

PIMCO Floating Rate Strategy Fund  
Form N-2/A  
October 26, 2004  
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As filed with the Securities and Exchange Commission on October 25, 2004

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1933 Act File No. 333-117187

1940 Act File No. 811-21601

## U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form N-2

x REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933  
x Pre-Effective Amendment No. 3  
.. Post-Effective Amendment No.  
and

x REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940  
x Amendment No. 3

## PIMCO Floating Rate Strategy Fund

(Exact Name of Registrant as Specified in Declaration of Trust)

c/o PA Fund Management LLC

1345 Avenue of the Americas

New York, New York 10105

(Address of Principal Executive Offices)

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

(212) 739-3369

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(Registrant's Telephone Number, including Area Code)

**Newton B. Schott, Jr.**

**c/o PA Distributors LLC**

**2187 Atlantic Street**

**Stamford, Connecticut 06902**

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

*Copies of Communications to:*

**Joseph B. Kittredge, Jr., Esq.**

**Ropes & Gray LLP**

**One International Place**

**Boston, Massachusetts 02110**

**Leonard B. Mackey, Sr., Esq.**

**Clifford Chance US LLP**

**31 West 52nd Street**

**New York, NY 10019**

**Approximate Date of Proposed Public Offering:**

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

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If any of the 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)

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**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

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<b>Title of Securities Being Registered</b>	<b>Amount Being Registered</b>	<b>Proposed Maximum Offering Price Per Unit</b>	<b>Proposed Maximum Aggregate Offering Price(1)</b>	<b>Amount of Registration Fee(2)</b>
Common Shares, par value \$0.00001	43,000,000 Shares	\$ 20.00	\$ 860,000,000	\$ 108,962.00

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1 Estimated solely for the purpose of calculating the registration fee.

2 \$2.53 of which has already been paid.

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 which specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

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Investing in the Fund's common shares involves certain risks. See **Risks** beginning on page 36 of this prospectus. Certain of these risks are summarized in **Prospectus Summary Special Risk Considerations** beginning on page 10 of this prospectus.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$20.00	\$
Sales load	\$.90	\$
Estimated offering expenses(1)(2)	\$.04	\$
Proceeds to the Fund	\$19.06	\$

- (1) The Fund has agreed to pay the underwriters \$.00667 per share as a partial reimbursement of expenses incurred in connection with the offering. See **Underwriting**.
- (2) The Fund will pay or reimburse organization and offering expenses estimated at \$ \_\_\_\_\_ from the proceeds of the offering. PA Fund Management LLC has agreed to pay (i) the amount by which the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of \$.00667 per shares) exceed \$.04 per share and (ii) all of the Fund's organizational expenses, except that the Fund has agreed to reimburse PA Fund Management LLC for such organizational expenses to the extent that the aggregate of all such organizational expenses and all offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of \$.00667 per share) does not exceed \$.04 per share.

The underwriters may also purchase up to an additional \_\_\_\_\_ common shares at the public offering price, less the sales load, within 45 days from the date of this prospectus to cover overallotments.

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

The common shares will be ready for delivery on or about \_\_\_\_\_, 2004.

**Merrill Lynch & Co.**  
**A.G. Edwards**  
**Robert W. Baird & Co.**

**Wachovia Securities**  
**Ferris, Baker Watts**

**UBS Investment Bank**  
**Advest, Inc.**  
**H&R Block Financial Advisors, Inc.**

**J.J.B. Hilliard, W.L. Lyons, Inc.**

**Incorporated**  
**KeyBanc Capital Markets**

**Legg Mason Wood Walker**

**Oppenheimer & Co.**  
**Stifel, Nicolaus & Company**

**RBC Capital Markets**  
**SunTrust Robinson Humphrey**

**Incorporated**  
**Ryan Beck & Co.**  
**Wedbush Morgan Securities**

**Incorporated**

**Wells Fargo Securities, LLC**

The date of this prospectus is \_\_\_\_\_, 2004.

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(continued from previous page)

Because most of the investments held by the Fund will be floating rate assets (as defined below), the Fund's portfolio is generally expected to have less interest rate risk (*i.e.*, sensitivity to fluctuations in market interest rates) and a more stable net asset value than funds with portfolios that invest in longer-term fixed rate securities, although the net asset value will vary due to fluctuations in interest rates and other factors such as changes in the credit quality of securities in the portfolio. Due to its focus on variable rate securities, the amounts of the Fund's monthly distributions to common shareholders are expected to vary with fluctuations in market interest rates.

**No Prior History.** Because the Fund is newly organized, its common shares have no history of public trading. **Shares of closed-end investment companies frequently trade at a discount from their net asset value, which creates a risk of loss for the investors purchasing shares in the initial public offering.** The common shares have been authorized for listing on the New York Stock Exchange, subject to notice of issuance, under the symbol PFN.

**Portfolio Contents.** As noted above, a substantial portion of the Fund's investment assets will ordinarily consist of senior floating rate debt securities and interests in senior floating rate loans ( Senior Loans ) made to or issued by U.S. or non-U.S. banks or other corporations. Senior Loans typically pay interest at rates which are re-determined periodically on the basis of a floating base lending rate (such as the London Inter-Bank Offered Rate, LIBOR ) plus a premium. Although Senior Loans are typically of below investment grade quality, they tend to have more favorable recovery rates than those of other types of below investment grade quality debt obligations. 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, 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 may also invest without limit in 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 (together with floating rate debt instruments, floating rate assets ). The Fund believes that these securities and investments have economic characteristics similar to the floating rate debt securities in which the Fund will invest. The Fund may invest without limit and ordinarily expects to invest a substantial portion of its assets in Senior Loans and other debt instruments that are, at the time of purchase, rated below investment grade or unrated but judged by the portfolio manager to be of comparable quality. To the extent consistent with the Fund's investment policy specified above, the Fund may invest a portion of its assets in securities and instruments other than floating rate assets, such as fixed rate convertible securities, high-yield bonds and mortgage-backed and other asset-backed securities issued on a public or private basis. The Fund expects to invest predominantly in U.S. dollar-denominated debt securities and will not invest more than 25% of its total assets in debt securities denominated in currencies other than the U.S. dollar. The Fund reserves the right to invest without limit in debt securities of non-U.S. issuers, although it will not invest more than 10% of its total assets in debt securities of issuers located in emerging markets. The Fund may make use of a variety of other 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, credit-linked trust certificates, total return swaps, credit default swaps and other derivative instruments. The Fund cannot assure you that it will achieve its investment objective.

Because of the floating rate or short-term features of most of the Fund's investments, it is expected that the Fund normally will have an average portfolio duration of zero to one year. The portfolio manager believes that this duration range and the Fund's exposure to lower-quality debt securities minimizes exposure to interest rate risk while still offering the potential for higher current income than would be expected from a higher quality portfolio.

**Borrowings.** The Fund presently intends to use leverage by issuing shares of preferred stock ( Preferred Shares ) representing approximately 38% of the Fund's total assets immediately after their issuance. The Fund may also leverage the portfolio by borrowing money, issuing debt securities or using reverse repurchase agreements, loans of portfolio securities, credit default swap contracts and other derivatives, as well as when-issued, delayed delivery and forward commitment transactions. However, these forms of leverage will only be used, if at all, as a substitute for, rather than in addition to, the leverage obtained through the issuance of Preferred Shares. See The Fund's Investment Objective and

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Strategies Portfolio Contents and Other Information. By using leverage, the Fund will seek to obtain a higher return for holders of common shares than if the Fund did not use leverage. Leveraging is a speculative technique, and there are special risks involved. There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is employed. See Preferred Shares and Related Leverage and Risks Leverage Risk.

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 \_\_\_\_\_, 2004, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus, which means that it is part of the prospectus for legal purposes. You can review the table of contents of the Statement of Additional Information on page 62 of this prospectus. You may request a free copy of the Statement of Additional Information by calling (877) 819-2224 or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's web site (<http://www.sec.gov>).

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.

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**You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not, and the underwriters have not, authorized anyone 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 underwriters are not, making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus. The Fund's business, financial condition, results of operations and prospects may have changed since that date.**



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**PROSPECTUS SUMMARY**

*This is only a summary. This summary may not contain all of the information that you should consider before investing in the common shares. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information.*

**The Fund** PIMCO Floating Rate Strategy Fund (the Fund) is a newly organized, diversified, closed-end management investment company. See The Fund.

**The Offering** The Fund is offering common shares of beneficial interest, with a par value of \$.00001 per share, at \$20.00 per share through a group of underwriters (the Underwriters) led by Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch) and UBS Securities LLC (UBS). The common shares of beneficial interest are called Common Shares in the rest of this prospectus. You must purchase at least 100 Common Shares. The Fund has given the Underwriters an option to purchase up to additional Common Shares to cover orders in excess of Common Shares. See Underwriting. PA Fund Management LLC (the Manager), the Fund's investment manager, has agreed to pay (i) the amount by which the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of \$.00667 per Common Share) exceed \$.04 per Common Share and (ii) all of the Fund's organizational expenses, except that the Fund has agreed to reimburse the Manager for such organizational expenses to the extent that the aggregate of all such organizational expenses and all offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of \$.00667 per Common Share) does not exceed \$.04 per Common Share.

**Investment Objective and Strategies** *Investment Objective.* The Fund's investment objective is to seek high current income, consistent with the preservation of capital. The Fund attempts to achieve this objective by normally investing at least 80% of its net assets (plus any borrowings for investment purposes) in a diversified portfolio of floating rate debt instruments, a substantial portion of which will be Senior Loans, 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 (collectively, floating rate assets). See Portfolio Contents below. The Fund may invest without limit, and ordinarily expects to invest a substantial portion of its assets, in Senior Loans and other debt instruments that are, at the time of purchase, rated below investment grade (or unrated but judged by the portfolio manager to be of comparable quality) as described under Credit Quality below. The Fund cannot assure you that it will achieve its investment objective.

*Portfolio Management Strategies.* In selecting investments for the Fund, Pacific Investment Management Company LLC (PIMCO or the Sub-Adviser), the Fund's portfolio manager, attempts to identify

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floating rate and other 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 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 uses a variety of techniques, such as credit default swaps, designed to control risk and minimize the Fund's exposure to debt instruments that PIMCO believes are more likely to default or otherwise depreciate in value over time and detract from the Fund's overall return to investors. Because most of the investments held by the Fund will be floating rate assets, the Fund's portfolio is generally expected to have less interest rate risk (i.e., sensitivity to fluctuations in market interest rates) and a more stable net asset value than portfolios of funds that invest in longer-term fixed rate securities, although the net asset value will vary due to fluctuations in interest rates and other factors such as changes in the credit quality of securities in the portfolio. The Fund also attempts to preserve capital based on PIMCO's assessment of the issuer's credit characteristics and macro-economic factors. Subject to the guidelines under "Credit Quality" below, the Fund has the flexibility to invest in debt obligations of any credit quality based on its assessment of the particular issuer.

The Fund does not invest its assets according to predetermined weightings in particular issuers, industries or sectors. Instead, PIMCO attempts to identify quality investments in any industry or sector through fundamental research, driven by independent credit analysis and proprietary analytical tools.

*Credit Quality.* Under normal market conditions, the Fund may invest without limit, and ordinarily expects to invest a substantial portion of its assets, in Senior Loans and other debt instruments that are, at the time of purchase, rated below investment grade (below Baa3 by Moody's, below BBB- by either S&P or Fitch, or below a comparable rating by Dominion), or unrated but judged by PIMCO to be of comparable quality. The Fund will not invest more than 10% of its total assets in securities that are, at the time of purchase, rated CCC+/Caa1 or lower by each agency rating the security or that are unrated but judged by PIMCO to be of comparable quality. 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." Debt securities in the lowest investment grade category may also be considered to possess some speculative characteristics.

*Independent Credit Analysis.* PIMCO relies heavily on its own analysis of the credit quality and risks associated with individual debt obligations considered for the Fund, rather than relying exclusively on rating agencies or third-party research. In the case of Senior Loans,

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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. The individuals managing the Fund utilize this information in an attempt to manage credit risk and identify issuers, industries or sectors that offer attractive yields relative to PIMCO's assessment of their credit characteristics. This aspect of PIMCO's capabilities will be particularly important because of the Fund's emphasis on Senior Loans and other below investment grade debt securities.

*Duration.* The average portfolio duration of the Fund will normally be within a short range (*i.e.*, a zero to one-year time frame) due to the Fund's predominant investment in floating rate assets, although it may be longer at any time and from time to time to the extent that the Fund invests in longer-term fixed rate securities. Duration is a measure of the expected life of a debt security that is used to determine the sensitivity of the security's price to changes in interest rates. PIMCO believes that the Fund's short duration range minimizes exposure to price changes of its portfolio securities due to interest rate volatility and related risk while still offering the potential opportunity for high current income.

*Diversification.* Subject to the availability of suitable investment opportunities, PIMCO will attempt to diversify the Fund's investments broadly in an attempt to minimize the portfolio's sensitivity to credit and other risks associated with a particular issuer, industry or sector, or to the impact of a single economic, political, corporate or regulatory occurrence.

*Portfolio Contents.* Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its net assets (plus any borrowings for investment purposes) in a diversified portfolio of floating rate debt instruments, a substantial portion of which will be Senior Loans, 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 (collectively, floating rate assets). Senior Loans are typically originated, negotiated and structured by a U.S. or foreign commercial bank, insurance company, finance company or other financial institution (the Agent) for a lending syndicate of financial institutions (the Lenders). Senior Loans are normally accessible only to financial institutions and large corporate and institutional investors and are not widely available to individual investors. Floating rate debt instruments are debt instruments 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). These floating rate debt instruments may include, in addition to Senior Loans, instruments such as catastrophe and other event-linked bonds, bank capital securities, unsecured bank loans, corporate bonds, money

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market instruments and certain types of mortgage-backed and other asset-backed securities. As noted above, the Fund may invest without limit and ordinarily expects to invest a substantial portion of its assets in Senior Loans and other debt instruments that are, at the time of purchase, rated below investment grade or unrated but judged by PIMCO to be of comparable quality. The Fund may invest the remainder of its assets in securities and instruments other than floating rate assets, such as fixed rate convertible securities, high-yield bonds and mortgage-backed and other asset-backed securities issued on a public or private basis. The Fund expects to invest predominantly in U.S. dollar-denominated debt securities and will not invest more than 25% of its total assets in debt securities denominated in currencies other than the U.S. dollar. The Fund reserves the right to invest without limit in debt securities of non-U.S. issuers, although it will not invest more than 10% of its total assets in debt securities of issuers located in emerging markets. The Fund may make use of a variety of other instruments, including preferred shares, commercial paper, U.S. Government securities, zero-coupon and inflation-indexed bonds, structured notes and other hybrid instruments, credit-linked trust certificates, real estate investment trusts (REITs), total return swaps, credit default swaps and other derivative instruments. The Fund may invest in securities of companies with small market capitalizations. The Fund may invest without limit in illiquid securities. As a diversified fund, the Fund generally may not, with respect to 75% of its total assets, purchase the securities of any issuer, except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities or securities of other investment companies, if, as a result, (i) more than 5% of the Fund's total assets would be invested in the securities of that issuer, or (ii) the Fund would hold more than 10% of the outstanding voting securities of that issuer. The Fund will not concentrate its investments in a particular industry by investing more than 25% of its total assets in that industry. The Fund's industry concentration policy does not preclude it from focusing investments in issuers in a group of related industrial sectors (such as different types of utilities).

**Proposed Offering of Preferred Shares and Other Forms of Leverage** Subject to market conditions, approximately one to six months after completion of this offering, the Fund intends to offer preferred shares of beneficial interest ( Preferred Shares ) representing approximately 38% of the Fund's total assets immediately after their issuance. The issuance of Preferred Shares will leverage your investment in Common Shares. Leverage involves special risks. There is no assurance that the Fund will issue Preferred Shares or that, if Preferred Shares are issued, the Fund's leveraging strategy will be successful. See Risks Leverage Risk. The net proceeds the Fund obtains from selling the Preferred Shares will be invested in accordance with the Fund's investment objective and policies as described in this prospectus. The Preferred Shares will pay dividends based on short-term interest rates for high quality obligations, which will be reset frequently. So long as

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the rate of return, net of applicable Fund expenses, on the floating rate high yield debt obligations and other investments purchased by the Fund exceeds Preferred Share dividend rates as reset periodically, the investment of the proceeds of the Preferred Shares will generate more income than will be needed to pay dividends on the Preferred Shares. If so, the excess will be used to pay higher dividends to holders of Common Shares ( Common Shareholders ) than if the Fund were not so leveraged through the issuance of Preferred Shares. The Fund may also leverage the portfolio by borrowing money, issuing debt securities or using reverse repurchase agreements, loans of portfolio securities, credit default swap contracts and other derivatives, as well as when-issued, delayed delivery and forward commitment transactions. However, these forms of leverage will only be used, if at all, as a substitute for, rather than in addition to, the leverage obtained through the issuance of Preferred Shares. See The Fund s Investment Objective and Strategies Portfolio Contents and Other Information. The Fund cannot assure you that the issuance of Preferred Shares or the use of other forms of leverage will result in a higher yield on your Common Shares. Once Preferred Shares are issued and/or other forms of leverage are used, the net asset value and market price of the Common Shares and the yield to Common Shareholders will be more volatile. See Preferred Shares and Related Leverage, Description of Shares Preferred Shares and Risks Leverage Risk. In addition, fees and expenses paid by the Fund are borne entirely by the Common Shareholders (and not by Preferred Shareholders, if any). These include costs associated with any offering of Preferred Shares by the Fund (which costs are estimated to be approximately 1.1% of the total dollar amount of a Preferred Share offering), which will be borne immediately by Common Shareholders (as will the costs associated with any borrowings or other forms of leverage utilized by the Fund) and result in a reduction in the net asset value of the Common Shares.

**Investment Manager**

The Manager serves as the investment manager of the Fund. Subject to the supervision of the Fund s Board of Trustees, the 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 Manager will receive an annual fee, payable monthly, in an amount equal to .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). The Manager is located at 1345 Avenue of the Americas, New York, New York 10105. Organized in 2000 as a subsidiary successor of a business originally organized in 1987, the Manager provides investment management and advisory services to a number of closed-end and open-end investment company clients. As of September 30, 2004, the Manager had approximately \$33.6 billion in assets under management. Allianz Global Investors of America L.P. is the direct parent company

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of PA Retail Holdings LLC, of which the Manager is a wholly-owned subsidiary. As of September 30, 2004, Allianz Global Investors of America L.P. and its subsidiaries, including PIMCO, had approximately \$502 billion in assets under management.

The Manager has retained its affiliate, PIMCO, as a sub-adviser to manage the Fund's portfolio investments. See "Portfolio Manager" below.

### **Portfolio Manager**

PIMCO will serve as the Fund's sub-adviser responsible for managing the Fund's portfolio investments, and is sometimes referred to herein as the "portfolio manager." Subject to the supervision of the 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 mutual funds. As of September 30, 2004, PIMCO had approximately \$415 billion in assets under management.

The Manager (and not the Fund) will pay a portion of the fees it receives to PIMCO in return for PIMCO's services.

### **Distributions**

Commencing with the Fund's first dividend, the Fund intends to make regular monthly cash distributions to Common Shareholders at a variable rate based on the performance of the Fund and income accrual. The dividend rate that the Fund pays on its Common Shares will depend on a number of factors including the variable rate of interest received on the Fund's portfolio, dividends payable on any Preferred Shares and the expenses of any other leveraging transactions. Because the Fund expects to invest predominantly in floating rate assets, the amount of the Fund's monthly distributions to shareholders is expected to vary with fluctuations in market interest rates. Although there is a risk that fluctuations in the dividend rates on Preferred Shares may adversely affect the return to Common Shareholders, PIMCO believes that this should be mitigated when the Fund uses leverage with floating rate costs, because the dividend rates on the Preferred Shares and the interest rates on its portfolio of Senior Loans and other floating rate assets will ordinarily vary in a similar manner. Over time, the Fund will distribute substantially all of its net investment income (after it pays accrued dividends on any outstanding Preferred Shares). In addition, at least annually, the Fund intends to distribute to you your pro rata share of any available net capital gain. Your initial distribution is expected to be declared approximately 45 days, and paid approximately 60 to 90 days, from the completion of this offering, depending on market conditions. Unless you elect to receive distributions in cash, all of your distributions will be automatically reinvested in additional Common Shares under the Fund's Dividend Reinvestment Plan. See "Distributions" and "Dividend Reinvestment Plan."

### **Listing**

The Common Shares have been authorized for listing on the New York Stock Exchange, subject to notice of issuance, under the symbol "PFN." See "Description of Shares" "Common Shares."

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### **Custodian and Transfer Agent**

State Street Bank and Trust Co. will serve as custodian of the Fund's assets. PFPC Inc. will serve as the Fund's transfer and dividend disbursement agent. See [Custodian and Transfer Agent](#).

### **Market Price of Shares**

Shares of closed-end investment companies frequently trade at prices lower than net asset value. Shares of closed-end investment companies like the Fund have during some periods traded at prices lower than net asset value. The Fund cannot assure you that the Common Shares will trade at or above the Fund's net asset value. Net asset value will be reduced immediately following the offering by the sales load and the amount of organization and offering expenses paid or reimbursed by the Fund. See [Use of Proceeds](#). In addition to net asset value, market price may be affected by such factors relating to the Fund or its portfolio holdings as dividend levels (which are in turn affected by changes in the floating rates of interest on the Fund's investments and expenses, including the costs of leverage), portfolio credit quality, liquidity, call protection and market supply and demand. See [Preferred Shares and Related Leverage](#), [Risks](#), [Description of Shares](#) and [Repurchase of Common Shares; Conversion to Open-End Fund](#) in this prospectus, and the [Statement of Additional Information under Repurchase of Common Shares; Conversion to Open-End Fund](#). The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

### **Special Risk Considerations**

The following describes various principal risks of investing in the Fund. A more detailed description of these and other risks of investing in the Fund are described under [Risks](#) in this Prospectus and under [Investment Objective and Policies](#) in the [Statement of Additional Information](#).

*Newly Organized.* The Fund is a newly organized, diversified, closed-end management investment company with no history of operations.

*Credit Risk/High Yield Risk.* Credit risk is the risk that one or more debt obligations in the Fund's portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the obligation or borrower experiences an actual or perceived decline in its financial status. The Fund may invest without limit and ordinarily expects to invest a substantial portion of its assets in debt instruments that are, at the time of purchase, rated below investment grade (below Baa3 by Moody's, below BBB- by either S&P or Fitch or below a comparable rating by Dominion) 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. Debt obligations of below investment grade quality are commonly referred to as "high yield" securities or "junk bonds" and are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal when due, and therefore involve a greater risk of default. Debt securities in the lowest investment grade category may also be considered to

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possess some speculative characteristics. The prices of these lower grade obligations are generally more volatile and sensitive to actual or perceived negative developments, such as a decline in the revenues of the borrowers underlying Senior Loans or a general economic downturn, than are the prices of higher grade securities. Although Senior Loans in which the Fund will 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 delays or limitations in its ability to realize the benefits of any collateral securing a Senior Loan. Because of the Fund's emphasis on Senior Loans and other below investment grade debt securities, PIMCO's capabilities in analyzing credit quality and associated risks will be particularly important, and there can be no assurance that PIMCO will be successful in this regard. See The Fund's Investment Objective and Strategies High Yield Securities ( Junk Bonds ) and Risks Credit Risk/High Yield Risk for additional information. Due to the risks involved in investing in high yield securities, an investment in the Fund should be considered speculative.

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

*Liquidity Risk.* The Fund may invest without limit in securities which are illiquid at the time of investment (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). 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 of illiquid securities when that would be beneficial at a favorable time or price. Below investment grade debt securities tend to be less liquid than higher-rated securities. The Senior Loans in which the Fund invests will likely not be registered with the Securities and Exchange Commission or any state



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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 presently intends to use leverage by issuing Preferred Shares representing approximately 38% of the Fund's total assets immediately after their issuance. The Fund may also leverage the portfolio by borrowing money, issuing debt securities or using reverse repurchase agreements, loans of portfolio securities, credit default swap contracts and other derivatives, as well as when-issued, delayed delivery or forward commitment transactions. However, these forms of leverage will only be used, if at all, as a substitute for, rather than in addition to, the leverage obtained through the issuance of Preferred Shares. The Fund's use of leverage creates the opportunity for increased Common Share net income, but also creates special risks for Common Shareholders. There is no assurance that the Fund's leveraging strategies will be successful. It is anticipated that dividends on Preferred Shares (which would be redetermined periodically, pursuant to an auction process) will be based on short-term rates of return for high quality short-term debt instruments, and that the Fund will invest the net proceeds of the Preferred Shares offering principally in Senior Loans and other floating rate assets in accordance with the Fund's investment objective and strategies. So long as the Fund's securities portfolio provides a higher rate of return (net of Fund expenses) than the Preferred Share dividend rate, as reset periodically, the leverage will allow Common Shareholders to receive a higher current rate of return than if the Fund were not leveraged. Preferred Shares are expected to pay cumulative dividends, which may tend to increase leverage risk. Leverage creates two major types of risks for Common Shareholders:

- r the likelihood of greater volatility of net asset value and market price of Common Shares, because changes in the value of the Fund's portfolio of securities (including securities bought with the proceeds of the Preferred Shares offering) are borne entirely by the Common Shareholders; and
- r the possibility either that Common Share income will fall if the Preferred Share dividend rate rises and there is no corresponding increase, or a lagging increase, in the interest rates on investments in the Fund's portfolio, or that Common Share income will fluctuate in part because the Preferred Share dividend rate varies.

Because the fees received by the Manager are based on the total managed assets of the Fund (including assets attributable to any Preferred Shares and borrowings that may be outstanding), the Manager has a financial incentive for the Fund to issue Preferred Shares or utilize borrowings, which may create a conflict of interest between the Manager and the Common Shareholders.

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*Issuer Risk.* The value of floating rate and other debt instruments may decline for a number of reasons which directly relate to the issuer or borrower, such as management performance, financial leverage and reduced demand for the issuer's or borrower's goods and services.

*Variable Dividend Risk.* Because a substantial portion of investments held by the Fund will be floating rate assets, the amounts of the Fund's monthly distributions to Common Shareholders are expected to vary with fluctuations in market interest rates. Generally, when market interest rates fall, the amount of the distributions to Common Shareholders will likewise decrease.

*Smaller Company Risk.* The general risks associated with floating rate and other debt instruments are particularly pronounced for securities issued by companies with smaller market capitalizations. These companies may have limited product lines, markets or financial resources or they may depend on a few key employees. As a result, they may be subject to greater levels of credit, market and issuer risk.

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

*Foreign (Non-U.S.) Investment Risk.* The Fund expects to invest predominantly in U.S. dollar-denominated debt securities and will not invest more than 25% of its total assets in debt securities denominated in currencies other than the U.S. dollar. The Fund reserves the right to invest without limit in debt securities of foreign (non-U.S.) issuers, although it will not invest more than 10% of its total assets in debt securities of issuers located in emerging markets. 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. The value of securities denominated in foreign currencies may fluctuate based on changes in the value of those currencies relative to the U.S. dollar, and a decline in applicable foreign exchange rates could reduce the value of such securities held by the Fund. Foreign settlement procedures also may involve additional risks.

*Emerging Markets Risk.* The Fund may invest up to 10% of its total assets in debt securities of issuers located in emerging markets. 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 to a heightened degree. These heightened risks include: (i) greater risks of expropriation,

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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 lack of liquidity and in price volatility; and (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.

*Derivatives Risk.* The Fund may utilize a variety of derivative instruments for hedging, investment or risk management purposes. As part of its strategy to invest in floating rate assets, the Fund may enter into derivatives in connection with investments in fixed rate securities to effectively convert the fixed rate interest payments into floating rate payments. The Fund may also use derivatives to gain exposure to securities markets in which it will invest (*e.g.*, pending investment of the proceeds of this offering in individual securities) or to add leverage to the portfolio (but only as a substitute for the leverage obtained from Preferred Shares). The types of derivative instruments the Fund may utilize include, but are not limited to, option contracts, futures contracts, options on future 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. Derivatives are subject to a number of risks described elsewhere in this prospectus, such as liquidity risk, issuer risk, interest rate 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 a derivative may not correlate perfectly with an underlying asset, interest rate or index. 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.

*Counterparty Risk.* In addition to credit risk with respect to the counterparties to the Senior Loans in which the Fund invests, the Fund will also be subject to credit risk with respect to derivative contracts entered into directly by the Fund or held by special purpose or structured vehicles in which the Fund invests. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Fund may experience significant delays in obtaining any recovery 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 Risk.* The Fund may invest in a variety of mortgage-related and other asset-backed securities, including both commercial and residential mortgage securities and other mortgage-backed instruments (public or private). Asset-backed

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securities are subject to a number of risks described elsewhere in this prospectus, such as credit risk and liquidity risk. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-related securities, making them more sensitive to changes in interest rates, and may reduce the market value of the securities. PIMCO expects that the Fund will focus its mortgage-related investments principally in adjustable rate mortgage-related and other asset-backed securities, which should minimize the Fund's sensitivity to interest rate volatility with respect to these investments. However, because interest rates on most adjustable rate mortgage- and asset-backed securities typically only reset periodically (*e.g.*, monthly or quarterly), changes in prevailing interest rates (and particularly sudden and significant changes) can be expected to cause some fluctuation in the market value of these securities, including declines in value as market interest rates rise. In addition, adjustable and fixed rate 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. The Fund's investments in other asset-backed securities, such as collateralized debt obligations, are subject to risks similar to those associated with mortgage-backed securities, as well as additional risks associated with the nature of the assets and the servicing of those assets.

*Risk of Investing in REITs.* Investing in REITs involves certain unique risks in addition to investing in the real estate industry in general. REITs are subject to interest rate risks (especially mortgage REITs) and the risk of default by lessees or borrowers. An equity REIT may be affected by changes in the value of the underlying properties owned by the REIT. A mortgage REIT may be affected by the ability of the issuers of its portfolio mortgages to repay their obligations. 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 and, their securities may trade less frequently and in a limited volume, and be subject to more abrupt or erratic price movements than larger company securities.

*Interest Rate Risk.* Generally, when market interest rates rise, the prices of debt obligations (and particularly longer-term fixed rate debt obligations) fall, and vice versa. This interest rate risk is the risk that the debt obligations in the Fund's portfolio will decline in value because of increases in market interest rates. The prices of short-term floating rate and other debt obligations generally fluctuate less than prices of long-term debt obligations as interest rates change. Because the Fund will normally have a short portfolio duration (*i.e.*, a zero to one-year time frame), the Common Share net asset value and market price per share will tend to fluctuate less in response to changes in market interest rates than if the Fund invested mainly in long-term debt securities. Although the Fund's net asset value will vary, PIMCO expects the Fund's policy of investing principally in floating rate assets

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will minimize the Fund's overall sensitivity to market interest rate fluctuations. However, because rates on certain floating rate debt instruments typically only reset periodically (e.g., monthly or quarterly), changes in prevailing interest rates (and particularly sudden and significant changes) can be expected to cause some fluctuation in the Fund's net asset value. Moreover, the Fund may invest in debt instruments with fixed rates of interest (including up to 20% of its assets in longer duration fixed rate instruments), which will generally lose value in direct response to rising interest rates. The Fund's use of leverage, as described below, will tend to increase Common Share interest rate risk.

*Reinvestment Risk.* 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 current earnings rate on those obligations. A decline in income could affect the Common Shares' market price or their overall return.

*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—the opposite of inflation. 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.

*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 leverage transactions, the availability of Senior Loans and other related investments sought after by the Fund may be reduced. Further, such legislation or regulation could depress the market value of Senior Loans and other instruments held by the Fund.

*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 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 Senior Loans. In circumstances where PIMCO's portfolio managers and analysts do not receive Confidential Information from these issuers, the Fund may be disadvantaged in comparison to other Senior Loan investors, including with respect to the price the Fund pays or receives when it buys or sells a Senior Loan. Further, in situations where the Fund is asked, for example, to grant consents,

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waivers or amendments with respect to Senior Loans, PIMCO's ability to assess the desirability of such consents, waivers and amendments may be compromised.

*Market Disruption and Geopolitical Risk.* The war with Iraq, its aftermath and the continuing occupation of Iraq is likely to have a substantial impact on the U.S. and world economies and securities markets. The nature, scope and duration of the war and occupation and the potential costs of rebuilding the Iraqi 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 could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect individual issuers and securities markets, interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Common Shares.

*Certain Affiliations.* Certain broker-dealers may be considered to be affiliated persons of the Fund, the Manager and/or PIMCO due to their possible affiliations with Allianz AG, the ultimate parent of the 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. In addition, unless and until the underwriting syndicate is broken in connection with the initial public offering of the Common Shares, the Fund will be precluded from effecting principal transactions with brokers who are members of the syndicate.

*Anti-Takeover Provisions.* The Fund's Amended and Restated 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 convert the Fund to open-end status. See Anti-Takeover and Other Provisions in the Declaration of Trust. These provisions could deprive 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. In addition, if the Fund issues Preferred Shares, the holders of the Preferred Shares will have voting rights that could deprive the Common Shareholders of such opportunities.

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**SUMMARY OF FUND EXPENSES**

The following table and the expenses shown assume the issuance of Preferred Shares in an amount equal to 38% of the Fund's total assets (after their issuance), and show Fund expenses as a percentage of net assets attributable to Common Shares. Footnote 4 to the table also shows Fund expenses as a percentage of net assets attributable to Common Shares, but assumes that no Preferred Shares are issued or outstanding (such as will be the case prior to the Fund's expected issuance of Preferred Shares).

**Shareholder Transaction Expenses**

Sales Load (as a percentage of offering price)	4.50%
Offering Costs Borne by the Fund (as a percentage of offering price)	.20%(1)(2)
Dividend Reinvestment Plan Fees	None(3)

**Percentage of Net Assets**

**Attributable to**

**Common Shares**

**(assuming the issuance  
of Preferred Shares)(4)**

**Annual Expenses**

Management Fees(5)	1.20%
Other Expenses	.23%(1)(2)
Total Annual Expenses	1.43%

- (1) The Fund has agreed to pay the underwriters \$.00667 per Common Share as a partial reimbursement of expenses incurred in connection with the offering. See Underwriting. The Manager has agreed to pay (i) the amount by which the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter of \$.00667 per Common Share) exceed \$.04 per Common Share (.20 % of the offering price), and (ii) all of the Fund's organizational expenses, except that the Fund has agreed to reimburse the Manager for such organizational expenses to the extent that the aggregate of all such organizational expenses and all offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of \$.00667 per Common Share) does not exceed \$.04 per Common Share. The organizational expenses and offering costs to be paid or reimbursed by the Fund are not included among the expenses shown in the Annual Expenses table. However, these expenses will be borne by Common Shareholders and result in a reduction of the net asset value of the Common Shares.
- (2) If the Fund offers Preferred Shares, costs of that offering, estimated to be approximately 1.1% of the total dollar amount of the Preferred Share offering, will be borne immediately by Common Shareholders and result in a reduction of the net asset value of the Common Shares. Assuming the issuance of approximately 37,000,000 Common Shares and the issuance of Preferred Shares in an amount equal to 38% of the Fund's capital (after their issuance) these Preferred Share offering costs are estimated to be approximately \$4,830,000 or approximately \$.13 per Common Share (.65% of the offering price). These offering costs are not included among the expenses shown in these tables.
- (3) You will pay brokerage charges if you direct the plan agent to sell your Common Shares held in a dividend reinvestment account.
- (4) The table presented in this footnote estimates what the Fund's annual expenses would be stated as percentages of the Fund's net assets attributable to Common Shares but, unlike the table above, assumes that no Preferred Shares are issued or outstanding. This will be the case, for instance, prior to the Fund's expected issuance of Preferred Shares. In accordance with these assumptions, the Fund's expenses would be estimated to be as follows:

**Percentage of Net Assets  
Attributable to**

**Common Shares**

(assuming no Preferred  
Shares are issued or  
outstanding)

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**Annual Expenses**

Management Fees(5)	.75%
Other Expenses	.05%(1)
Total Annual Expenses	.80%

(5) Although the Fund's management fees are calculated on total managed assets, the Fund's total managed assets are expected to be the same as its net assets because the Fund has no present intention to utilize leverage (except through the issuance of Preferred Shares) and borrowings.



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The purpose of the table above is to help you understand all fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. The Other Expenses shown in the table and related footnotes are based on estimated amounts for the Fund’s first year of operations and assume that the Fund issues approximately 37,000,000 Common Shares. If the Fund issues fewer Common Shares, all other things being equal, these expenses would increase. See Management of the Fund and Dividend Reinvestment Plan.

As required by relevant Securities and Exchange Commission regulations, the following example illustrates the expenses (including the sales load of \$45.00, estimated offering expenses of this offering of \$2.00 and the estimated offering costs of issuing Preferred Shares assuming the Fund issues Preferred Shares representing 38% of the Fund’s total assets (after their issuance) of approximately \$6.53) that you would pay on a \$1,000 investment in Common Shares, assuming the sales load and the offering expenses listed in the parenthetical above, and (a) total net annual expenses of 1.43% of net assets attributable to Common Shares (assuming the issuance of Preferred Shares) in years 1 through 10, and (b) a 5% annual return(1):

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Total Expenses Incurred	\$ 67	\$ 96	\$ 128	\$ 216

- (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.

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**THE FUND**

The Fund is a newly organized, diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (the "1940 Act"). The Fund was organized as a Massachusetts business trust on June 30, 2004, pursuant to the Declaration, which is governed by the laws of The Commonwealth of Massachusetts. As a newly organized entity, the Fund has no operating history. The Fund's principal office is located at 1345 Avenue of the Americas, New York, New York 10105, and its telephone number is (800) 331-1710.

**USE OF PROCEEDS**

The net proceeds of the offering of Common Shares will be approximately \$ (or \$ if the underwriters exercise the over-allotment option in full) after payment or reimbursement of the estimated organizational and offering costs. The Manager has agreed to pay (i) the amount by which the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of \$.00667 per Common Share) exceed \$.04 per Common Share and (ii) all of the Fund's organizational expenses, except that the Fund has agreed to reimburse the Manager for such organizational expenses to the extent that the aggregate of all such organizational expenses and all offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of \$.00667 per Common Share) does not exceed \$.04 per Common Share. The Fund will invest the net proceeds of the offering in accordance with the Fund's investment objective and policies as stated below. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in floating rate debt instruments and other securities that meet its investment objective and policies within six months after the completion of the offering. The Fund anticipates that it may take up to six months to complete this initial investment process due to potential limited availability of suitable Senior Loans in the marketplace as well as additional time required for PIMCO to analyze and assess counterparties and contractual and other features associated with Senior Loans, which are typically more detailed and complex than those associated with more traditional debt instruments. Pending such investment, it is anticipated that the proceeds will be invested in high grade, short-term securities, credit-linked trust certificates, and/or index futures contracts or similar derivative instruments designed to give the Fund exposure to the markets in which it intends to invest while PIMCO selects specific securities. During the period in which the Fund is investing the net proceeds of the offering, it may not be in a position to achieve its investment objective.

**THE FUND'S INVESTMENT OBJECTIVE AND STRATEGIES**

**Investment Objective**

The Fund's investment objective is to seek high current income, consistent with the preservation of capital. Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its net assets (plus any borrowings for investment purposes) in a diversified portfolio of floating rate debt instruments, a substantial portion of which will be Senior Loans, 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 (collectively, "floating rate assets"). The Fund may invest without limit and ordinarily expects to invest a substantial portion of its assets in debt securities that are, at the time of purchase, rated below investment grade (below Baa3 by Moody's, below BBB- by either S&P or Fitch, or below a comparable rating by Dominion) or that are unrated but judged by PIMCO to be of comparable quality. Various types of securities and other instruments in which the Fund may invest in are described under Portfolio Contents and Other Information below. The Fund cannot assure you that it will achieve its investment objective.

**Portfolio Management Strategies**

## Edgar Filing: PIMCO Floating Rate Strategy Fund - Form N-2/A

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

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the Fund, PIMCO attempts to identify Senior Loans and other floating rate assets 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 uses a variety of techniques, such as credit default swaps, designed to control risk and minimize the Fund's exposure to issues that PIMCO believes are more likely to default or otherwise depreciate in value over time and 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.

Because most of the investments held by the Fund will be floating rate assets, the Fund's portfolio is generally expected to have less interest rate risk (*i.e.*, sensitivity to fluctuations in market interest rates) and a more stable net asset value than funds with portfolios that invest in longer-term fixed rate securities, although the net asset value will vary due to fluctuations in interest rates and other factors such as changes in the credit quality of securities in the portfolio.

*Credit Quality.* The Fund may invest without limit and ordinarily expects to invest a substantial portion of its assets 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 10% of its total assets in securities that are, at the time of purchase, rated CCC+/Caa1 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 bonds in the lowest ratings categories and debt securities that are in default or the issuers of which are in bankruptcy) if PIMCO determines that the particular obligation offers an attractive yield relative to its risk profile. As described under High Yield Securities ( Junk Bonds ) below, debt securities of below investment grade quality (including many Senior Loans) 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 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 obligations considered for the Fund, rather than relying exclusively on rating agencies or third-party research. In the case of 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 monitor credit risk. The individuals managing the Fund utilize this information in an attempt to manage credit risk and identify issuers, industries or sectors that offer attractive yields relative to PIMCO's assessment of their credit characteristics. This aspect of PIMCO's capabilities will be particularly important because of the Fund's emphasis on Senior Loans and other below investment grade securities. PIMCO's ability to analyze Senior Loans may be limited to the extent that portfolio managers and analysts avoid the receipt of material, non-public information about the issuers of Senior Loans. See Risks Confidential Information Access Risk.

*Duration.* The average portfolio duration of the Fund will normally be within a short range (*i.e.*, a zero to one-year time frame) due to the Fund's predominant investment in floating rate assets, although it may be longer at any time and from time to time to the extent that the Fund invests in longer-term fixed-income securities. PIMCO believes that the Fund's short duration range minimizes exposure to price changes of its portfolio securities due to interest rate volatility and related risk while still offering the potential opportunity for high current income.

Duration is a measure of the expected life of a debt security that is used to determine the sensitivity of the security's price to changes in interest rates. The longer a security's duration, the more sensitive it will be to changes in interest rates. For example, the market price of a bond with a duration of two years would be expected



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to decline 2% if interest rates were to rise 1%. Conversely, the market price of the same bond would be expected to increase 2% if interest rates were to fall 1%. The market price of a bond with a duration of one year would be expected to increase or decline half as much as the market price of a bond with a two-year duration. The maturity of a security measures only the time until final payment is due. Duration, on the other hand, takes into account the pattern of all payments of interest and principal on a security over time, including how these payments are affected by prepayments and by changes in interest rates, as well as the time until an interest rate on a security is reset (in the case of variable rate securities).

## **Portfolio Contents and Other Information**

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its net assets (plus any borrowings for investment purposes) in a diversified portfolio of floating rate debt instruments, a substantial portion of which will be Senior Loans, 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 (collectively, floating rate assets). In addition to 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, 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 may invest the remainder of its assets in securities and instruments other than floating rate assets, such as fixed rate convertible securities, high-yield bonds 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 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, credit-linked trust certificates, total return swaps, credit default swaps and other derivative instruments. Certain debt instruments, such as convertible bonds, also may include the right to participate in equity appreciation, and PIMCO will generally evaluate those instruments based primarily on their debt characteristics. The Fund may invest in securities of companies with small market capitalizations. 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 invest without limit, and ordinarily expects to invest a substantial portion of its assets, in debt securities that are, at the time of purchase, rated below investment grade. See High Yield Securities ( Junk Bonds ). The Fund may also invest 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 10% of its total assets in securities of issuers located in emerging markets.

The Fund may utilize a variety of derivative instruments for hedging, investment and risk management purposes. As noted above, as part of its strategy to invest in floating rate assets, the Fund may enter into derivatives in connection with investments in fixed rate securities to effectively convert the fixed rate interest payments into floating rate payments. The types of derivative instruments the Fund may utilize include, but are not limited to, option contracts (including options on futures contracts), futures contracts, swap agreements (including total return and credit default swaps) and short sales. The Fund may also seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sales contracts. The Fund may also use derivatives to leverage the portfolio, but only as a substitute for leverage attained through Preferred Shares.

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The Fund may invest without limit in illiquid securities (which are 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 of the holders of a majority of the outstanding Common Shares and any Preferred Shares voting together as a single class, and of the holders of a majority of the outstanding 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. See Description of Shares Voting Rights for additional information with respect to the voting rights of holders of Preferred Shares. The Fund may not change its policy to normally invest at least 80% of its net assets (plus any borrowings for investment purposes) in a diversified portfolio of floating rate assets as specified above unless it provides shareholders with at least 60 days' written notice of such change.

The Fund currently intends to leverage its portfolio through the issuance of Preferred Shares. The Fund may also leverage the portfolio by borrowing money, issuing debt securities or using reverse repurchase agreements, loans of portfolio securities, credit default swap contracts and other derivatives, as well as when-issued, delayed delivery and forward commitment transactions. However, these forms of leverage will only be used, if at all, as a substitute for, rather than in addition to, the leverage obtained through the issuance of Preferred Shares. See Preferred Shares and Related Leverage.

Upon PIMCO's recommendation, for temporary defensive purposes and in order to keep the Fund's cash fully invested, including during the period in which the net proceeds of this offering are being invested, the Fund may deviate from its investment objective and policies and invest some or all of its total assets in other than floating rate assets, including longer-term fixed rate investment grade debt securities, credit-linked trust certificates and/or index futures contracts or similar derivative instruments. The Fund may not achieve its investment objective when it does so.

The following provides additional information regarding the types of securities and other instruments in which the Fund will ordinarily invest. A more detailed discussion of these and other instruments and investment techniques that may be used by the Fund is provided under Investment Objective and Policies in the Statement of Additional Information.

### **Floating Rate Debt Instruments**

Floating rate debt instruments are debt instruments that pay interest at rates which adjust whenever a specified interest rate changes and/or which reset on predetermined dates (such as the last day of a month or calendar quarter). In addition to Senior Loans, floating rate debt instruments in which the Fund may invest may include, without limitation, instruments such as catastrophe and other event-linked bonds, bank capital securities, unsecured bank loans, corporate bonds, money market instruments and certain types of mortgage-backed and other asset-backed securities. Due to their floating rate features, these instruments will generally pay higher levels of income in a rising interest rate environment and lower levels of income as interest rates decline. For the same reason, the market value of a floating rate debt instrument is generally expected to have less sensitivity to fluctuations in market interest rates than a comparable fixed rate debt instrument, although the value of a floating rate instrument may nonetheless decline as interest rates rise and due to other factors, such as changes in credit quality.

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### Senior Loans

The Fund expects to ordinarily invest a substantial portion of its assets in Senior Loans. Senior Loans include senior floating rate loans and institutionally traded senior floating rate debt obligations issued by an asset-backed pool or other issuers, as well as interests therein. Loan interests generally take the form of direct interests acquired during a primary distribution and may also take the form of assignments of, novations of, or participations in a Senior Loan acquired in secondary markets.

Senior Loans typically pay interest at rates which are re-determined periodically on the basis of a floating base lending rate (such as the London Inter-Bank Offered Rate, LIBOR) plus a premium. Although Senior Loans are typically of below investment grade quality, they tend to have more favorable recovery rates than other types of below investment grade quality debt obligations. Senior Loans generally (but not always) hold the most senior position in the capital structure of a borrower and are often secured with collateral. A Senior Loan is typically originated, negotiated and structured by a U.S. or foreign commercial bank, insurance company, finance company or other financial institution (the Agent) for a lending syndicate of financial institutions (Lenders). The Agent typically administers and enforces the Senior Loan on behalf of the other Lenders in the syndicate. In addition, an institution, typically but not always the Agent, holds any collateral on behalf of the Lenders. A financial institution's employment as an Agent might be terminated in the event that it fails to observe a requisite standard of care or becomes insolvent. A successor Agent would generally be appointed to replace the terminated Agent, and assets held by the Agent under the loan agreement would likely remain available to holders of such indebtedness. However, if assets held by the Agent for the benefit of the Fund were determined to be subject to the claims of the Agent's general creditors, the Fund might incur certain costs and delays in realizing payment on a loan or loan participation and could suffer a loss of principal and/or interest. In situations involving other interposed financial institutions (e.g., an insurance company or government agency) similar risks may arise.

The Fund may purchase assignments of Senior Loans from Lenders. The purchaser of an assignment typically succeeds to all the rights and obligations under the loan agreement with the same rights and obligations as the assigning Lender. Assignments may, however, be arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the assigning Lender.

The Fund may also invest in participations in Senior Loans, although it expects to do so on a limited basis. Participations by the Fund in a Lender's portion of a Senior Loan typically will result in the Fund having a contractual relationship only with such Lender, not with the borrower. As a result, the Fund may have the right to receive payments of principal, interest and any fees to which it is entitled only from the Lender selling the participation and only upon receipt by such Lender of such payments from the borrower. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights with respect to any funds acquired by other Lenders through set-off against the borrower, and the Fund may not directly benefit from any collateral supporting the Senior Loan in which it has purchased the participation. As a result, the Fund may assume the credit risk of both the borrower and the Lender selling the participation.

Purchasers of Senior Loans and other forms of direct indebtedness depend primarily upon the creditworthiness of the corporate or other borrower for payment of principal and interest. If the Fund does not receive scheduled interest or principal payments on such indebtedness, the Fund's share price and yield could be adversely affected. Senior Loans that are fully secured may offer the Fund more protection than an unsecured loan in the event of non-payment of scheduled interest or principal. However, there is no assurance that the liquidation of any collateral from a secured Senior Loan would satisfy the borrower's obligation, or that such collateral could be liquidated. Also, the Fund may invest in Senior Loans that are unsecured.

Senior Loans may not be readily marketable and may be subject to restrictions on resale. In some cases, negotiations involved in disposing of indebtedness may require weeks to complete. Consequently, some indebtedness may be difficult or impossible to dispose of readily at what



PIMCO believes to be a fair price.

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Senior Loans usually require, in addition to scheduled payments of interest and principal, the prepayment of the Senior Loan from free cash flow. The degree to which borrowers prepay Senior Loans, whether as a contractual requirement or at their election, may be affected by general business conditions, the financial condition of the borrower and competitive conditions among lenders, among others. As such, prepayments cannot be predicted with accuracy. Upon a prepayment, either in part or in full, the actual outstanding debt on which the Fund derives interest income will be reduced. However, the Fund may receive both a prepayment penalty fee from the prepaying borrower and a facility fee upon the purchase of a new Senior Loan with the proceeds from the prepayment of the former. The effect of prepayments on the Fund's performance may or may not be mitigated by the receipt of prepayment fees and/or the Fund's reinvestment or prepayments in other Senior Loans that have similar or identical yields.

## **High Yield Securities ( Junk Bonds )**

As noted above, the Fund may invest without limit and ordinarily expects to invest a substantial portion of its assets in Senior Loans and other debt securities that are, at the time of purchase, rated below investment grade (below Baa3 by Moody's, below BBB- by either S&P or Fitch, or below a comparable rating by Dominion) or that are unrated but judged by PIMCO to be of comparable quality. These securities are sometimes referred to as high yield securities or junk bonds. Investing in high yield securities involves greater risks (in particular, greater risk of default) and special risks in addition to the risks associated with investments in investment grade debt obligations. While offering a greater potential opportunity for capital appreciation and higher yields, high yield securities typically entail greater potential price volatility and may be less liquid than higher-rated securities. High yield securities may be regarded as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. They also may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics.

The market values of high yield securities tend to reflect individual developments of the issuer to a greater extent than do higher-quality securities, which tend to react mainly to fluctuations in the general level of interest rates. In addition, lower-quality debt securities tend to be more sensitive to economic conditions. Certain emerging market governments that issue high yield securities are among the largest debtors to commercial banks, foreign governments and supra-national organizations such as the World Bank, and may not be able or willing to make principal and/or interest payments as they come due.

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

*Credit Ratings and Unrated Securities.* Rating agencies are private services that provide ratings of the credit quality of debt obligations, including convertible securities. Appendix A to this prospectus describes the various ratings assigned to debt obligations by Moody's, S&P, Fitch and Dominion. Ratings assigned by a rating agency are not absolute standards of credit quality and do not evaluate market risks. Rating agencies may fail to make timely changes in credit ratings and an issuer's current financial condition may be better or worse than a rating indicates. PIMCO relies heavily on its own analysis of the credit quality and risks associated with individual debt obligations considered for the Fund, rather than relying exclusively on rating agencies or third-party research. See *Portfolio Management Strategies Independent Credit Analysis*. In the case of 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. The Fund will not necessarily sell a security when its rating is reduced below its rating at the time of purchase. The ratings of a debt security may change over time. Moody's, S&P, Fitch and Dominion monitor and evaluate the ratings assigned to securities on an ongoing basis. As a result, debt instruments held by the Fund could receive a higher rating (which would tend to increase their value) or a lower rating (which would tend to decrease their value) during the period in which they are held.



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The Fund may purchase unrated securities (which are not rated by a rating agency) if PIMCO determines that the securities are of comparable quality to rated securities that the Fund may purchase. Many of the Senior Loans and other debt instruments in which the Fund invests may be unrated. Unrated securities may be less liquid than comparable rated securities and involve the risk that PIMCO may not accurately evaluate the security's comparative credit rating. Analysis of the creditworthiness of issuers of high yield securities may be more complex than for issuers of higher-quality debt obligations. The Fund's success in achieving its investment objective may depend more heavily on PIMCO's credit analysis than if the Fund invested primarily in higher-quality and rated securities.

## **Bonds**

The Fund may invest in bonds of varying maturities (with predominantly low durations) issued by U.S. and foreign corporations, domestic and foreign banks and other business entities. Bonds can be variable or fixed rate debt obligations, including bills, notes, debentures, money market instruments and similar instruments and securities. Bonds generally are used by corporations as well as governments and other issuers to borrow money from investors. The issuer pays the investor a variable or fixed rate of interest and normally must repay the amount borrowed on or before maturity. Certain bonds are perpetual in that they have no maturity date. The Fund may also invest in catastrophe or other event-linked bonds. Although the Fund will ordinarily invest in floating rate assets, it may invest a portion of its assets in longer-term fixed rate bonds.

## **Commercial Paper**

Commercial paper represents short-term unsecured promissory notes issued in bearer form by corporations such as banks or bank holding companies and finance companies. The rate of return on commercial paper may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

## **Preferred Stocks**

Preferred stock represents an equity interest in a company that generally entitles the holder to receive, in preference to the holders of other stocks such as common stocks, dividends and a fixed share of the proceeds resulting from liquidation of the company. Some preferred stocks also entitle their holders to receive additional liquidation proceeds on the same basis as holders of a company's common stock, and thus also represent an ownership interest in the company. The preferred stocks in which the Fund invests will ordinarily have a variable dividend, generally determined on a quarterly or other periodic basis, either according to a formula based upon a specified premium or discount to the yield on particular U.S. Treasury securities or based on an auction process, involving bids submitted by holders and prospective purchasers of such stocks. Some preferred stocks offer a fixed rate of return with no maturity date. Because they never mature, these preferred stocks act like long-term bonds and can be more volatile than other types of preferred stocks and may have heightened sensitivity to changes in interest rates. Because preferred stocks represent an equity ownership interest in a company, their value usually will react more strongly than bonds and other debt instruments to actual or perceived changes in a company's financial condition or prospects, or to fluctuations in the equity markets.

## **Convertible Securities and Synthetic Convertible Securities**

The Fund may invest in convertible securities, which are debt securities that may be converted at either a stated price or stated rate into underlying shares of common stock. Convertible securities have general characteristics similar to both debt securities and equity securities. PIMCO will generally evaluate these instruments based primarily on their debt characteristics. Because most convertible securities are fixed rate

instruments, the market value of convertible securities tends to decline as interest rates increase and, conversely,

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tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stocks and, therefore, also will react to variations in the general market for equity securities.

The Fund may also invest in synthetic convertible securities, which differ from convertible securities in certain respects. Unlike a true convertible security, which is a single security having a unitary market value, a synthetic convertible comprises two or more separate securities, each with its own market value. Therefore, the market value of a synthetic convertible security is the sum of the values of its debt component and its convertibility component. Synthetic convertible securities can be variable or fixed rate instruments. For these reasons, the values of a synthetic convertible and a true convertible security may respond differently to market fluctuations.

Convertible securities generally have higher yields than common stocks. There can be no assurance of current income because the issuers of the convertible securities may default on their obligations. A convertible security, in addition to providing current income, offers the potential for capital appreciation through the conversion feature, which enables the holder to benefit from increases in the market price of the underlying common stock.

## **Bank Capital Securities and Obligations**

The Fund may invest in bank capital securities. Bank capital securities are issued by banks to help fulfill their regulatory capital requirements. There are three common types of bank capital: Lower Tier II, Upper Tier II and Tier I. To the extent that the Fund invests in bank capital, it expects to primarily invest in floating rate Upper Tier II and Tier I bank capital. Bank capital is generally, but not always, of investment grade quality. Upper Tier II securities are commonly thought of as hybrids of debt and preferred stock. Upper Tier II securities are often perpetual (with no maturity date), callable and have a cumulative interest deferral feature. This means that under certain conditions, the issuer bank can withhold payment of interest until a later date. However, such deferred interest payments generally earn interest. Tier I securities often take the form of trust preferred securities.

The Fund may also invest in other bank obligations, including certificates of deposit, bankers' acceptances and fixed time deposits. Certificates of deposit are negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified return. Bankers' acceptances are negotiable drafts or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are accepted by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity. Fixed time deposits are bank obligations payable at a stated maturity date and bearing interest at a fixed rate. Fixed time deposits may be withdrawn on demand by the investor, but may be subject to early withdrawal penalties which vary depending upon market conditions and the remaining maturity of the obligation.

## **Zero-Coupon Bonds, Step-Ups and Payment-In-Kind Securities**

Zero-coupon bonds pay interest only at maturity rather than at intervals during the life of the security. Like zero-coupon bonds, step up bonds pay no interest initially but eventually begin to pay a coupon rate prior to maturity, which rate may increase at stated intervals during the life of the security. Payment-in-kind securities (PIKs) are debt obligations that pay interest in the form of other debt obligations, instead of in cash. Each of these instruments is normally issued and traded at a deep discount from face value. Zero-coupon bonds, step-ups and PIKs allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The Fund would be required to distribute the income on these instruments as it accrues, even though the Fund will not receive the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be

advisable to do so, to make income distributions to its shareholders.

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### **Foreign (Non-U.S.) Investments and Currencies**

The Fund may invest some or all of its assets in U.S. dollar-denominated debt obligations of foreign issuers and of supra-national government entities. Supra-national entities include international organizations that are organized or supported by one or more government entities to promote economic reconstruction or development and by international banking institutions and related governmental 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. Up to 10% of the Fund's total assets may be invested in debt securities of issuers located in emerging markets. Investing in foreign securities involves special risks and considerations not typically associated with investing in U.S. securities. See **Risks Foreign (Non-U.S.) Investment Risk**.

Most of the foreign investments of the Fund will consist of Senior Loans originated in a foreign jurisdiction or to which a foreign lender or borrower is a party, or other floating rate debt instruments of non-U.S. corporate issuers.

The U.S. dollar-denominated foreign securities in which the Fund may invest include Eurodollar obligations and Yankee Dollar obligations. Eurodollar obligations are U.S. dollar-denominated certificates of deposit and time deposits issued outside the U.S. capital markets by foreign branches of U.S. banks and by foreign banks. Yankee Dollar obligations are U.S. dollar-denominated obligations issued in the U.S. capital markets by foreign banks. Eurodollar and Yankee Dollar obligations are generally subject to the same risks that apply to domestic debt issues, notably credit risk, market risk and liquidity risk. Additionally, Eurodollar (and to a limited extent, Yankee Dollar) obligations are subject to certain sovereign risks. One such risk is the possibility that a sovereign country might prevent capital, in the form of U.S. dollars, from flowing across its borders. Other risks include adverse political and economic developments; the extent and quality of government regulation of financial markets and institutions; the imposition of foreign withholding taxes; and the expropriation or nationalization of foreign issuers.

The Fund also may invest in sovereign debt issued by foreign governments, their agencies or instrumentalities, or other government-related entities. As a holder of sovereign debt, the Fund may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In addition, there are generally no bankruptcy proceedings similar to those in the United States by which defaulted sovereign debt may be collected. The Fund also may invest in Brady Bonds, which are securities created through the exchange of existing commercial bank loans to sovereign entities for new obligations in connection with a debt restructuring. Investments in Brady Bonds may be viewed as speculative. Brady Bonds acquired by the Fund may be subject to restructuring arrangements or to requests for new credit, which may cause the Fund to realize a loss of interest or principal on any of its portfolio holdings.

*Foreign Currencies and Related Transactions.* The Fund's investments in securities that trade in, or receive revenues in, foreign currencies will be subject to currency risk, which is the risk that fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect any investment. The Fund may engage in a variety of transactions involving foreign currencies in order to hedge against foreign currency risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. For instance, the Fund may purchase foreign currencies on a spot (cash) basis and enter into forward foreign currency exchange contracts, foreign currency futures contracts and options on foreign currencies and futures. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time. Also, these transactions may not be successful and may eliminate any chance for the Fund to benefit from favorable fluctuations in relevant foreign currencies.

Please see **Investment Objective and Policies Foreign (Non-U.S.) Securities**, **Investment Objective and Policies Foreign Currency Transactions** and **Investment Objective and Policies Foreign Currency Exchange-Related Securities** in the Statement of Additional Information for a more detailed description of the types of foreign investments and foreign currency transactions in which the Fund may invest and their related risks.





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### **Derivatives**

The Fund may, but is not required to, use a variety of derivative instruments for hedging or risk management purposes or as part of its investment strategies. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to individual debt instruments, interest rates, currencies or currency exchange rates and related indexes. As part of its strategy to invest in floating rate assets, the Fund may enter into derivatives in connection with investments in fixed rate securities to effectively convert the fixed rate interest payments into floating rate payments. The Fund may also use derivatives to gain exposure to floating rate or high yield securities and other securities in which the Fund may invest (including pending investment of the proceeds of this offering). Examples of derivative instruments that the Fund may use include, but are not limited to, options, futures contracts, options on futures contracts, swap agreements (including total return and credit default swaps) and short sales. The Fund may also engage in credit spread trades. A credit spread trade is an investment position relating to a difference in the prices or interest rates of two bonds or other securities, where the value of the investment position is determined by changes in the difference between such prices or interest rates, as the case may be, of the respective securities. 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 also use derivatives to add leverage to the portfolio, but only as a substitute for leverage obtained through Preferred Shares. The Fund's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investment directly in securities and other more traditional investments. See Risks Derivatives Risk. Certain types of derivative instruments that the Fund may utilize with some frequency are described elsewhere in this section, including those described under Credit Default Swaps, Certain Interest Rate Transactions, Structured Notes and Related Instruments and Credit-Linked Trust Certificates. Please see Investment Objective and Policies Derivative Instruments in the Statement of Additional Information for additional information about these and other derivative instruments that the Fund may use and the risks associated with such instruments. There is no assurance that these derivative strategies will be available at any time or that PIMCO will determine to use them for the Fund or, if used, that the strategies will be successful. In addition, the Fund may be subject to certain restrictions on its use of derivative strategies imposed by guidelines of one or more rating agencies that may issue ratings for Preferred Shares issued by the Fund.

### **Credit Default Swaps**

The Fund may enter into credit default swap contracts for hedging purposes, to add leverage to the portfolio or for general investment purposes. When used for hedging purposes, the Fund would be the buyer of a credit default swap contract. In that case, the Fund would be entitled to receive the par (or other agreed-upon) value of a referenced debt obligation from the counterparty to the contract in the event of a default by a third party, such as a U.S. or foreign issuer, on the debt obligation. In return, the Fund would pay to the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would have spent the stream of payments and received no benefit from the contract. When the Fund is the seller of a credit default swap contract, it receives the stream of payments but is obligated to pay upon default of the referenced debt obligation. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total assets, the Fund would be subject to investment exposure on the notional amount of the swap.

### **Commercial and Other Mortgage-Related and Asset-Backed Securities**

Mortgage-related securities are debt instruments which provide periodic payments consisting of interest and/or principal that are derived from or related to payments of interest and/or principal on underlying mortgages. Additional payments on mortgage-related securities may be made out of unscheduled prepayments of principal resulting from the sale of the underlying property, or from refinancing or foreclosure, net of fees or costs that may be incurred. The mortgage-related securities in which the Fund invests will typically pay variable rates of interest, although the Fund may invest in fixed rate obligations as well.

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The Fund may invest in commercial mortgage-related securities issued by corporations. These are securities that represent an interest in, or are secured by, mortgage loans secured by commercial property, such as industrial and warehouse properties, office buildings, retail space and shopping malls, multifamily properties and cooperative apartments, hotels and motels, nursing homes, hospitals and senior living centers. The commercial mortgage loans that underlie commercial mortgage-related securities have certain distinct risk characteristics. Commercial mortgage loans generally lack standardized terms, which may complicate their structure. Commercial properties themselves tend to be unique and difficult to value. Commercial mortgage loans tend to have shorter maturities than residential mortgage loans, and may not be fully amortizing, meaning that they may have a significant principal balance, or balloon payment, due on maturity. In addition, commercial properties, particularly industrial and warehouse properties, are subject to environmental risks and the burdens and costs of compliance with environmental laws and regulations.

Other mortgage-related securities in which the Fund may invest include mortgage pass-through securities, collateralized mortgage obligations ( CMOs ), mortgage dollar rolls, CMO residuals (other than residual interests in real estate mortgage investment conduits), stripped mortgage-backed securities ( SMBSs ) and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property.

The Fund may invest in other types of asset-backed securities that are offered in the marketplace, including Enhanced Equipment Trust Certificates ( EETCs ) and collateralized debt obligations ( CDOs ). Although any entity may issue EETCs, to date, U.S. airlines are the primary issuers. An airline EETC is an obligation secured directly by aircraft or aircraft engines as collateral. EETCs tend to be less liquid than bonds. CDOs include collateralized bond obligations ( CBOs ), collateralized loan obligations ( CLOs ) and other similarly structured securities. A CBO is a trust typically backed by a diversified pool of high-risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. While the trusts that issue CDOs may themselves be leveraged and may invest in lower quality instruments, the Fund will generally purchase only senior CDOs, will not purchase residual CDOs and will only purchase CDOs that meet the Fund's credit policies.

Other asset-backed securities may be collateralized by the fees earned by service providers. The value of asset-backed securities may be substantially dependent on the servicing of the underlying asset pools and are therefore subject to risks associated with the negligence of, or defalcation by, their servicers. In certain circumstances, the mishandling of related documentation may also affect the rights of the security holders in and to the underlying collateral. The insolvency of entities that generate receivables or that utilize the assets may result in added costs and delays in addition to losses associated with a decline in the value of the underlying assets. The issuers of certain asset-backed securities bear various expenses, including, without limitation, servicing and advisory fees.

Please see Investment Objective and Policies Mortgage-Related and Other Asset-Backed Securities in the Statement of Additional Information and Risks Mortgage-Related and Asset-Backed Risk in this prospectus for a more detailed description of the types of mortgage-related and other asset-backed securities in which the Fund may invest and their related risks.

## **Real Estate Investment Trusts (REITs)**

The Fund may invest in REITs. REITs primarily invest in income-producing real estate or real estate related loans or interests. REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and



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derive income from the collection of interest payments. REITs are not taxed on income distributed to shareholders provided they comply with the applicable requirements of the Internal Revenue Code of 1986, as amended. The Fund will indirectly bear its proportionate share of any management and other expenses paid by REITs in which it invests in addition to the expenses paid by the Fund. Debt securities issued by REITs are, for the most part, general and unsecured obligations and are subject to risks associated with REITs. Please see Investment Objective and Policies Real Estate Investment Trusts ( REITs ) in the Statement of Additional Information for a more detailed description of these instruments and their related risks.

## **Delayed Funding Loans and Revolving Credit Facilities**

The Fund may enter into, or acquire participations in, delayed funding loans and revolving credit facilities, in which a lender agrees to make loans up to a maximum amount upon demand by the borrower during a specified term. These commitments may have the effect of requiring the Fund to increase its investment in a company at a time when it might not be desirable to do so (including at a time when the company's financial condition makes it unlikely that such amounts will be repaid). Delayed funding loans and revolving credit facilities are subject to credit, interest rate and liquidity risk and the risks of being a lender.

## **Certain Interest Rate Transactions**

The Fund may enter into long and short interest rate swap, cap or floor transactions. One possible use of interest rate swaps involves the Fund's agreement with the swap counterparty to pay a fixed rate payment in exchange for the counterparty paying the Fund a variable rate payment. The payment obligation would be based on the notional amount of the swap. The Fund may use an interest rate cap or floor, which would require the Fund to pay a premium to the cap or floor counterparty and would entitle the Fund, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive from the counterparty payment of the difference based on the notional amount. The Fund may use interest rate swaps, caps and floors for hedging or general investment purposes. The Fund may choose or be required to redeem some or all of the Preferred Shares. This redemption may result in the Fund seeking to terminate early all or a portion of any swap, cap or floor transaction. Any termination of a cap, swap or floor could result in a termination payment by or to the Fund.

## **Structured Notes and Related Instruments**

The Fund may invest in structured notes and other related instruments, which are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate (an embedded index), such as selected securities, an index of securities or specified interest rates, or the differential performance of two assets or markets, such as indexes reflecting bonds. Structured instruments may be issued by corporations, including banks, as well as by governmental agencies. The terms of such structured instruments normally provide that their principal and/or interest payments are to be adjusted upwards or downwards (but ordinarily not below zero) to reflect changes in the embedded index while the structured instruments are outstanding. As a result, the interest and/or principal payments that may be made on a structured product may vary widely, depending on a variety of factors, including the volatility of the embedded index and the effect of changes in the embedded index on principal and/or interest payments. The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced index(es) or other asset(s). Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss.

PIMCO may utilize structured instruments for investment purposes and also for risk management purposes. While structured instruments may offer the potential for a favorable rate of return from time to time, they also entail certain risks. Structured instruments may be less liquid than other debt securities, and the price of structured instruments may be more volatile. In some cases, depending on the terms of the embedded

index, a structured instrument may provide that the principal and/or interest payments may be adjusted below zero.

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Structured instruments also may involve significant credit risk and risk of default by the counterparty. Although structured instruments are not necessarily illiquid, PIMCO believes that currently most structured instruments are illiquid. Like other sophisticated strategies, the Fund's use of structured instruments may not work as intended. If the value of the embedded index changes in a manner other than that expected by PIMCO, principal and/or interest payments received on the structured instrument may be substantially less than expected.

## **Reverse Repurchase Agreements**

As described under Preferred Shares and Related Leverage, the Fund may utilize reverse repurchase agreements in order to add leverage to the portfolio as a substitute for, rather than in addition to, leverage obtained through the issuance of Preferred Shares. In a reverse repurchase agreement, the Fund sells securities to a bank or broker-dealer and agrees to repurchase the securities at a mutually agreed date and price. Generally, the effect of such a transaction is that the Fund can recover and reinvest all or most of the cash invested in the portfolio securities involved during the term of the reverse repurchase agreement and still be entitled to the returns associated with those portfolio securities. Such transactions are advantageous if the interest cost to the Fund of the reverse repurchase transaction is less than the returns it obtains on investments purchased with the cash.

Unless the Fund covers its positions in reverse repurchase agreements (by segregating liquid assets at least equal in amount to the forward purchase commitment), its obligations under the agreements will be subject to the Fund's limitations on borrowings. Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities that the Fund is obligated to repurchase under the agreement may decline below the repurchase price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities.

## **Repurchase Agreements**

The Fund may enter into repurchase agreements, in which the Fund purchases a security from a bank or broker-dealer and the bank or broker-dealer agrees to repurchase the security at the Fund's cost plus interest within a specified time. If the party agreeing to repurchase should default, the Fund will seek to sell the securities which it holds. This could involve transaction costs or delays in addition to a loss on the securities if their value should fall below their repurchase price. Repurchase agreements maturing in more than seven days are considered to be illiquid securities.

## **U.S. Government Securities**

The Fund may invest in U.S. Government securities, which are obligations of, or guaranteed by, the U.S. Government, its agencies or government-sponsored enterprises. U.S. Government securities include a variety of securities that differ in their interest rates, maturities and dates of issue. Securities issued or guaranteed by agencies or instrumentalities of the U.S. Government may or may not be supported by the full faith and credit of the United States or by the right of the issuer to borrow from the U.S. Treasury.

## **Municipal Bonds**

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Municipal bonds are generally issued by states, municipalities and other political subdivisions, agencies, authorities and instrumentalities of states and multi-state agencies or authorities. Like other debt obligations, municipal bonds are subject to interest rate, credit and market risk. The ability of a municipal issuer to make payments could be affected by litigation, legislation or other political events or the bankruptcy of the issuer. The types of municipal bonds in which the Fund may invest include municipal lease obligations. The Fund also may invest in securities issued by entities whose underlying assets are municipal bonds.



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### **When Issued, Delayed Delivery and Forward Commitment Transactions**

The Fund may purchase securities which it is eligible to purchase on a when-issued basis, may purchase and sell such securities for delayed delivery and may make contracts to purchase such securities for a fixed price at a future date beyond normal settlement time (forward commitments). When-issued transactions, delayed delivery purchases and forward commitments involve a risk of loss if the value of the securities declines prior to the settlement date. This risk is in addition to the risk that the Fund's other assets will decline in value. Therefore, these transactions may result in a form of leverage and increase the Fund's overall investment exposure. Typically, no income accrues on securities the Fund has committed to purchase prior to the time delivery of the securities is made, although the Fund may earn income on securities it has segregated to cover these positions.

### **Credit-Linked Trust Certificates**

Among the income-producing securities in which the Fund may invest are credit-linked trust certificates, which are investments in a limited purpose trust or other vehicle formed under state law which, in turn, invests in a basket of derivative instruments, such as credit default swaps, interest rate swaps and other securities, in order to provide exposure to the high yield or another fixed income market. For instance, the Fund may invest in credit-linked trust certificates as a cash management tool in order to gain exposure to the high yield markets and/or to remain fully invested when more traditional income-producing securities are not available, including during the period when the net proceeds of this offering and any offering of Preferred Shares are being invested.

Like an investment in a bond, investments in these credit-linked trust certificates represent the right to receive periodic income payments (in the form of distributions) and payment of principal at the end of the term of the certificate. However, these payments are conditioned on the trust's receipt of payments from, and the trust's potential obligations to, the counterparties to the derivative instruments and other securities in which the trust invests. For instance, the trust may sell one or more credit default swaps, under which the trust would receive a stream of payments over the term of the swap agreements provided that no event of default has occurred with respect to the referenced debt obligation upon which the swap is based. If a default occurs, the stream of payments may stop and the trust would be obligated to pay to the counterparty the par (or other agreed upon value) of the referenced debt obligation. This, in turn, would reduce the amount of income and principal that the Fund would receive as an investor in the trust. Please see **Credit Default Swaps** above for additional information about credit default swaps. The Fund's investments in these instruments are indirectly subject to the risks associated with derivative instruments, including, among others, credit risk, default or similar event risk, counterparty risk, interest rate risk, leverage risk and management risk. It is expected that the trusts which issue credit-linked trust certificates will constitute private investment companies, exempt from registration under the 1940 Act. Therefore, the certificates will be subject to the risks described under **Other Investment Companies** in the Statement of Additional Information, and will not be subject to applicable investment limitations and other regulation imposed by the 1940 Act (although the Fund will remain subject to such limitations and regulation, including with respect to its investments in the certificates). Although the trusts are typically private investment companies, they are generally not actively managed such as a hedge fund might be. It is also expected that the certificates will be exempt from registration under the Securities Act of 1933. Accordingly, there may be no established trading market for the certificates and they may constitute illiquid investments. See **Risks Liquidity Risk**. If market quotations are not readily available for the certificates, they will be valued by the Fund at fair value as determined by the Board of Trustees or persons acting at its direction. See **Net Asset Value**. The Fund may lose its entire investment in a credit-linked trust certificate.

### **Short Sales**

A short sale is a transaction in which the Fund sells an instrument that it does not own in anticipation that the market price will decline. The Fund may use short sales for investment and risk management purposes. When the Fund engages in a short sale, it must borrow the security sold short and deliver it to the counterparty.



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The Fund may have to pay a fee to borrow particular securities and would often be obligated to pay over any payments received on such borrowed securities. The Fund's obligation to replace the borrowed security will be secured by collateral deposited with the lender, which is usually a broker-dealer, and/or with the Fund's custodian. The Fund may not receive any payments (including interest) on its collateral. Short sales expose the Fund to the risk that it will be required to cover its short position at a time when the securities have appreciated in value, thus resulting in a loss to the Fund. The Fund may engage in so-called "naked" short sales where it does not own or have the immediate right to acquire the security sold short at no additional cost, in which case the Fund's losses could theoretically be unlimited.

## **Lending of Portfolio Securities**

For the purpose of achieving income, the Fund may lend its portfolio securities to brokers, dealers, and other financial institutions provided a number of conditions are satisfied, including that the loan is fully collateralized. Please see "Investment Objective and Policies - Securities Loans" in the Statement of Additional Information for details. When the Fund lends portfolio securities, its investment performance will continue to reflect changes in the value of the securities loaned, and the Fund will also receive a fee or interest on the collateral. Securities lending involves the risk of loss of rights in the collateral or delay in recovery of the collateral if the borrower fails to return the security loaned or becomes insolvent. The Fund may pay lending fees to the party arranging the loan.

Please see "Investment Objective and Policies" in the Statement of Additional Information for additional information regarding the investments of the Fund and their related risks.

## **PREFERRED SHARES AND RELATED LEVERAGE**

Subject to market conditions, approximately one to six months after the completion of the offering of the Common Shares, the Fund intends to offer Preferred Shares representing approximately 38% of the Fund's total assets immediately after their issuance. The Preferred Shares will have complete priority upon distribution of assets over the Common Shares. The issuance of Preferred Shares will leverage the Common Shares. Leverage involves special risks and there is no assurance that the Fund's leveraging strategies will be successful. Although the timing and other terms of the offering of the Preferred Shares will be determined by the Fund's Board of Trustees, the Fund expects to invest the net proceeds of the Preferred Shares predominantly in Senior Loans and other floating rate assets in accordance with the Fund's investment objective and policies. The Preferred Shares will pay dividends based on short-term interest rates for high quality debt obligations (which would be redetermined periodically). So long as the Fund's portfolio is invested in securities that provide a higher rate of return than the dividend rate of the Preferred Shares (after taking expenses into consideration), the leverage will allow Common Shareholders to receive a higher current rate of return than if the Fund were not leveraged.

Changes in the value of the Fund's portfolio (including investments bought with the proceeds of the Preferred Shares offering) will be borne entirely by the Common Shareholders. If there is a net decrease (or increase) in the value of the Fund's investment portfolio, the leverage will decrease (or increase) the net asset value per Common Share to a greater extent than if the Fund were not leveraged. During periods in which the Fund is using leverage, the fees paid to the Manager will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund's total managed assets, including the proceeds from the issuance of Preferred Shares and borrowings that may be outstanding. Thus, the Manager has a financial incentive for the Fund to issue Preferred Shares, or engage in borrowings, which may result in a conflict of interest between the Manager and the Common Shareholders. Fees and expenses paid by the Fund are borne entirely by the Common Shareholders (and not by Preferred Shareholders, if any). These include costs associated with any offering of Preferred Shares by the Fund (which costs are estimated to be approximately 1.1% of the total dollar amount of a Preferred Share offering), which will be borne immediately by Common Shareholders, as will the costs associated with any borrowings or other forms of leverage utilized by the Fund.



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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 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. If Preferred Shares are issued, the Fund intends, to the extent possible, to purchase or redeem Preferred Shares from time to time to the extent necessary in order to maintain coverage of at least 200%. If the Fund has Preferred Shares outstanding, two of the Fund's Trustees will be elected by the holders of Preferred Shares, voting separately as a class. The remaining Trustees of the Fund will be elected by holders of Common Shares and Preferred Shares voting together as a single class. In the event the Fund were to fail to pay dividends on Preferred Shares for two years, Preferred Shareholders would be entitled to elect a majority of the Trustees of the Fund.

The Fund may be subject to certain restrictions imposed by guidelines of one or more rating agencies that may issue ratings for Preferred Shares issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. It is not anticipated that these covenants or guidelines will impede PIMCO from managing the Fund's portfolio in accordance with the Fund's investment objective and policies.

Assuming that the Preferred Shares will represent approximately 38% of the Fund's total assets and pay dividends at an annual average rate of 2.50%, the income generated by the Fund's portfolio (net of expenses) would have to exceed .95% in order to cover such dividend payments. Of course, these numbers are merely estimates, used for illustration. Actual Preferred Share dividend rates will vary frequently and may be significantly higher or lower than the rate identified above.

The following table is furnished in response to requirements of the Securities and Exchange Commission. It is designed to illustrate the effect of leverage on Common Share total return, assuming investment portfolio total returns (consisting of income and changes in the value of investments held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns expected to be experienced by the Fund. The table further assumes the issuance of Preferred Shares representing approximately 38% of the Fund's total assets (immediately after their issuance) and the Fund's current projected initial Preferred Share dividend rate of 2.50%. See **Risks**.

Assumed Portfolio Total Return	(10.00)%	(5.00)%	0%	5.00%	10.00%
Common Share Total Return	(17.66)%	(9.60)%	(1.53)%	6.53%	14.60%

Common Share total return is composed of two elements—the Common Share dividends paid by the Fund (the amount of which is largely determined by the net investment income of the Fund after paying dividends on Preferred Shares) and gains or losses on the value of the securities the Fund owns. As required by Securities and Exchange Commission rules, the table assumes that the Fund is more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0%, the Fund must assume that the interest it receives on its investments is entirely offset by losses in the value of those investments.

*Other Forms of Leverage and Borrowings.* The Fund may use a variety of other strategies to leverage the portfolio, including borrowing money, issuing debt securities or using reverse repurchase agreements, loaning portfolio securities, entering into credit default swap contracts and other derivatives, as well as when-issued, delayed delivery and forward commitment transactions. However, these forms of leverage will only be used, if at all, as a substitute for, rather than in addition to, the leverage obtained through the issuance of Preferred Shares. Like leverage obtained through Preferred Shares, these other leveraging strategies would have the potential to increase returns to Common Shareholders, but would also involve additional risks, such as increased volatility of the Fund's investment portfolio and potentially larger losses than if the strategies were not used.



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Under the 1940 Act, the Fund generally is not permitted to have outstanding senior securities representing indebtedness (including through the use of reverse repurchase agreements, credit default swaps and other derivatives to the extent that these instruments constitute senior securities) unless immediately after the financing giving rise to the senior security representing indebtedness, the value of the Fund's total assets less liabilities (other than such senior securities) is at least 300% of the principal amount of such senior security representing indebtedness (*i.e.*, such principal amount may not exceed 33 1/3% of the Fund's total assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on Common Shares unless, at the time of such declaration, the value of the Fund's total assets, less liabilities other than senior securities representing indebtedness, is at least 300% of such principal amount. If the Fund enters into such transactions, it intends, to the extent possible, to prepay all or a portion of the principal amount due to the extent necessary in order to maintain the required asset coverage. Failure to maintain certain asset coverage requirements could result in an event of default and entitle Preferred Shareholders and holders of any other senior securities of the Fund to elect a majority of the Trustees of the Fund. Derivative instruments used by the Fund will not constitute senior securities (and will not be subject to the Fund's limitations on leverage or senior securities representing indebtedness) to the extent that the Fund segregates liquid assets at least equal in amount to its obligations under the instruments, or enters into offsetting transactions or owns 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.

The Fund 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 the Fund's securities.

## **RISKS**

The net asset value of the Common Shares will fluctuate with and be affected by, among other things, the following principal risks of the Fund: high yield risk, credit risk, market discount risk, liquidity risk, leverage risk, issuer risk, variable dividend risk, smaller company risk, management risk, foreign (non-U.S.) investment risk, emerging markets risk, derivatives risk, counterparty risk, mortgage-related and asset-backed risk, risk of investing in REITs, interest rate risk, reinvestment risk, inflation/deflation risk, risk of regulatory changes, confidential information access risk and market disruption and geopolitical risk. An investment in the Fund will also be subject to the principal risk associated with the fact that the Fund is newly organized. These and other risks are summarized below.

### **Newly Organized**

The Fund is a newly organized, diversified, closed-end management investment company and has no operating history.

### **Credit Risk/High Yield Risk**

In general, lower rated debt securities (including many Senior Loans) carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative impact on the Fund's net asset value or dividends. The Fund may invest without limit and ordinarily expects to invest a substantial portion of its assets in debt securities that are, at the time of purchase, rated below investment grade (below Baa3 by Moody's, below BBB- by either S&P or Fitch, or below a comparable rating by Dominion) 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. Debt securities rated 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 the borrowers underlying Senior Loans or a general economic downturn, than





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are the prices of higher grade securities. In addition, the secondary market on which high yield securities are traded may be less liquid than the market for investment grade securities, meaning these securities are subject to greater liquidity risk than investment grade securities. Bonds in the lowest investment grade category also may be considered to possess some speculative characteristics by certain rating agencies.

High yield securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than investment grade securities. A projection of an economic downturn or of a period of rising interest rates, for example, could cause a decline in high yield security prices because the advent of a recession could lessen the ability of an issuer to make principal and interest payments on its debt obligations. If an issuer of high yield securities defaults, in addition to risking non-payment of all or a portion of interest and principal, the Fund may incur additional expenses to seek recovery. Although Senior Loans in which the Fund will invest will often be secured by collateral, there can be no assurance that liquidation of such collateral would satisfy the borrower's obligation in the event of a default or that such collateral could be readily liquidated. In the event of bankruptcy of a borrower, the Fund could experience delays or limitations in its ability to realize the benefits of any collateral securing a Senior Loan. The Fund may also invest in Senior Loans that are not secured. In addition, the Fund may purchase interests in Senior Loans from financial intermediaries whereby the Fund depends on the intermediary for payment of principal and interest on the Senior Loan. A decline in the financial soundness of the intermediary may adversely affect the Fund. The market prices of high yield securities structured as zero-coupon, step-up or payment-in-kind securities will normally be affected to a greater extent by interest rate changes, and therefore tend to be more volatile than the prices of securities that pay interest currently and in cash. PIMCO seeks to reduce these risks through diversification, credit analysis and attention to current developments and trends in both the economy and financial markets.

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. Because of the Fund's emphasis on Senior Loans and other below investment grade debt obligations, PIMCO's capabilities in this area will be particularly important.

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.

## **Market Discount Risk**

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

## **Liquidity Risk**

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The Fund may invest without limit in securities which are illiquid at the time of investment. The term "illiquid securities" for this purpose 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

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days in the ordinary course of business at approximately the value at which the Fund has valued the securities. Illiquid securities may be subject to wide fluctuations in market value. The Fund may be subject to significant delays in disposing of illiquid securities. Accordingly, the Fund may be forced to sell these securities at less than fair market value or may not be able to sell them when PIMCO believes it is desirable to do so. Illiquid securities also may entail registration expenses and other transaction costs that are higher than those for liquid securities. Restricted securities, *i.e.*, securities subject to legal or contractual restrictions on resale, may also be illiquid. In general, below investment grade debt securities tend to be less liquid than higher-rated securities. PIMCO will determine the liquidity of the Fund's investments by reference to market conditions and contractual provisions.

## **Leverage Risk**

Leverage risk includes the risk associated with the issuance of the Preferred Shares, if any, or the loaning of portfolio securities, the borrowing of money, the issuance of debt securities or the use of credit default swaps, reverse repurchase agreements and other derivatives, as well as when-issued, delayed delivery or forward commitment transactions, in order to leverage the Fund's portfolio. There can be no assurance that the Fund's leveraging involving Preferred Shares or other strategies will be successful. Once the Preferred Shares are issued or other forms of leverage are used, the net asset value and market value of Common Shares will be more volatile, and the yield and total return to Common Shareholders will tend to fluctuate more in response to changes in interest rates and with changes in the short-term dividend rates on the Preferred Shares. The Fund anticipates that the Preferred Shares, at least initially, would likely pay cumulative dividends at rates determined over relatively short-term periods (such as seven days), by providing for the periodic redetermination of the dividend rate through an auction or remarketing procedures. See Description of Shares Preferred Shares. If the dividend rate on the Preferred Shares approaches the net rate of return on the Fund's investment portfolio, the benefit of leverage to Common Shareholders will be reduced. If the dividend rate on the Preferred Shares exceeds the net rate of return on the Fund's portfolio, the leverage will result in a lower rate of return to Common Shareholders than if the Fund were not leveraged. Although there is a risk that fluctuations in the dividend rates on the Preferred Shares may adversely affect the Fund's returns to Common Shareholders, it is expected that this risk should be partially mitigated because the dividend rates on Preferred Shares and the interest rates on the Fund's portfolio of Senior Loans and other investments wi