues, in foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar or, in the case of hedging positions (if utilized), that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the U.S. or abroad. These fluctuations may have a significant adverse effect on the value of the Fund s portfolio and/or the level of Fund distributions made to Common Shareholders. As noted above, the Fund may (but is not required to) attempt to hedge some of its exposure to foreign currencies in order to reduce the risk of loss due to fluctuations in currency exchange rates relative to the U.S. dollar. There is no assurance, however, that these hedging strategies will be available or will be used by the Fund or, if used, that they will be successful.

Derivatives Risk. Derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index (or relationship between two indexes). The Fund may invest in a variety of derivative instruments for hedging or risk management purposes or as part of its

Table of Contents

investment strategies, such as options contracts (including options on futures contracts), futures contracts, swap agreements (including total return and credit-default swaps) and short sales. The Fund may also have exposure to derivatives, such as interest rate or credit default swaps, through investment in credit-linked trust certificates and other securities issued by special purpose or structured vehicles. The Fund may use derivatives as a substitute for taking a position in an underlying debt instrument or other asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate or currency risk. The Fund also may use derivatives to add leverage to the portfolio. The Fund s use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks described elsewhere in this prospectus, such as liquidity risk, interest rate risk, issuer risk, credit risk, leveraging risk, counterparty risk, management risk and, if applicable, smaller company risk. They also involve the risk of mispricing or improper valuation, the risk of ambiguous documentation, and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. If the Fund invests in a derivative instrument, it could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial. In addition, the Fund is subject to certain restrictions or limitations on its use of derivative strategies imposed by Moody s and Fitch (or any rating agency that may in the future rate the Preferred Shares) in connection with their ratings of the Fund s Preferred Shares. See Description of capital structure. The use of derivatives also may increase the amount of taxes payable by shareholders. In addition to the risks applicable to derivatives generally, credit default swaps involve special risks because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty).

The Fund may invest in credit default swaps, total return swaps and other credit-related derivatives. These transactions generally provide for the transfer from one counterparty to another of certain credit risks and return characteristics inherent in the ownership of a financial asset. Such risks include the risk of default and insolvency of the issuer of such asset and the risk that the credit of the issuer or any underlying collateral will decline or that credit spreads for like assets will change (thus affecting the market value of the financial asset). The transfer of credit risk pursuant to a credit derivative may be complete or partial, and may be for the life of the related asset or for a shorter period. Credit derivatives may be used as a risk management tool for a pool of financial assets, providing the Fund with the opportunity to gain exposure to one or more reference assets without actually owning such assets in order, for example, to reduce a focused investment risk or to diversify its portfolio. In each credit derivative transaction that it is party to, the Fund assumes the credit risk of the counterparty. See Principal risks of the Fund Counterparty risk. Credit default swaps, total return swaps and other credit derivatives are a relatively recent development in the financial markets. Consequently, there are certain legal, tax and market uncertainties that present risks in entering into such total rate of return swaps and other credit derivatives. There is currently little or no case law or litigation characterizing total return swaps or other credit derivatives, interpreting their provisions, or characterizing their tax treatment. In addition, legislation (including financial reform legislation currently being considered in Congress), regulatory action and/or private initiatives may change

Table of Contents

the way credit default swaps and other instruments are used or regulated, possibly making their use less beneficial to the Fund or limiting the Fund s ability to use such instruments. Recent turmoil in the securities markets generally and among monoline insurers and other financial institutions in particular has increased the volatility and other risks associated with these instruments.

Counterparty Risk. The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts and other instruments entered into by the Fund or held by special purpose or structured vehicles in which the Fund invests. In the event that the Fund enters into a derivative transaction with a counterparty that subsequently becomes insolvent or becomes the subject of a bankruptcy case, the derivative transaction may be terminated in accordance with its terms and the Fund s ability to realize its rights under the derivative instrument and its ability to distribute the proceeds could be adversely affected. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

Mortgage-Related and Asset-Backed Securities Risk. The Fund may invest in a variety of mortgage-related securities, including commercial mortgage securities and other mortgage-backed instruments. The value of some mortgage-related securities, including commercial mortgage-backed securities and residential mortgage-backed securities, may be particularly sensitive to changes in prevailing interest rates. The yield and payment characteristics of mortgage-related securities differ from traditional debt securities. Interest and principal prepayments are made more frequently, usually monthly, over the life of the mortgage loans and principal generally may be prepaid at any time because the underlying mortgage loans generally may be prepaid at any time. Faster or slower prepayments than expected on underlying mortgage loans can dramatically alter the yield to maturity of a mortgage-related security, and early repayment of principal on some mortgage-related securities may expose the Fund to a lower rate of return upon reinvestment of principal.

Mortgage-related and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. For instance, these securities may be particularly sensitive to changes in prevailing interest rates. Rising interest rates tend to extend the duration of mortgage-related securities, making them more sensitive to changes in interest rates, and may reduce the market value of the securities. This is known as extension risk. In addition, mortgage-related securities are subject to prepayment risk the risk that borrowers may pay off their mortgages sooner than expected, particularly when interest rates decline. This can reduce the Fund s returns because the Fund may have to reinvest that money at lower prevailing interest rates. For instance, the Fund may invest in stripped mortgage-backed securities for which one class receives all of the interest from the mortgage assets (the interest-only, or IO class), while the other class receives all of the principal (the principal-only, or PO class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on the Fund s yield to maturity from these investments. The Fund s investments in other asset-backed securities are subject to risks similar to those associated with mortgage-backed securities, as well as additional risks associated with their structure and the

Table of Contents

nature of the assets underlying the security and the servicing of those assets. For instance, certain collateralized debt obligations in which the Fund may invest are backed by pools of high-risk, below investment grade debt securities and may involve substantial credit and other risks. Further, due to their often complicated structures, various mortgage-related and particularly asset-backed securities may be difficult to value and may constitute illiquid investments.

The value of mortgage-related securities may be substantially dependent on the servicing of the underlying asset pools, and are therefore subject to risks associated with the negligence by, or defalcation of, their servicers. Furthermore, debtors may be entitled to the protection of a number of state and federal consumer credit laws with respect to mortgage-related securities, which may give the debtor the right to avoid payment.

Investments in mortgage-related securities involve particularly high levels of risk under current market conditions. See Principal risks of the Fund Mortgage Market/Subprime Risk.

Mortgage Market/Subprime Risk. The residential and commercial mortgage markets in the United States have experienced substantial and in some cases unprecedented difficulties over the past few years that have adversely affected the performance, market value and liquidity of mortgage-related investments. Delinquencies and losses on U.S. residential mortgage loans (especially sub-prime, Alternative A-paper (Alt-A) and second-lien mortgage loans) generally have increased substantially during such period and may continue to increase, and the decline in or flattening of U.S. housing values that has been experienced in such period and that may continue to be experienced in many U.S. housing markets may exacerbate such delinquencies and losses. Borrowers with adjustable rate mortgage loans are more sensitive to changes in interest rates, which affect their monthly mortgage payments, and may be unable to secure replacement mortgages at comparably low interest rates or at all. Also, a number of U.S. residential mortgage loan originators have experienced serious financial difficulties or bankruptcy, and other such originators also may experience such difficulties or bankruptcy in the future. Owing largely to the foregoing, reduced investor demand for mortgage loans and mortgage-related securities, along with other general economic factors, have caused severely restricted liquidity in the secondary market for mortgage-related securities, and the Fund may invest without limitation in investments that are considered illiquid. It is possible that such limited liquidity in such secondary markets could continue or worsen and reduce the values of the Fund s investments, and there can be no guarantee that a liquid secondary market for such securities will redevelop. If the U.S. economy deteriorates further, the incidence of mortgage foreclosures may increase, which may adversely affect the value of any mortgage-related securities owned by the Fund. [The United States Congress and various government regulatory authorities have discussed the possibility of restructuring mortgages and imposing forbearance requirements on defaulted mortgages. Neither the Fund nor PIMCO can predict the form any such modifications, forbearance or related regulations might take or whether, if implemented, they will adversely affect the value of mortgage-related securities owned by the Fund.]

Risk of Investing in REITs. Like other mortgage-related securities, REITs are subject to interest rate risk and prepayment risk. Investing in REITs also involves certain unique risks in addition to those risks associated with investing in the real estate industry in general. An equity REIT may be affected by changes in the value of the underlying properties owned by the REIT. A

Table of Contents

mortgage REIT may be affected by changes in interest rates and the ability of the issuers of its portfolio mortgages to repay their obligations. REITs are dependent upon the skills of their managers and are not diversified. REITs are generally dependent upon maintaining cash flows to repay borrowings and to make distributions to shareholders and are subject to the risk of default by lessees or borrowers. REITs whose underlying assets are concentrated in properties used by a particular industry are also subject to risks associated with such industry.

REITs may have limited financial resources, may trade less frequently and in a limited volume and may be subject to more abrupt or erratic price movements than larger company securities. Historically, REITs have been more volatile in price than the larger capitalization stocks included in S&P 500 Composite Stock Index.

Valuation Risk. When market quotations are not readily available or are deemed to be unreliable, the Fund values its investments at fair value as determined in good faith pursuant to policies and procedures approved by the Board. See Net asset value. Fair value pricing may require subjective determinations about the value of a security or other asset. As a result, there can be no assurance that fair value pricing will result in adjustments to the prices of securities or other assets, or that fair value pricing will reflect actual market value, and it is possible that the fair value determined for a security or other asset will be materially different from quoted or published prices, from the prices used by others for the same security or other asset and/or from the value that actually could be or is realized upon the sale of that security or other asset.

Focused Investment Risk. Although the Fund has a policy not to concentrate investments in any particular industry, it may (consistent with that policy) invest up to 25% of its assets in any particular industry. To the extent that the Fund focuses its investments in a particular industry, the net asset value of the common shares will be more susceptible to events or factors affecting companies in that industry. These may include, but are not limited to, governmental regulation, inflation, rising interest rates, cost increases in raw materials, fuel and other operating expenses, technological innovations that may render existing products and equipment obsolete, competition from new entrants, high research and development costs, increased costs associated with compliance with environmental or other regulation and other economic, market, political or other developments specific to that industry. Also, the Fund may have greater risk to the extent that it invests a substantial portion of its assets in companies in related sectors, which may share common characteristics, are often subject to similar business risks and regulatory burdens, and whose securities may react similarly to the types of events and factors described above. The Fund will also be subject to focused investment risks to the extent that it invests a substantial portion of its assets in a particular country or geographic region. See Principal risks of the Fund Foreign (Non-U.S.) Investment Risk, Principal risks of the Fund Emerging Markets Risk and Principal risks of the Fund Foreign Currency Risk.

Reinvestment Risk. Reinvestment risk is the risk that income from the Fund s portfolio will decline if and when the Fund invests the proceeds from prepaid, matured, traded or called debt obligations at market interest rates that are below the portfolio s current earnings rate. For instance, during periods of declining interest rates, an issuer of debt obligations may exercise an option to redeem securities prior to maturity, forcing the Fund to invest in lower-yielding securities. A decline in income received by the Fund from its investments is likely to have a negative effect on the market price, net asset value and/or overall return of the Fund s common shares and to reduce asset coverage on the Preferred Shares.

Table of Contents

Inflation/Deflation Risk. Inflation risk is the risk that the value of assets or income from the Fund s investments will be worth less in the future as inflation decreases the value of payments at future dates. As inflation increases, the real value of the Fund s portfolio could decline. Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund s portfolio.

Confidential Information Access Risk. In managing the fund, PIMCO normally will seek to avoid the receipt by portfolio managers and analysts of material, non-public information (Confidential Information) about the issuers of Senior Loans, other bank loans and related investments being considered for acquisition by the Fund or held in the Fund s portfolio. In many instances, issuers offer to furnish Confidential Information to prospective purchasers or holders of the issuer s loans. In circumstances when the PIMCO portfolio manager and analysts do not receive Confidential Information from these issuers, the Fund may be disadvantaged in comparison to other bank loan investors, including with respect to the price the Fund pays or receives when it buys or sells a bank loan. Further, in situations when the Fund is asked, for example, to grant consents, waivers or amendments with respect to bank loans, PIMCO s ability to assess the desirability of such consents, waivers and amendments may be compromised.

Equity Securities and Related Market Risk. The Fund may hold common stocks and other equity securities from time to time, including those it has received through the conversion of a convertible security held by the Fund or in connection with the restructuring of a debt security. The market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. See Principal risks of the Fund Issuer Risk. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Debt securities are also subject to the market risks described above; however, equity securities generally have greater price volatility than bonds and other debt securities.

Rule 144A Securities Risk. Rule 144A permits certain qualified institutional buyers, such as the Fund, to trade in privately placed securities that have not been registered for sale under the Securities Act. Rule 144A securities may be deemed illiquid, although the Fund may determine that certain Rule 144A securities are liquid in accordance with procedures adopted by the Board.

Other Investment Companies Risk. The Fund may invest in securities of other open- or closed-end investment companies, including ETFs, to the extent that such investments are consistent with the Fund s investment objective and policies and permissible under the 1940 Act. As a shareholder in an investment company, the Fund will bear its ratable share of that investment company s

Table of Contents

expenses, and would remain subject to payment of the Fund s investment management fees with respect to the assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, these other investment companies may utilize leverage, in which case an investment would subject the Fund to additional risks associated with leverage. See Principal risks of the Fund Leverage Risk.

Risk of Regulatory Changes. To the extent that legislation or state or federal bank or other regulators impose additional requirements or restrictions on the ability of certain financial institutions to make loans, particularly in connection with highly leveraged transactions, the availability of investments sought after by the Fund may be reduced. Further, such legislation or regulation could depress the market value of investments held by the Fund. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to PIMCO and each individual portfolio manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment objective.

Market Disruption and Geopolitical Risk. The wars with Iraq and Afghanistan, their aftermath and the occupations of Iraq and substantial military presence in Afghanistan are likely to have a substantial effect on the U.S. and world economies and securities markets. The nature, scope and duration of the wars and the potential costs of rebuilding infrastructure cannot be predicted with any certainty. Terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 closed some of the U.S. securities markets for a four-day period and similar future events cannot be ruled out. The war and occupation, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Those events also could have an acute effect on individual issuers or related groups of issuers. These risks also could adversely affect individual issuers and securities markets, interest rates, secondary trading, ratings, credit risk, inflation, deflation and other factors relating to the Fund s investments and the market value and net asset value of the common shares.

Certain Affiliations

Certain broker-dealers may be considered to be affiliated persons of the Fund, the Investment Manager and/or PIMCO due to their possible affiliations with Allianz SE, the ultimate parent of the Investment Manager and PIMCO. Absent an exemption from the Securities and Exchange Commission or other regulatory relief, the Fund is generally precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker, or to utilize affiliated brokers for agency transactions, is subject to restrictions. This could limit the Fund s ability to engage in securities transactions and take advantage of market opportunities.

Anti-Takeover Provisions

The Fund s Agreement and Declaration of Trust (the Declaration) includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. See Anti-takeover and other provisions in the Declaration of Trust. These provisions in the Declaration could have the effect of depriving the Common Shareholders of opportunities to sell their common shares at a premium over the then-current market price of the common shares or at net asset value.

Table of Contents

Summary of Fund expenses

The following table is intended to assist investors in understanding the fees and expenses (annualized) that an investor in common shares of the Fund would bear, directly or indirectly, as a result of the Offer being fully subscribed and the receipt of net proceeds from the Offer of approximately $[ ] million. If the Fund issues fewer Shares in the Offer and the net proceeds to the Fund are less, all other things being equal, the expenses shown would increase. The table assumes that the Fund has Preferred Shares outstanding in an amount equal to [ ]% of the Fund s total assets (taking into account such outstanding Preferred Shares), which reflects the percentage of the Fund s total assets attributable to Preferred Shares as of [ ]. The table also assumes the use of leverage in the form of [reverse repurchase agreements] in an amount equal to [ ]% of the Fund s total assets (including the amounts of leverage obtained through the use of such instruments), which reflects the percentage of the Fund s assets attributable to reverse repurchase agreements as of [ ].

	Percentage of Subscription Price
Shareholder Transaction Expenses	
Sales load	[ ]%[1]
Offering expenses borne by Common Shareholders	[ ]%[2]
Dividend reinvestment and cash purchase plan fees	None[3]

	Percentage of Net Assets Attributable to Common Shares
Annual Expenses	
Management fees[4]	[ ]%
Dividend expense on Preferred Shares[5]	[ ]%
Interest expense on [reverse repurchase agreements][6]	[ ]%
Other expenses[7]	[ ]%
[Acquired fund fees and expenses[8]]	[ ]%
Total annual expenses	[ ]%

1. *The Dealer Manager will receive a fee for its financial structuring, marketing and soliciting services equal to [ ]% of the aggregate Subscription Price for Shares issued pursuant to the Offer. The Dealer Manager will reallow to broker-dealers in the selling group to be formed and managed by the Dealer Manager selling fees equal to [ ]% of the Subscription Price per Share for each Share issued pursuant to the Offer as a result of their selling efforts. In addition, the Dealer Manager will reallow to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights solicitation fees equal to [ ]% of the Subscription Price per Share for each Share issued pursuant to the exercise of Rights as a result of their soliciting efforts, subject to a maximum fee based on the number of Shares held by each broker-dealer through The Depository Trust Company (DTC) on the Record Date.*
2. *The fees and expenses of the Offer will be borne by the Fund and indirectly by all of its Common Shareholders, including those who do not exercise their Rights.*
3. *You may pay brokerage charges if you direct the plan agent to sell your common shares held in a dividend reinvestment account. You also may pay a pro rata share of brokerage commissions incurred in connection with your market purchases pursuant to the Fund s dividend reinvestment plan. See Dividend reinvestment plan.*
4. *Management fees are charged to the Fund on the basis of total managed assets, but have been converted to a percentage of net assets attributable to common shares of the Fund for purposes of the fee table presentation as follows: management fees, assuming no leverage, divided by (one minus the percentage of the Fund s total assets attributable to outstanding Preferred Shares ([ ]% of the Fund s total assets as of [ ])).*
5. *Assumes Preferred Shares outstanding in an amount equal to [ ]% of the Fund s total assets (taking into account such outstanding Preferred Shares) at an annual dividend cost to the Fund of [ ]%, which is based on PIMCO s assessment of current market conditions, and assumes the Fund will continue to pay Preferred Share dividends at the maximum applicable rate called for under the Fund s bylaws due to the ongoing failure of auctions for the Preferred Shares.*
6. *Assumes the use of leverage in the form of reverse repurchase agreements representing [ ]% of the Fund s total assets (including the amounts of leverage obtained through the use of such instruments) at an annual interest rate cost to the Fund of [ ]%, which is based on PIMCO s assessment of current market conditions.*
7. *Other expenses are estimated for the Fund s current fiscal year.*

8. *[Footnote to be added by amendment, if applicable.]*

EXAMPLE

The following example illustrates the expenses that you would pay on a $1,000 investment in common shares of the Fund (including the total sales load of $[ ] and the other estimated costs of this Offer to be borne by the Common Shareholders of $[ ]), assuming (1) that the Offer is fully subscribed and the Fund receives net proceeds from the

Table of Contents

Offer of approximately $[ ], (2) that the Fund s current net assets do not increase or decrease, (3) that the Fund incurs total annual expenses of [ ]% of net assets attributable to common shares in years 1 through 10 (assuming outstanding Preferred Shares representing [ ]% of the Fund s total assets and reverse repurchase agreements utilized equal to [ ]% of the Fund s total assets) and (4) a 5% annual return[1]:

	1 Year	3 Years	5 Years	10 Years
Total expenses incurred	$ [ ]	$ [ ]	$ [ ]	$ [ ]

1. **The example above should not be considered a representation of future expenses. Actual expenses may be higher or lower than those shown.** The example assumes that the estimated Other expenses set forth in the Annual Expenses table are accurate and that all dividends and distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund s actual rate of return may be greater or less than the hypothetical 5% annual return shown in the example.

30

Table of Contents

Financial highlights

Except when noted, the information in this table is derived from the Fund s financial statements audited by [ ], whose report on such financial statements is contained in the Fund s [ ] Annual Report and incorporated by reference into the Statement of Additional Information.

[Financial highlights to be inserted by amendment.]

The following table sets forth certain unaudited information regarding the Fund s outstanding Preferred Shares as of the end of each of the Fund s fiscal years since inception.

Fiscal Year Ended	Total Amount Outstanding	Asset Coverage per Preferred Share[1]	Involuntary Liquidating Preference per Preferred Share[2]	Average Market Value per Preferred Share[3]
July 31, 2009	$ [ ]	$ [ ]	$ [ ]	$ [ ]
July 31, 2008	$ [ ]	$ [ ]	$ [ ]	$ [ ]
July 31, 2007	$ [ ]	$ [ ]	$ [ ]	$ [ ]
Eleven months ended July 31, 2006*	$ [ ]	$ [ ]	$ [ ]	$ [ ]
October 29, 2004** through August 31, 2005	$ [ ]	$ [ ]	$ [ ]	$ [ ]

* Fiscal year changed from August 31 to July 31.

** Commencement of operations

1. Asset Coverage per Preferred Share means the ratio that the value of the total assets of the Fund, less all liabilities and indebtedness not represented by Preferred Shares, bears to the aggregate of the involuntary liquidation preference of the Preferred Shares, expressed as a dollar amount per Preferred Shares.
2. Involuntary Liquidating Preference per Preferred Share means the amount to which a holder of Preferred Shares would be entitled upon the involuntary liquidation of the Fund in preference to the Common Shareholders, expressed as a dollar amount per Preferred Share.
3. [Footnote to be inserted by amendment.]

Table of Contents

The offer

PURPOSE OF THE OFFER

The Board, the Investment Manager and the Sub-Adviser have determined that it would be in the best interests of the Fund and its shareholders to increase the assets of the Fund, in order to more fully take advantage of current and prospective investment opportunities that may enable the Fund to increase overall investment yield on its investments, consistent with preservation of capital. The Board, the Investment Manager and the Sub-Adviser believe the current market environment offers the Fund compelling opportunities to deploy additional capital to take advantage of attractive investment opportunities and to enhance the Fund s future risk-adjusted returns by cost-efficiently altering investment allocations from bank loans to fixed rate instruments, more fully reflecting the investment opportunities available in the credit market. The Board, the Investment Manager and the Sub-Adviser also believe that increasing the Fund s assets available for investment may enable the Fund to enhance the Fund s market liquidity, increase the stability of future dividend distributions and reduce the Fund s expense ratio modestly, while achieving other net benefits to the Fund. The Board, the Investment Manager and the Sub-Adviser believe that the Offer is currently the most effective way to raise additional assets for the Fund while offering common shareholders the opportunity to buy additional common shares at a discounted price.

The Offer may not be successful. The completion of the Offer will likely result in an immediate dilution of the net asset value per common share for all existing Common Shareholders, including those who fully exercise their rights.

IMPORTANT TERMS OF THE OFFER

The Fund is issuing Rights to its Common Shareholders of record as of 5:00 p.m., Eastern time, on the Record Date, entitling the holders of those Rights to subscribe for up to an aggregate of [ ] Shares. Record Date Shareholders will receive [ ] Right[s] for each outstanding whole common share of the Fund held on the Record Date. The Rights entitle their holders to purchase [ ] new Share[s] for every [ ] Right[s] held ([ ]-for-[ ]). Fractional Shares will not be issued upon the exercise of Rights; accordingly, Rights may be exercised only in integer multiples of [ ], except that any Record Date Shareholder who is issued fewer than [ ] Rights may subscribe, at the Subscription Price (defined below), for one full Share. Assuming the exercise of all Rights, the Offer will result in an approximately [ ]% increase in the Fund s common shares outstanding.

Record Date Shareholders who exercise all the Rights issued to them (other than those Rights that cannot be exercised because they represent the right to acquire less than one Share) are entitled to subscribe for additional Shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and to allotment. Investors who are not Common Shareholders on the Record Date, but who otherwise acquire Rights to purchase Shares pursuant to the Offer, are not entitled to subscribe for any Shares pursuant to the over-subscription privilege. See Over-Subscription Privilege below. The distribution to Record Date Shareholders of transferable Rights may afford non-participating Record Date Shareholders the opportunity to sell their Rights for some cash value, receipt of which may be viewed as partial compensation for any economic dilution of their interests resulting from the Offer.

The subscription period commences on [ ] and ends at 5:00 p.m., Eastern time, on [ ], unless otherwise extended.

The Fund expects to declare a monthly distribution in [ ]. Such distribution will not be payable with respect to Shares that are issued pursuant to the Offer after the record date for such dividend.

For purposes of determining the maximum number of Shares a Rights holder may acquire pursuant to the Offer, broker-dealers, trust companies, banks or others whose shares are held of record by Cede & Co., the nominee for the Depository Trust Company (DTC), or by any other depository or nominee will be deemed to be the holders of the Rights that are held by Cede & Co. or such other depository or nominee on their behalf.

The Rights will be listed for trading on the NYSE under the symbol [ ] during the course of the Offer. Trading in the Rights on the NYSE may be conducted until the close of trading on the NYSE on the last business day prior to the Expiration Date. See Sale and Transferability of Rights. The Shares, once issued, will be listed on the NYSE under the symbol [ ]. The Rights will be evidenced by subscription certificates which will be mailed to Record Date Shareholders, except as discussed below under Requirements for Foreign Shareholders.

Table of Contents

Rights may be exercised by filling in and signing the subscription certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed subscription certificate to the Subscription Agent, together with payment at the estimated Subscription Price for the Shares. For a discussion of the method by which Rights may be exercised and Shares may be paid for, see Exercise of Rights and Payment for Shares.

The Fund retained the Dealer Manager to provide the Fund with financial advisory, marketing and soliciting services relating to the Offer, including advice with respect to the structure, timing and terms of the Offer. In determining the structure of the Offer, the Board considered, among other things, using a fixed-pricing versus a variable pricing mechanism, the benefits and drawbacks of conducting a non-transferable versus a transferable rights offering, the anticipated effect on the Fund and its existing Common Shareholders if the Offer is not fully subscribed, the dilutive effects on the Fund and its existing Common Shareholder of the Offer and the experience of the Dealer Manager in conducting rights offerings. The Board also considered that the Investment Manager and the Sub-Adviser would benefit from the Offer because the investment management fee and the subadvisory fee are based on the Fund s total managed assets, which would increase as a result of the Offer. See Benefits to the Investment Manager and the Sub-Adviser on page [ ].

Important Dates to Remember	
Record Date:	[ ]
Subscription Period:	[ ] to [*]
Confirmation Date of Over-Subscription Amounts:	[*]
Final Date Rights Will Trade on NYSE:	[*]
Expiration Date and Pricing Date:	[*]
Payment for Shares Due or Notices of Guarantees of Delivery Due:	[*]
Confirmation Mailed to Participants:	[*]
Final Payment for Shares Due:	[*]
Delivery of Shares:	[*]

* See Payment for Shares. .
Unless the Offer is extended.

SUBSCRIPTION PRICE

The subscription price for the Shares (the Subscription Price) will be determined based on a formula equal to [ ]% of the average of the last reported sale price of the Fund s common shares on the New York Stock Exchange (the NYSE) on the Expiration Date and the [ ] preceding trading days (the Formula Price). If, however, the Formula Price is less than [ ]% of the net asset value per common share on the Expiration Date, then the Subscription Price will be [ ]% of the Fund s net asset value per common share on the Expiration Date. In each case, net asset value will be calculated as of the close of trading on the NYSE.

Because the Expiration Date of the subscription period will be [ ] (unless the Fund extends the subscription period), Rights holders may not know the Subscription Price at the time of exercise and will be required initially to pay for both the Shares subscribed for pursuant to the primary subscription and, if eligible, any additional Shares subscribed for pursuant to the over-subscription privilege at the estimated Subscription Price of $[ ] per Share. See Payment for Shares. A Rights holder will have no right to rescind his subscription after the Subscription Agent has received a completed subscription certificate together with payment for the Shares offered pursuant to the Offer[, except as provided under Notice of Net Asset Value Decline.] The Fund does not have the right to withdraw the Rights or to cancel the Offer after the Rights have been distributed.

The net asset value per share of the Fund s common shares at the close of business on [ ] (the last trading date prior to the date of this prospectus on which the Fund determined its net asset value) was $[ ], and the last reported sale price of a Share on the NYSE on that day was $[ ].

OVER-SUBSCRIPTION PRIVILEGE

Record Date Shareholders who exercise all the Rights issued to them (other than those Rights that cannot be exercised because they represent the right to acquire less than one Share) are entitled to subscribe for additional Shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and

to allotment. If sufficient remaining Shares are available, all Record Date Shareholders over-subscription requests will be honored in full. In addition, any non-Record Date Shareholders who exercise Rights are entitled to subscribe for remaining Shares that are not otherwise subscribed for by Record Date Shareholders. If sufficient Shares are not available to honor all over-subscription requests, unsubscribed Shares will be allocated pro rata among those Record Date Shareholders who over-subscribe based on the number of common shares of the Fund they owned on the Record Date. The allocation process may involve a series of allocations in order to ensure that the total number of Shares available for over-subscriptions is distributed on a pro rata basis.

Record Date Shareholders who are fully exercising their Rights during the subscription period should indicate, on the subscription certificate that they submit with respect to the exercise of the Rights issued to them, how many Shares they desire to acquire pursuant to the over-subscription privilege.

Banks, broker-dealers, trustees and other nominee holders of Rights will be required to certify to the Subscription Agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner, as to the aggregate number of Rights exercised during the subscription period and the number of Shares subscribed for pursuant to the over-subscription privilege by such beneficial owner, and that such beneficial owner s primary subscription was exercised in full. Nominee holder over-subscription forms will be distributed to banks, brokers, trustees and other nominee holders of Rights with the subscription certificates.

The Fund will not offer or sell any Shares that are not subscribed for during the subscription period or pursuant to the over-subscription privilege.

SALE AND TRANSFERABILITY OF RIGHTS

The Rights will be listed for trading on the NYSE under the symbol [ ] during the course of the Offer. Trading in the Rights on the NYSE may be conducted until the close of trading on the NYSE on the last business day prior to the Expiration Date. The Fund and the Dealer Manager will use their best efforts to ensure that an adequate trading market for the Rights will exist, although there can be no assurance that a market for the Rights will develop. Assuming a market exists for the Rights, the Rights may be purchased and sold through usual brokerage channels or sold through the Subscription Agent.

Sales through the Subscription Agent and the Dealer Manager. Record Date Shareholders who do not wish to exercise any of the Rights issued to them pursuant to the Offer may instruct the Subscription Agent to sell any unexercised Rights through or to the Dealer Manager. Subscription certificates representing the Rights to be sold through or to the Dealer Manager must be received by the Subscription Agent by 5:00 p.m., Eastern time, on [ ] (or, if the subscription period is extended, by 5:00 p.m., Eastern time, two business days prior to the extended Expiration Date). Upon the timely receipt by the Subscription Agent of appropriate instructions to sell Rights, the Subscription Agent will ask the Dealer Manager either to purchase them or to use its best efforts to complete their sale, and the Subscription Agent will remit the proceeds of the sale to the selling Rights holder. If the Rights are sold, sales of those Rights will be deemed to have been effected at the weighted average price received by the Dealer Manager on the day those Rights are sold. The sale price of any Rights sold to the Dealer Manager will be based upon the then-current market price for the Rights. The Dealer Manager will also attempt to sell all Rights that remain unclaimed as a result of subscription certificates being returned by the postal authorities to the Subscription Agent as undeliverable as of the [fourth] business day prior to the Expiration Date. The Subscription Agent will hold the proceeds from those sales for the benefit of those non-claiming shareholders until the proceeds are either claimed or revert to the Commonwealth of Massachusetts. There can be no assurance that the Dealer Manager will purchase or be able to complete the sale of any Rights, and neither the Fund nor the Dealer Manager have guaranteed any minimum sale price for the Rights. If a Record Date Shareholder does not utilize the services of the Subscription Agent and chooses to use another broker-dealer or other financial institution to sell Rights issued to that shareholder pursuant to the Offer, then the other broker-dealer or financial institution may charge a fee to sell the Rights.

Other Transfers. The Rights evidenced by a subscription certificate may be transferred in whole by endorsing the subscription certificate for transfer in accordance with the instructions accompanying the subscription certificate. A portion of the Rights evidenced by a single subscription certificate (but not fractional Rights) may be transferred by delivering to the Subscription Agent a subscription certificate properly endorsed for transfer, with instructions to register such portion of the Rights evidenced thereby in the name of the transferee and to issue a new subscription certificate to the transferee evidencing the transferred Rights. If this occurs, a new subscription certificate evidencing the balance of the Rights, if any, will be issued to the Record Date Shareholder or, if the Record Date Shareholder so instructs, to an additional transferee. The signature on the subscription certificate must correspond with the name as written upon the face of the subscription certificate in every particular, without alteration or enlargement, or any change. A signature guarantee must be provided by an eligible guarantor institution (as defined in Rule 17Ad-15 of the Securities Exchange Act of 1934 (the Exchange Act)), subject to the standards and procedures adopted by the Fund.

Record Date Shareholders wishing to transfer all or a portion of their Rights should allow at least [five] business days prior to the Expiration Date for: (i) the transfer instructions to be received and processed by the Subscription Agent; (ii) a new subscription certificate to be issued and transmitted to the transferee or transferees with respect to transferred Rights and to the transferor with respect to retained Rights, if any; and (iii) the Rights evidenced by the new subscription certificate to be exercised or sold by the recipients of the subscription certificate. Neither the Fund nor the Subscription Agent or the Dealer Manager shall have any liability to a transferee or transferor of Rights if subscription certificates are not received in time for exercise or sale prior to the Expiration Date.

Except for the fees charged by the Information Agent, the Subscription Agent and the Dealer Manager (which are expected to be paid from the proceeds of the Offer by the Fund), all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred or charged in connection with the purchase, sale or transfer of Rights will be for the account of the transferor of the Rights, and none of these commissions, fees or expenses will be paid by the Fund, the Information Agent, the Subscription Agent or the Dealer Manager. Shareholders who wish to purchase, sell, exercise or transfer Rights through a broker, bank or other party should first inquire about any fees and expenses that the shareholder will incur in connection with the transactions.

The Fund anticipates that the Rights will be eligible for transfer through, and that the exercise of the primary subscription and the over-subscription may be effected through, the facilities of DTC or the Subscription Agent until 5:00 p.m., Eastern time, on the Expiration Date.

METHOD FOR EXERCISING RIGHTS

Rights are evidenced by subscription certificates that will be mailed to Record Date Shareholders (except as described under Requirements for Foreign Shareholders below) or, if a shareholder s shares are held by Cede & Co. or any other depository or nominee on their behalf, to Cede & Co. or the other depository or nominee. Rights may be exercised by completing and signing the subscription certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed subscription certificate to the Subscription Agent, together with payment in full at the estimated Subscription Price for the Shares by the Expiration Date as described under Payment For Shares. Rights may also be exercised by contacting your broker, banker or trust company, which can arrange, on your behalf, to guarantee by the Expiration Date delivery of payment and of a properly completed and executed subscription certificate pursuant to a notice of guaranteed delivery by the close of business on the [third] business day after the Expiration Date. A fee may be charged for this service. Completed subscription certificates and payments must be received by the Subscription Agent by 5:00 p.m., Eastern time, on the Expiration Date (unless delivery of subscription certificate and payment is effected by means of a notice of guaranteed delivery as described below under Payment for Shares) at the offices of the Subscription Agent at the ad