PCM FUND, INC.
Form N-2
August 31, 2012
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As filed with the Securities and Exchange Commission on August 31, 2012

1933 Act File No. 333-

1940 Act File No. 811- 07816

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

[X] REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

¨ Pre-Effective Amendment No.

¨ Post-Effective Amendment No.

and

[X] REGISTRATION STATEMENT

UNDER

THE INVESTMENT COMPANY ACT OF 1940

[X] Amendment No. 4

PCM Fund, Inc.

(Exact Name of Registrant as Specified in Charter)

1633 Broadway

New York, New York 10019

(Address of Principal Executive Offices)

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

(212) 739-3222

(Registrant s Telephone Number, including Area Code)

Thomas J. Fuccillo, Esq.

c/o Allianz Global Investors Fund Management LLC

1633 Broadway

New York, New York 10019

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

Copies of Communications to:

David C. Sullivan, Esq.

Ropes & Gray LLP

Prudential Tower, 800 Boylston Street

Boston, Massachusetts 02199

Approximate Date of Proposed Public Offering:

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

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

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

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

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	**Amount Being Registered(1)**	**Proposed Maximum Offering Price Per Unit(1)**	**Proposed Maximum Aggregate Offering Price(1)**	**Amount of Registration Fee**
Common Shares, par value $.001	82,169 Shares	$12.17	$1,000,000	$114.60
Rights to Subscribe for Common Shares	[ ]	None	None(2)	None

(1) Estimated solely for purposes of calculating the registration fee as required by Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low sales prices reported on the New York Stock Exchange consolidated reporting system of $12.17 on August 30, 2012.

(2) No separate consideration will be received by the Registrant for the Rights.

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

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

Preliminary Prospectus (Subject to Completion) dated [ ], 2012

PROSPECTUS

PCM Fund, Inc.

[ ] Common Shares

Issuable Upon Exercise of Rights to Subscribe for Such Shares

PCM Fund, Inc. (the Fund) is a non-diversified, closed-end management investment company. The Fund s primary investment objective is to achieve high current income. Capital gain from the disposition of investments is a secondary objective. The Fund seeks to achieve its investment objectives by investing in a portfolio of fixed-income securities and related instruments of any type and any quality. The Fund cannot assure you that it will achieve its investment objectives, and you could lose all of your investment in the Fund.

The Fund is issuing transferable rights (Rights) to its common shareholders of record (Record Date Shareholders) as of 5:00 p.m., Eastern time, on [ ], 2012 (the Record Date), entitling the holders of those Rights to subscribe for up to an aggregate of [ ] of the Fund s common shares of beneficial interest (the Offer). Record Date Shareholders will receive one Right for each outstanding whole common share held on the Record Date. The Rights entitle their holders to purchase one new common share for every [ ] Rights held ([ ] for [ ]). Any Record Date Shareholder who is issued fewer than [ ] Rights may subscribe for one full common share in the Offer. In addition, Record Date Shareholders who fully exercise their Rights (other than those Rights that cannot be exercised because they represent the right to acquire less than one common share) will be entitled to subscribe for additional common shares of the Fund that remain unsubscribed as a result of any unexercised Rights. This over-subscription privilege is subject to a number of limitations and subject to allotment.

The subscription price (the Subscription Price) will be determined based on a formula equal to [ ]% of the average of the last reported sale prices of the Fund s common shares on the New York Stock Exchange (NYSE) on the Expiration Date (as defined below) and on each of the four preceding trading days (the Formula Price). If, however, the Formula Price is less than [ ]% of the Fund s net asset value per common share on the Expiration Date, then the Subscription Price will be [ ]% of the Fund s net asset value per common share on that day. **The Offer will expire at 5:00 p.m., Eastern time, on [ ], 2012, unless extended as described in this prospectus (the Expiration Date).**

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

(continued on following page)

Exercising your Rights and investing in the Fund s common shares involves a high degree of risk and may be considered speculative due to, among other strategies, the Fund s ability to invest without limit in debt instruments that are, at the time of purchase, rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s) or below BBB- by either Standard & Poor s Ratings Services, a division of The McGraw-Hill Company, Inc. (S&P) or Fitch, Inc. (Fitch)) or unrated but determined by Pacific Investment Management Company LLC (PIMCO) to be of comparable quality, the Fund s exposure to mortgage-related and other asset-backed securities, and the Fund s use of leverage. Debt securities of below investment grade quality are regarded as having predominantly

speculative characteristics with respect to capacity to pay interest and to repay principal, and are commonly referred to as high yield securities or junk bonds. In addition, the Fund s exposure to foreign securities and currencies, and particularly to emerging markets securities and currencies, involves special risks, including foreign currency risk and the risk that the securities may decline in response to unfavorable political and legal developments, unreliable or untimely information or economic and financial instability. Before exercising your Rights and investing in the Fund s common shares, you should read the discussion of the principal risks of investing in the Fund, including the risks of leverage and of investing in below investment grade/high yield securities and in mortgage-related and other asset-backed securities, in Principal risks of the Fund. Certain of these risks are summarized in Prospectus summary Principal risks of the Fund.

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

(footnotes on inside front cover)

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

[Dealer Manager]

(notes from previous page)

(1) Assumes that all Rights are exercised at the estimated Subscription Price.
(2) Estimated on the basis of [ ]% of the last reported sale price of a common share of the Fund on the NYSE on [ ], 2012.
(3) [ ] will act as dealer manager for the Offer (the Dealer Manager). The Fund has agreed to pay the Dealer Manager a fee for its financial structuring and soliciting services equal to [ ]% of the Subscription Price per common share for each common share issued pursuant to the exercise of Rights and the over-subscription privilege. The Dealer Manager will reallow to broker-dealers in the selling group to be formed and managed by the Dealer Manager selling fees equal to [ ]% of the Subscription Price per common share for each common share issued pursuant to the exercise of Rights as a result of their selling efforts. In addition, the Dealer Manager will reallow to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights solicitation fees equal to [ ]% of the Subscription Price per common share for each common share issued pursuant to the exercise of Rights as a result of their soliciting efforts, subject to a maximum fee based on the number of common shares held by each broker-dealer through The Depository Trust Company (DTC) on the Record Date. The fees and expenses of the Offer, including the Dealer Manager fee, will be borne by the Fund and indirectly by all of its common shareholders, including those who do not exercise their Rights. The Fund and Allianz Global Investors Fund Management LLC, the Fund s investment manager, have each agreed to indemnify the Dealer Manager for losses arising out of certain liabilities, including liabilities under the Securities Act of 1933, as amended (the Securities Act).

(continued from previous page)

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

The Fund s outstanding common shares are listed and trade on the NYSE under the symbol PCM, as will the common shares offered for subscription in the Offer. The Rights are transferable and will be admitted for trading on the NYSE under the symbol [PCM.RT] during the course of the Offer. See The Offer for a complete discussion of the terms of the Offer.

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

Portfolio Contents. The Fund normally invests in a portfolio of debt obligations and other income-producing securities of any type and credit quality with varying maturities, including, among other investments, mortgage-related and other asset-backed securities, as well as related derivative instruments. The Fund expects to invest in mortgage-related and other asset-backed securities issued or sponsored by various public and private entities, including securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities (U.S. Government securities), residential and commercial mortgage-backed securities (some of which may be U.S. Government securities), privately-issued mortgage-related securities and any other type of mortgage-related or asset-backed securities issued on a public or private basis, including collateralized mortgage obligations.

As a matter of fundamental policy, the Fund, under normal circumstances, will invest at least 25% of its total assets (*i.e.*, concentrate) in privately-issued (commonly known as non-agency) mortgage-related securities.

The Fund s portfolio of income-producing securities may also include, without limitation, other types of U.S. Government securities, corporate debt securities and municipal securities and other debt securities issued by states or local governments and their agencies, authorities and other government-sponsored enterprises, including tax-exempt [and taxable municipal securities (such as Build America Bonds)]. The Fund may also invest in bonds, debentures, notes, and other debt securities of U.S. and foreign corporate and other issuers, including commercial paper; [obligations of foreign governments or their sub-divisions, agencies and government sponsored enterprises and obligations of international agencies and supranational entities]; payment-in-kind securities; zero-coupon bonds; inflation-indexed bonds issued by both governments and corporations; [structured notes, including hybrid or indexed securities]; credit-linked notes; [structured credit products (*e.g.*, collateralized bond obligations and collateralized debt obligations); bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments)]; convertible debt securities (*i.e.*, debt securities that may be converted at either a stated price or stated rate into underlying shares of common stock), including synthetic convertible debt securities (*i.e.*, instruments created through a combination of separate securities that possess the two principal characteristics of a traditional convertible security, *i.e.*, an income-producing security and the right to acquire an equity security); and bank certificates of deposit, fixed time deposits and bankers acceptances. The rate of interest on an income-producing security may be fixed, floating or variable. The Fund may also invest in preferred securities.

The Fund may invest without limit in securities of U.S. issuers and without limit in securities of foreign (non-U.S.) issuers, including in securities of issuers economically tied to emerging market countries, securities traded principally outside of the United States[, and securities denominated in currencies other than the U.S. dollar. The Fund may also invest directly in foreign currencies, including local emerging market currencies.]

The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade (below Baa3 by Moody s or below BBB- by either S&P, or Fitch) or that are unrated but judged by PIMCO to be of comparable quality, and may invest without limit in securities of any rating. Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as high yield securities or junk bonds. High yield securities are subject to greater risk of loss of principal and interest and may be less liquid than investment grade securities.

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of [futures and forward contracts (including foreign currency exchange contracts)], call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements and other derivative instruments for investment purposes, leveraging purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may purchase and sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales to the extent that short positions do not represent more than 25% of the Fund s total assets.

The Fund may own and hold common stocks in its portfolio from time to time in connection with a corporate action or the restructuring of a debt instrument or through the conversion of a convertible or preferred security held by the Fund. However, under normal circumstances, common stocks may not represent more than 20% of the Fund s total assets. [The Fund may invest in other equity securities and related derivative instruments.] The Fund may also invest in securities that have not been registered for public sale in the U.S., including securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act or other relevant provisions of applicable non-U.S. law, and other securities issued in private placements. The Fund may also invest in securities of other investment companies, including, without limitation, ETFs, and may invest in foreign ETFs. [The Fund may invest in real estate investment trusts.] The Fund may invest in issuers with any market capitalization, including small and medium market capitalization issuers.

The Fund may invest without limit in illiquid securities (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities).

Leverage. The Fund currently utilizes leverage in an attempt to enhance its investment returns, principally through the use of reverse repurchase agreements. Following completion of the Offer, subject to then favorable market conditions, the Fund intends to add leverage to its portfolio by utilizing additional reverse repurchase agreements, and perhaps dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities, in order to maintain approximately the total amount of leverage (as a percentage of the Fund s total assets) that the Fund currently maintains, taking into account the additional assets raised through the issuance of common shares in the Offer. The Fund may also enter into transactions other than those noted above that may give rise to a form of leverage including, among others, [futures and forward contracts,] credit default swaps, total return swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions. There is no assurance, however, that the Fund will determine to add leverage following the Offer. The Fund utilizes reverse repurchase agreements, dollar rolls, borrowings and other forms of leverage opportunistically and may choose to increase or decrease, or eliminate entirely, its use of leverage over time and from time to time based on PIMCO s assessment of the yield curve environment, interest rate trends, market conditions and other factors. Leveraging is a speculative technique and there are special risks and costs 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 Use of leverage and Principal risks of the Fund 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 [ ], 2012, containing additional information about the Fund has been filed with the Securities and Exchange Commission (the Commission) and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page [ ] of this prospectus. You may request a free copy of the Statement of Additional Information, request the Fund s most recent annual and semiannual reports, request information about the Fund and make shareholder inquiries by calling [ ] or by writing to the Fund at c/o Allianz Global Investors Fund Management LLC, 1633 Broadway, New York, New York 10019. You may also obtain a copy of the Statement of Additional Information (and other information regarding the Fund) from the Commission s Public Reference Room in Washington, D.C. by calling (202) 551-8090. The Commission charges a fee for copies. The Fund s most recent annual and semiannual reports are available, free of charge, on the Fund s website (http://www.allianzinvestors.com). You can obtain the same information, free of charge, from the 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 Dealer Manager has not, authorized any other person to provide you with inconsistent information. If anyone provides you with inconsistent information, you should not assume that the Fund or the Dealer Manager have authorized or verified it. The Fund is not, and the Dealer Manager is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. 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 Fund. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information, especially the information set forth under the heading Principal risks of the Fund.

THE FUND

PCM Fund, Inc. is a non-diversified, closed-end management investment company. The Fund commenced operations on September 2, 1993, following the initial public offering of its common shares. Throughout this prospectus, PCM Fund, Inc. is referred to as the Fund. See The Fund.

PURPOSE OF THE OFFER

The Board of Directors of the Fund (the Board), Allianz Global Investors Fund Management LLC, the Fund s investment manager (AGIFM or the Investment Manager), and Pacific Investment Management Company LLC, the Fund s sub-adviser (PIMCO or the Sub-Adviser), have determined that it would be in the best interests of the Fund and its shareholders to increase the assets of the Fund, in order to more fully take advantage of current and prospective investment opportunities that may enable the Fund to increase the overall investment yield and return on its investments and would result in greater portfolio diversification with respect to sector, industry and issuer concentrations. The Board, the Investment Manager and the Sub-Adviser believe the current market environment of ongoing deleveraging by global financial institutions continues to create opportunities for the Fund to deploy additional capital across the structured, corporate and municipal credit sectors. In addition, the impaired liquidity in structured credit markets has resulted in an opportunity for the Fund to capture the additional liquidity premium that is currently priced into many structured credit sectors. The Offer (as defined below) is expected to provide shareholders an opportunity to take advantage of such investments, which could result in potentially higher earnings per share, increased portfolio diversification and, over time, a greater potential for price appreciation.

The Offer may not be successful. The completion of the Offer may result in an immediate dilution of the net asset value per common share for all existing Common Shareholders of the Fund, including those who fully exercise their Rights (as defined below). See The Offer Purpose of the Offer.

IMPORTANT TERMS OF THE OFFER

The Fund is issuing transferable rights (Rights) to its Common Shareholders of record (Record Date Shareholders) as of 5:00 p.m., Eastern time, on [ ], 2012 (the Record Date), entitling the holders of those Rights to subscribe for up to an aggregate of [ ] of the Fund s common shares (the Shares) (the Offer). Record Date Shareholders will receive one Right for each outstanding whole common share of the Fund held on the Record Date. The Rights entitle their holders to purchase one Share for every [ ] Rights held ([ ] for [ ]). Fractional Shares will not be issued upon the exercise of Rights; accordingly, Rights may be exercised only in integer multiples of [ ], except that any Record Date Shareholder who is issued fewer than [ ] Rights may subscribe, at the Subscription Price (as defined below), for one full Share. Assuming the exercise of all Rights, the Offer will result in an approximately [ ]% increase in the Fund s common shares outstanding. The Offer is not contingent upon any number of Rights being exercised. The subscription period commences on [ ], 2012 and ends at 5:00 p.m., Eastern time, on [ ], 2012, unless otherwise extended (the Expiration Date). See The Offer Important terms of the Offer.

The Fund expects to declare a monthly common share dividend in [ ], 2012. Such dividend will not be payable with respect to Shares that are issued pursuant to the Offer after the record date for such dividend.

The Fund will bear the expenses of the Offer and all such expenses will be borne indirectly by the Fund s Common Shareholders, including those who do not exercise their Rights. These expenses include, but are not limited to, the dealer manager fee and the reimbursement of dealer manager expenses, the expenses of preparing, printing and mailing the prospectus and Rights subscription materials for the Offer and the expenses of Fund counsel and the Fund s independent registered public accounting firm in connection with the Offer.

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IMPORTANT DATES TO REMEMBER

Record Date:	[ ], 2012
Subscription Period:	[ ], 2012 to [ ], 2012*
Final Date Rights Will Trade on NYSE:	[ ], 2012*
Expiration Date and Pricing Date:	[ ], 2012*
Payment for Shares or Notice of Guarantees of Delivery Due:	[ ], 2012*
Payment for Guarantees of Delivery Due:	[ ], 2012*
Confirmation Mailed to Participants:	[ ], 2012*
Final Payment for Shares Due:	[ ], 2012*

* Unless the Offer is extended.

See The Offer Payment for Shares.

SUBSCRIPTION PRICE

The subscription price for the Shares (the Subscription Price) will be determined based on a formula equal to [ ]% of the average of the last reported sale prices of the Fund s common shares on the New York Stock Exchange (the NYSE) on the Expiration Date and on each of the four preceding trading days (the Formula Price). If, however, the Formula Price is less than [ ]% of the Fund s net asset value per common share on the Expiration Date, then the Subscription Price will be [ ]% of the Fund s net asset value per common share on that day. Because the Expiration Date of the subscription period will be [ ], 2012 (unless the subscription period is extended), Rights holders may not know the Subscription Price at the time of exercise and will be required initially to pay for both the Shares subscribed for pursuant to the primary subscription and, if eligible, any additional Shares subscribed for pursuant to the over-subscription privilege at the estimated Subscription Price of $[ ] per Share and, except in limited circumstances, will not be able to rescind their subscription. See The Offer Subscription Price.

OVER-SUBSCRIPTION PRIVILEGE

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

SALE AND TRANSFERABILITY OF RIGHTS

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

Record Date Shareholders who do not wish to exercise any of the Rights issued to them pursuant to the Offer may instruct the Subscription Agent to sell any unexercised Rights through or to the Dealer Manager (as defined on page [ ]). Subscription certificates representing the Rights to be sold through or to the Dealer Manager must be received by the Subscription Agent by 5:00 p.m., Eastern time, on [ ], 2012 (or, if the subscription period is extended, by 5:00 p.m., Eastern time, on the second business day prior to the extended Expiration Date).

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

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METHOD FOR EXERCISING RIGHTS

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

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

REQUIREMENTS FOR FOREIGN SHAREHOLDERS

Subscription certificates will not be mailed to Record Date Shareholders whose addresses are outside the United States (for these purposes, the United States includes the District of Columbia and the territories and possessions of the United States) (Foreign Shareholders). The Subscription Agent will send a letter via regular mail to Foreign Shareholders to notify them of the Offer. The Rights of Foreign Shareholders will be held by the Subscription Agent for their accounts until instructions are received to exercise the Rights. If instructions have not been received by 5:00 p.m., Eastern time, on [ ], 2012, three business days prior to the Expiration Date (or, if the subscription period is extended, on or before the third business day prior to the extended Expiration Date), the Rights of Foreign Shareholders will be transferred by the Subscription Agent to the Dealer Manager, who will either purchase the Rights or use its best efforts to sell the Rights. The net proceeds, if any, from the sale of those Rights by or to the Dealer Manager will be remitted to those Foreign Shareholders.

DISTRIBUTION ARRANGEMENTS

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

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

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INVESTMENT MANAGER

The Investment Manager serves as the investment manager of the Fund. Subject to the supervision of the Board, the Investment Manager is responsible for managing, either directly or through others selected by it, the investment activities of the Fund and the Fund s business affairs and other administrative matters. The Investment Manager receives an annual fee from the Fund, payable monthly, in an amount equal to 0.80% of the Fund s average daily total managed assets. Total managed assets means the total assets of the Fund (including assets attributable to any reverse repurchase agreements, borrowings and preferred shares that may be outstanding) minus accrued liabilities (other than liabilities representing reverse repurchase agreements and borrowings). The Investment Manager is located at 1633 Broadway, New York, New York 10019. Organized in 2000, the Investment Manager provides investment management and advisory services to a number of closed-end and open-end investment company clients. The Investment Manager is a wholly-owned indirect subsidiary of Allianz SE, a publicly-traded European insurance and financial services company. As of June 30, 2012, the Investment Manager had approximately $[ ] billion in assets under management.

The Investment Manager has retained its affiliate, PIMCO, as a sub-adviser to manage the Fund s portfolio investments. See Sub-Adviser below.

SUB-ADVISER

PIMCO serves as the Fund s sub-adviser responsible for managing the Fund s portfolio investments. Subject to the supervision of the Investment Manager, PIMCO has full investment discretion and makes all determinations with respect to the investment of the Fund s assets.

PIMCO is located at 840 Newport Center Drive, Newport Beach, California 92660. Organized in 1971, PIMCO provides investment management and advisory services to private accounts of institutional and individual clients and to a number of open-end and closed-end investment companies. As of June 30, 2012, PIMCO had approximately $1.8 trillion in assets under management.

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

SUBSCRIPTION AGENT

The subscription agent for the Offer is [ ] (the Subscription Agent).

INFORMATION AGENT

The information agent for the Offer is [ ] (the Information Agent). If you have questions or need further information about the Offer, please write the Information Agent at [ ] or call [ ].

LISTING

The Fund s outstanding common shares are listed and trade on the NYSE under the trading or ticker symbol PCM, as will the Shares offered for subscription in the Offer. The Rights are transferable and will be admitted for trading on the NYSE under the symbol [PCM.RT] during the course of the Offer.

USE OF PROCEEDS

The net proceeds of the Offer will be invested in accordance with the Fund s investment objectives and policies as set forth below. Assuming current market conditions, the Fund estimates that the net proceeds of the Offer will be substantially invested in accordance with its investment objectives and policies within three months after the completion of the Offer. Pending such investment, it is anticipated that the proceeds of the Offer will be invested in high grade, short-term instruments. Following the completion of the Offer, the Fund currently intends to add leverage to its portfolio in order to maintain approximately the total amount of leverage (as a percentage of the Fund s total assets) that the Fund currently maintains. See Use of leverage.

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BENEFITS TO THE INVESTMENT MANAGER AND THE SUB-ADVISER

The Investment Manager and the Sub-Adviser will benefit from the Offer, in part, because the investment management fee paid by the Fund to the Investment Manager and the sub-advisory fee paid by the Investment Manager to the Sub-Adviser are each based on the Fund s average daily total managed assets, meaning the total assets of the Fund (including assets attributable to any reverse repurchase agreements, borrowings and preferred shares that may be outstanding) minus accrued liabilities (other than liabilities representing reverse repurchase agreements and borrowings). It is not possible to state precisely the amount of additional compensation the Investment Manager and the Sub-Adviser will receive as a result of the Offer because it is not known how many Shares of the Fund will be subscribed for and because the proceeds of the Offer will be invested in additional portfolio securities which will fluctuate in value. However, assuming (i) all Rights are exercised, (ii) the Fund s average daily net asset value during the twelve-month period beginning [ ], 2012 is $[ ] per common share (the net asset value per common share on [ ], 2012) (iii) the Subscription Price is $[ ] per Share ([ ]% of the last reported sale price of the Fund s common shares on [ ], 2012), and (iv) for purposes of this example, the Fund increases the amount of leverage it has outstanding (through the use of reverse repurchase agreements) while maintaining approximately the same percentage of total assets attributable to leverage, and after giving effect to the Dealer Manager fee and other estimated offering expenses, the Investment Manager and the Sub-Adviser would receive additional investment management fees (after payment of the sub-advisory fees) and sub-advisory fees of approximately $[ ] and $[ ], respectively, for the twelve-month period beginning [ ], 2012, and would continue to receive additional investment management fees and sub-advisory fees, respectively, as a result of the Offer, based on the Fund s average daily total managed assets attributable to the Shares issued in the Offer and related additional leverage, thereafter.

INVESTMENT OBJECTIVES AND POLICIES

The Fund s primary investment objective is to achieve high current income. Capital gain from the disposition of investments is a secondary objective. The Fund seeks to achieve its investment objectives by investing in a portfolio of fixed-income securities and related instruments of any type and any quality as discussed under Portfolio contents below. The Fund cannot assure you that it will achieve its investment objectives, and you could lose all of your investment in the Fund.

Investment selection strategies

On behalf of the Fund, PIMCO invests in various fixed-income and credit sectors based on, among other things, market conditions, valuation assessments and economic outlook, credit market trends and other economic factors. With PIMCO s macroeconomic analysis as the basis for top-down investment decisions, including geographic and credit sector emphasis, the Fund has the flexibility to allocate its assets among a broad spectrum of asset classes and issuers of any credit quality, including mortgage-related and any other asset-backed securities, government and sovereign debt, corporate debt (including fixed- and floating-rate bonds, bank loans and convertible securities), municipal bonds (including [both taxable and] tax-exempt) and other income-producing securities of U.S. issuers and foreign issuers. PIMCO may choose to focus on particular regions, asset classes, industries and sectors to the exclusion of others at any time and from time to time based on market conditions and other factors. The relative value assessment within fixed-income sectors draws on PIMCO s regional and sector specialist expertise.

Once the Fund s top-down, portfolio positioning decisions have been made as described above, PIMCO selects particular investments for the Fund by employing a bottom-up, disciplined credit approach which is driven by fundamental, independent research within each asset class/sector represented in the Fund, with a focus on identifying securities and other instruments with solid and/or improving fundamentals.

PIMCO utilizes strategies that focus on credit quality analysis and other risk management techniques. PIMCO attempts to identify, through fundamental research, driven by independent credit analysis and proprietary analytical tools, debt obligations and other income-producing securities that provide current income and/or opportunities for capital appreciation based on its analysis of the issuer s credit characteristics and the position of the security in the issuer s capital structure.

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PIMCO also attempts to identify investments that may appreciate in value based on PIMCO s assessment of the issuer s credit characteristics, forecast for interest rates and outlook for particular countries/regions, currencies, industries, sectors and the global economy and bond markets generally.

Credit quality

The Fund may invest without limit in debt instruments that are, at the time of purchase, rated below investment grade, or unrated but determined by PIMCO to be of comparable quality, and may invest without limit in securities of any rating. Debt instruments of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal, and are commonly referred to as high yield securities or junk bonds. Debt instruments in the lowest investment grade category also may be considered to possess some speculative characteristics. The Fund may, for hedging, investment or leveraging purposes, make use of credit default swaps, which are contracts whereby one party makes periodic payments to a counterparty in exchange for the right to receive from the counterparty a payment equal to the par (or other agreed-upon) value of a referenced debt obligation in the event of a default by the issuer of the debt obligation.

Independent credit analysis

PIMCO relies primarily on its own analysis of the credit quality and risks associated with individual debt instruments considered for the Fund, rather than relying exclusively on rating agencies or third-party research. The Fund s portfolio manager utilizes this information in an attempt to minimize credit risk and to identify issuers, industries or sectors that are undervalued or that offer attractive yields relative to PIMCO s assessment of their credit characteristics. This aspect of PIMCO s capabilities is particularly important to the extent that the Fund invests in high yield securities.

Diversification

The Fund is a non-diversified investment company in that it may invest a greater percentage of its assets in the securities of a single issuer than investment companies that are diversified. See Principal risks of the Fund Issuer Non-Diversification Risk.

Portfolio contents

The Fund normally invests in a portfolio of debt obligations and other income-producing securities of any type and credit quality with varying maturities, including, among other investments, mortgage-related and other asset-backed securities, as well as related derivative instruments. The Fund expects to invest in mortgage-related and other asset-backed securities issued or sponsored by various public and private entities, including securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities (U.S. Government securities), residential and commercial mortgage-backed securities (some of which may be U.S. Government securities), privately-issued mortgage-related securities and any other type of mortgage-related or asset-backed securities issued on a public or private basis, including collateralized mortgage obligations (CMOs).

As a matter of fundamental policy, the Fund, under normal circumstances, will invest at least 25% of its total assets (*i.e.*, concentrate) in privately-issued (commonly known as non-agency) mortgage-related securities. The Fund will observe certain other guidelines with respect to certain asset classes as summarized below.

The Fund s portfolio of income-producing securities may also include, without limitation, other types of U.S. Government securities, corporate debt securities and municipal securities and other debt securities issued by states or local governments and their agencies, authorities and other government-sponsored enterprises, including tax-exempt [and taxable municipal securities (such as Build America Bonds)]. The Fund may also invest in bonds, debentures, notes, and other debt securities of U.S. and foreign corporate and other issuers, including commercial paper; [obligations of foreign governments or their sub-divisions, agencies and government sponsored enterprises and obligations of international agencies and supranational entities]; payment-in-kind securities; zero-coupon bonds; inflation-indexed bonds issued by both governments and corporations; [structured notes, including hybrid or indexed securities]; credit-linked notes; [structured credit products (*e.g.*, collateralized bond obligations (CBOs) and collateralized debt obligations (CDOs)); bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments)]; convertible debt securities (*i.e.*, debt securities

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that may be converted at either a stated price or stated rate into underlying shares of common stock), including synthetic convertible debt securities (*i.e.*, instruments created through a combination of separate securities that possess the two principal characteristics of a traditional convertible security, *i.e.*, an income-producing security and the right to acquire an equity security); and bank certificates of deposit, fixed time deposits and bankers acceptances. The rate of interest on an income-producing security may be fixed, floating or variable. The Fund may also invest in preferred securities.

The Fund may invest without limit in securities of U.S. issuers and without limit in securities of foreign (non-U.S.) issuers, including in securities of issuers economically tied to emerging market countries, securities traded principally outside of the United States[, and securities denominated in currencies other than the U.S. dollar]. [The Fund may also invest directly in foreign currencies, including local emerging market currencies.]

The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s) or below BBB- by either Standard & Poor s, a division of The McGraw-Hill Companies (S&P), or Fitch, Inc. (Fitch)) or that are unrated but judged by PIMCO to be of comparable quality, and may invest without limit in securities of any rating. Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as high yield securities or junk bonds. High yield securities are subject to greater risk of loss of principal and interest and may be less liquid than investment grade securities.

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of [futures and forward contracts (including foreign currency exchange contracts),] call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements and other derivative instruments for investment purposes, leveraging purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may purchase and sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales to the extent that short positions do not represent more than 25% of the Fund s total assets.

The Fund may own and hold common stocks in its portfolio from time to time in connection with a corporate action or the restructuring of a debt instrument or through the conversion of a convertible or preferred security held by the Fund. However, under normal circumstances, common stocks may not represent more than 20% of the Fund s total assets. [The Fund may invest in other equity securities and related derivative instruments.] The Fund may also invest in securities that have not been registered for public sale in the U.S., including securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act or other relevant provisions of applicable non-U.S. law, and other securities issued in private placements. The Fund may also invest in securities of other investment companies, including, without limitation, ETFs, and may invest in foreign ETFs. [The Fund may invest in real estate investment trusts (REITs).] The Fund may invest in issuers with any market capitalization, including small and medium market capitalization issuers.

The Fund may invest without limit in illiquid securities (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities).

USE OF LEVERAGE

The Fund currently utilizes leverage in an attempt to enhance its investment returns, principally through the use of reverse repurchase agreements. As of [ ], 2012, the Fund had reverse repurchase agreements outstanding representing approximately [ ]% of the Fund s total assets (including the leverage obtained through the use of reverse repurchase agreements).

Following completion of the Offer, subject to then favorable market conditions, the Fund intends to add leverage to its portfolio by utilizing additional reverse repurchase agreements, and perhaps dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities, in order to maintain approximately the total amount of leverage (as a percentage of the Fund s total assets) that the Fund currently maintains, taking into account the additional assets raised through the issuance of Shares in the Offer.

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

There is no assurance, however, that the Fund will determine to add leverage following the Offer. The Fund utilizes reverse repurchase agreements, dollar rolls, borrowings and other forms of leverage opportunistically and may choose to increase or decrease, or eliminate entirely, its use of leverage over time and from time to time based on PIMCO s assessment of the yield curve environment, interest rate trends, market conditions and other factors. The Fund may determine to increase its leverage ratio beyond current levels from time to time following the Offer. If the Fund determines to add leverage following the Offer, it is not possible to predict with accuracy the precise amount of leverage that would be added, in part because it is not possible to predict the number of Shares that ultimately will be subscribed for in the Offer.

The net proceeds the Fund obtains from reverse repurchase agreements, dollar rolls or other forms of leverage utilized will be invested in accordance with the Fund s investment objectives and policies as described in this prospectus. So long as the rate of return, net of applicable Fund expenses, on the debt obligations and other investments purchased by the Fund exceeds the costs to the Fund of the leverage it utilizes, the investment of the Fund s net assets attributable to leverage will generate more income than will be needed to pay the costs of the leverage. If so, and all other things being equal, the excess may be used to pay higher dividends to Common Shareholders than if the Fund were not so leveraged.

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

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

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

PRINCIPAL RISKS OF THE FUND

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

Market discount risk

As with any stock, the price of the Fund s common shares will fluctuate with market conditions and other factors. If you sell your common shares, the price received may be more or less than your original investment. Net asset value of the Fund s common shares will be reduced immediately following the Offer by expenses paid or reimbursed by the Fund in connection with the Offer. The completion of the Offer may result in an immediate dilution of the net asset value per common share for all existing Common Shareholders, including those who have fully exercised their rights. The Fund s 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 common shares may trade at a price that is less than the Subscription Price for Shares issued pursuant to the Offer. This risk may be greater for investors who sell their Shares relatively shortly after completion of the Offer.

Market risk

The market price of securities owned by the Fund may go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets. The value of a security may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

Asset allocation risk

The Fund s investment performance depends upon how its assets are allocated and reallocated. A principal risk of investing in the Fund is that PIMCO may make less than optimal or poor asset allocation decisions. PIMCO invests in various fixed-income and credit sectors based on, among other things, market conditions, valuation assessments and economic outlook, credit market trends and other economic factors, but there is no guarantee that such allocation techniques will produce the desired results. It is possible that PIMCO will focus on an investment that performs poorly or underperforms other investments under various market conditions. You could lose money on your investment in the Fund as a result of these allocation decisions.

Issuer risk

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

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Issuer non-diversification risk

The Fund is a non-diversified investment company and therefore may invest a greater percentage of its assets in the securities of a single issuer or a limited number of issuers than funds that are diversified. Accordingly, the Fund is more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified fund might be. Some of the issuers in which the Fund invests may also present substantial credit or other risks. The Fund will be subject to similar risks to the extent that it enters into derivative transactions with a limited number of counterparties.

Management risk

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

Liquidity risk

The Fund may invest without limit in illiquid securities (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Many of the Fund s investments may be illiquid. Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose readily of illiquid securities when that would be beneficial at a favorable time or price or at prices approximating those at which the Fund then values them. Further, the lack of an established secondary market for illiquid securities may make it more difficult to value such securities, which may negatively affect the price the Fund would receive upon disposition of such securities. See Principal risks of the Fund Valuation Risk.

Interest rate risk

Generally, when market interest rates rise, the prices of debt obligations fall, and vice versa. Interest rate risk is the risk that debt obligations and other instruments in the Fund s portfolio will decline in value because of increases in market interest rates. This risk may be particularly acute because market interest rates are currently at historically low levels. The prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as interest rates change. During periods of rising interest rates, the average life of certain types of securities may be extended due to lower than expected rates of prepayments, which could cause the securities durations to extend and expose the securities to more price volatility. This may lock in a below market yield, increase the security s duration and reduce the security s value. In addition to directly affecting debt securities, rising interest rates may also have an adverse effect on the value of any equity securities held by the Fund. The Fund s use of leverage will tend to increase common share interest rate risk. PIMCO may utilize certain strategies, including without limitation investments in structured notes or interest rate futures contracts or swap, cap, floor or collar transactions, for the purpose of reducing the interest rate sensitivity of the Fund s portfolio, although there is no assurance that it will do so or that, if used, such strategies will be successful.

The Fund may invest in variable- and floating-rate debt instruments, which generally are less sensitive to interest rate changes than longer duration fixed-rate instruments, but may decline in value in response to rising interest rates if, for example, the rates at which they pay interest do not rise as much, or as quickly, as market interest rates in general. Conversely, variable- and floating-rate instruments generally will not increase in value if interest rates decline. The Fund also may invest in inverse floating-rate debt securities, which may decrease in value if interest rates increase, and which also may exhibit greater price volatility than fixed-rate debt obligations with similar credit quality. To the extent the Fund holds variable- or floating-rate instruments, a decrease (or, in the case of inverse floating-rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the net asset value of the Fund s common shares.

Credit risk

Credit risk is the risk that one or more of the Fund s investments in debt securities or other instruments will decline in price, or fail to pay interest, liquidation value or principal when due, because the issuer of the obligation or the issuer of a reference security experiences an actual or perceived decline in its financial status.

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High yield risk

The Fund may invest without limit in debt instruments that are, at the time of purchase, rated below investment grade or unrated but determined by PIMCO to be of comparable quality, and may invest without limit in securities of any rating. In general, lower rated debt securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative effect on the net asset value of the Fund s common shares or common share dividends. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as high yield securities or junk bonds. High yield securities involve a greater risk of default and their prices are generally more volatile and sensitive to actual or perceived negative developments, such as a decline in the issuer s revenues or revenues of underlying borrowers or a general economic downturn, than are the prices of higher grade securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain rating agencies. The Fund may purchase distressed securities that are in default or the issuers of which are in bankruptcy, which involve heightened risks. See Principal risks of the Fund Distressed and Defaulted Securities Risk. An economic downturn could severely affect the ability of issuers (particularly those that are highly leveraged) to service their debt obligations or to repay their obligations upon maturity. Lower-rated securities are generally less liquid than higher-rated securities, which may have an adverse effect on the Fund s ability to dispose of a particular security. For example, under adverse market or economic conditions, the secondary market for below investment grade securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and certain securities in the Fund s portfolio may become illiquid or less liquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell these securities only at prices lower than if such securities were widely traded. See Principal risks of the Fund Liquidity Risk. To the extent the Fund focuses on below investment grade debt obligations, 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 Portfolio contents High Yield Securities (Junk Bonds) for additional information. Due to the risks involved in investing in high yield securities, an investment in the Fund should be considered speculative.

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 factors including, but not limited to, 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.

Distressed and defaulted securities risk

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

Mortgage-related and other asset-backed securities risk

The Fund may invest in a variety of mortgage-related and other asset-backed securities issued by government agencies or other governmental entities or by private originators or issuers.

As a matter of fundamental policy, the Fund, under normal circumstances, will invest at least 25% of its total assets (*i.e.*, concentrate) in privately-issued (commonly known as non-agency) mortgage-related securities.

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The mortgage-related securities in which the Fund may invest include, without limitation, mortgage pass-through securities, CMOs, commercial or residential mortgage-backed securities, mortgage dollar rolls, CMO residuals, 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 also invest in other types of asset-backed securities, including CDOs, which include CBOs, collateralized loan obligations (CLOs) and other similarly structured securities.] See Portfolio contents Mortgage-Related and Other Asset-Backed Securities in this prospectus and Investment Objectives and Policies Mortgage-Related and Other Asset-Backed Securities in the Statement of Additional Information for a description of the various mortgage-related and other asset-backed securities in which the Fund may invest and their related risks.

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

The Fund s investments in other asset-backed securities are subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with their structure and the nature of the assets underlying the security and the servicing of those assets. [For instance, certain CDOs in which the Fund may invest are backed by pools of high-risk, below investment grade debt securities and may involve substantial credit and other risks.]

Due to their often complicated structures, various mortgage-related and asset-backed securities may be difficult to value and may constitute illiquid investments.

The value of mortgage-related and other 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 by, or defalcation of, their servicers. Furthermore, debtors may be entitled to the protection of a number of state and federal consumer credit laws with respect to these securities, which may give the debtor the right to avoid or reduce payment.

Investments in mortgage-related and other asset-backed securities may involve particularly high levels of risk under current market conditions. See Principal risks of the Fund Mortgage Market/Subprime Risk. See also Principal risks of the Fund Recent Economic Conditions Risk.

Mortgage market/subprime risk

The mortgage markets in the United States and in various foreign countries have experienced extreme difficulties over the past few years that may adversely affect the performance and market value of certain of the Fund s mortgage-related investments. Delinquencies and losses on residential and commercial mortgage loans (especially subprime and second-lien mortgage loans) generally have increased during that period and may continue to increase, and a decline in or flattening of housing and other real property values (as has been experienced during that period and may continue to be experienced in many real estate markets) may exacerbate such delinquencies and losses. Borrowers with adjustable rate mortgage loans are more sensitive to changes in interest rates, which affect their monthly mortgage payments, and may be unable to secure replacement mortgages at comparably low interest rates. Also, a number of mortgage loan originators have experienced serious financial difficulties or bankruptcy in recent periods. Owing largely to the foregoing, reduced investor demand for mortgage loans and mortgage-related securities and increased investor yield requirements have caused limited liquidity in the secondary market for mortgage-related securities, which can adversely affect the market value of mortgage-related securities. It is possible that such limited liquidity in such secondary markets could continue or worsen.

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Municipal bond risk

Investing in the municipal bond market involves the risks of investing in debt securities generally and certain other risks. The amount of public information available about the municipal bonds in which the Fund may invest is generally less than that for corporate equities or bonds, and the investment performance of the Fund s investment in municipal bonds may therefore be more dependent on the analytical abilities of PIMCO than its investments in taxable bonds. The secondary market for municipal bonds also tends to be less well developed or liquid than many other securities markets, which may adversely affect the Fund s ability to sell municipal bonds at attractive prices.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns, by litigation, legislation or political events, or by the bankruptcy of the issuer. Laws, referenda, ordinances or regulations enacted in the future by Congress or state legislatures or the applicable governmental entity could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipal issuers to levy taxes. Issuers of municipal securities also might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer s obligations on such securities, which may increase the Fund s operating expenses.

The Fund may invest in revenue bonds, which are typically issued to fund a wide variety of capital projects including electric, gas, water and sewer systems; highways, bridges and tunnels; port and airport facilities; colleges and universities; and hospitals. Because the principal security for a revenue bond is generally the net revenues derived from a particular facility or group of facilities or, in some cases, from the proceeds of a special excise or other specific revenue source, there is no guarantee that the particular project will generate enough revenue to pay its obligations, in which case the Fund s performance may be adversely affected.

Inflation-indexed security risk

Inflation-indexed debt securities are subject to the effects of changes in market interest rates caused by factors other than inflation (real interest rates). In general, the value of an inflation-indexed security, including Treasury Inflation-Protected Securities (TIPS), tends to decrease when real interest rates increase and can increase when real interest rates decrease. Thus generally, during periods of rising inflation, the value of inflation-indexed securities will tend to increase and during periods of deflation, their value will tend to decrease. Interest payments on inflation-indexed securities are unpredictable and will fluctuate as the principal and interest are adjusted for inflation. There can be no assurance that the inflation index used (*i.e.*, the Consumer Price Index for All Urban Consumers (CPI)) will accurately measure the real rate of inflation in the prices of goods and services. Increases in the principal value of TIPS due to inflation are considered taxable ordinary income for the amount of the increase in the calendar year. Any increase in the principal amount of an inflation-indexed debt security will be considered taxable ordinary income, even though the Fund will not receive the principal until maturity. In order to receive the special treatment accorded to regulated investment companies (RICs) and their shareholders under the Internal Revenue Code of 1986, as amended (the Code) and to avoid U.S. federal income and/or excise taxes at the Fund level, the Fund may be required to distribute this income to shareholders in the tax year in which the income is recognized (without a corresponding receipt of cash). Therefore, the Fund may be required to pay out as an income distribution in any such tax year an amount greater than the total amount of cash income the Fund actually received, and to sell portfolio securities, including at potentially disadvantageous times or prices, to obtain cash needed for these income distributions. Additionally, a CPI swap can potentially lose value if the realized rate of inflation over the life of the swap is less than the fixed market implied inflation rate (fixed breakeven rate) that the investor agrees to pay at the initiation of the swap. With municipal inflation-indexed securities, the inflation adjustment is integrated into the coupon payment. For municipal inflation-indexed securities, there is no adjustment to the principal value. Because municipal inflation-indexed securities are a small component of the municipal bond market, they may be less liquid than conventional municipal bonds.

Senior debt risk

Because it may invest in below-investment grade senior debt, the Fund may be subject to greater levels of credit risk than funds that do not invest in such debt. The Fund may also be subject to greater levels of liquidity risk than funds that do not invest in senior debt. Restrictions on transfers in loan agreements, a lack of publicly available information and other factors may, in certain instances, make senior debt more difficult to sell at an advantageous time or price than other types of securities or instruments. Additionally, if the issuer of senior debt prepays, the Fund will have to consider reinvesting the proceeds in other senior debt or similar instruments that may pay lower interest rates.

Loan participations and assignments risk

The Fund s investments in fixed and floating rate loans arranged through private negotiations between an issuer and one or more financial institutions may be in the form of participations in loans or assignments of all or a portion of loans from third parties. In connection with purchasing loan participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower, and the Fund may not directly benefit from any collateral supporting the loan in which it has purchased the loan participation. As a result, the Fund may be subject to the credit risk of both the borrower and the lender that is selling the participation. In the event of the insolvency of the lender selling a participation, the Fund may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower. Certain loan participations may be structured in a manner designed to prevent purchasers of participations from being subject to the credit risk of the lender with respect to the participation, but even under such a structure, in the event of the lender s insolvency, the lender s servicing of the participation may be delayed and the assignability of the participation impaired.

The Fund may have difficulty disposing of loans and loan participations because to do so it will have to assign or sell such securities to a third party. Because there is no liquid market for many such securities, the Fund anticipates that such securities could be sold only to a limited number of institutional investors. The lack of a liquid secondary market may have an adverse impact on the value of such securities and the Fund s ability to dispose of particular loans and loan participations when that would be desirable, including in response to a specific economic event such as a deterioration in the creditworthiness of the borrower. The lack of a liquid secondary market for loans and loan participations also may make it more difficult for the Fund to assign a value to these securities for purposes of valuing the Fund s portfolio.

Reinvestment risk

Income from the Fund s portfolio will decline if and when the Fund invests the proceeds from matured, traded or called debt obligations at market interest rates that are below the portfolio s current earnings rate. For instance, during periods of declining interest rates, an issuer of debt obligations may exercise an option to redeem securities prior to maturity, forcing the Fund to invest in lower-yielding securities. The Fund also may choose to sell higher yielding portfolio securities and to purchase lower yielding securities to achieve greater portfolio diversification, because the portfolio manager believes the current holdings are overvalued or for other investment-related reasons. A decline in income received by the Fund from its investments is likely to have a negative effect on dividend levels and the market price, net asset value and/or overall return of the Fund s common shares.

Foreign (non-U.S.) investment risk

The Fund may invest without limit in securities of foreign (non-U.S.) issuers and securities traded principally outside of the United States. The Fund s investments in and exposure to foreign securities involve special risks.

For example, the value of these investments may decline in response to unfavorable political and legal developments, unreliable or untimely information or economic and financial instability. Foreign securities may experience more rapid and extreme changes in value than investments in securities of U.S. issuers. The securities markets of many foreign countries are relatively small, with a limited number of companies representing a small number of industries. Issuers of foreign securities are usually not subject to the same degree of regulation as U.S. issuers. Reporting, accounting, auditing and custody standards of foreign countries differ, in some cases significantly, from U.S. standards. Also, nationalization, expropriation or other confiscation, currency blockage, political changes or diplomatic developments could adversely affect the Fund s investments in foreign securities. In the event of nationalization, expropriation or other confiscation, the Fund could lose its entire investment in foreign securities. To the extent that the Fund invests a significant portion of its assets in a particular foreign country or a concentrated geographic area (such as Asia or South America), the Fund will generally have more exposure to

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regional economic risks associated with foreign investments. Also, adverse conditions in a certain region can adversely affect securities from other countries whose economies appear to be unrelated. The costs of investing in foreign countries frequently are higher than the costs of investing in the United States. [Additionally, investments in securities of foreign issuers may be denominated in foreign currencies, subjecting the Fund to foreign currency risk. See Principal risks of the Fund Foreign Currency Risk.]

Emerging markets risk

The Fund may invest without limit in securities of issuers economically tied to emerging market countries. Foreign investment risk may be particularly high to the extent that the Fund invests in securities of issuers based in or doing business in emerging market countries or invests in securities denominated in the currencies of emerging market countries. Investing in securities of issuers based in or doing business in emerging markets entails all of the risks of investing in foreign securities noted above, but to a heightened degree.

Investments in emerging market countries pose a greater degree of systemic risk, *i.e.*, the risk of a cascading collapse of multiple institutions within a country, and even multiple national economies. The inter-relatedness of economic and financial institutions within and among emerging market economies has deepened over the years, with the effect that institutional failures and/or economic difficulties that are of initially limited scope may spread throughout a country, a region or even among all or most emerging market countries. This may undermine any attempt by the Fund to reduce risk through geographic diversification of its portfolio investments among emerging market countries.

There is a heightened possibility of imposition of withholding taxes on interest or dividend income generated from emerging market securities. Governments of emerging market countries may engage in confiscatory taxation or expropriation of income and/or assets to raise revenues or to pursue a domestic political agenda. In the past, emerging market countries have nationalized assets, companies and even entire sectors, including the assets of foreign investors, with inadequate or no compensation to the prior owners. There can be no assurance that the Fund will not suffer a loss of any or all of its investments or, interest or dividends thereon, due to adverse fiscal or other policy changes in emerging market countries.

There is also a greater risk that an emerging market government may take action that impedes or prevents the Fund from taking income and/or capital gains earned in the local currency and converting into U.S. dollars (*i.e.*, repatriating local currency investments or profits). Certain emerging market countries have sought to maintain foreign exchange reserves and/or address the economic volatility and dislocations caused by the large international capital flows by controlling or restricting the conversion of the local currency into other currencies. This risk tends to become more acute when economic conditions otherwise worsen. There can be no assurance that if the Fund earns income or capital gains in an emerging market currency or PIMCO otherwise seeks to withdraw the Fund s investments from a given emerging market country, capital controls imposed by such country will not prevent, or cause significant expense in, doing so.

Bankruptcy law and creditor reorganization processes may differ substantially from those in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain emerging market countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. In addition, it may be impossible to seek legal redress against an issuer that is a sovereign state.

Other heightened risks associated with emerging markets investments include without limitation: (i) risks due to less social, political and economic stability; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in a lack of liquidity and in price volatility; (iii) certain national policies which may restrict the Fund s investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests and requirements that government approval be obtained prior to investment by foreign persons; (iv) certain national policies that may restrict the Fund s repatriation of investment income, capital or the proceeds of sales of securities, including temporary restrictions on foreign capital remittances; (v) the lack of uniform accounting and auditing standards and/or standards that may be significantly different from the standards required in the United States; (vi) less publicly available financial and other information regarding issuers; (vii) potential difficulties in enforcing contractual obligations; and (viii) higher rates of inflation, higher interest rates and other economic concerns. The Fund may invest to a substantial extent in emerging market securities that are

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denominated in local currencies, subjecting the Fund to a greater degree of foreign currency risk. See Principal risks of the Fund Foreign Currency Risk. Also, investing in emerging market countries may entail purchases of securities of issuers that are insolvent, bankrupt, in default or otherwise of questionable ability to satisfy their payment obligations as they become due, subjecting the Fund to a greater amount of credit risk and/or high yield risk. See Principal risks of the Fund Credit Risk and Principal risks of the Fund High Yield Risk.

[Foreign currency risk

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

Redenomination risk

Continuing uncertainty as to the status of the euro and the European Monetary Union (the EMU) has created significant volatility in currency and financial markets generally. Any partial or complete dissolution of the EMU could have significant adverse effects on currency and financial markets, and on the values of the Fund s portfolio investments. If one or more EMU countries were to stop using the euro as its primary currency, the Fund s investments in such countries may be redenominated into a different or newly adopted currency. As a result, the value of those investments could decline significantly and unpredictably. In addition, securities or other investments that are redenominated may be subject to foreign currency risk, liquidity risk and valuation risk to a greater extent than similar investments currently denominated in euros. See Principal risks of the Fund Foreign Currency Risk, Principal risks of the Fund Liquidity Risk and Principal risks of the Fund Valuation Risk. To the extent currency used for redenomination purposes is not specified in respect of certain EMU-related investments, or should the euro cease to be used entirely, the currency in which such investments are denominated may be unclear, making such investments particularly difficult to value or dispose of. The Fund may incur additional expenses to the extent it is required to seek judicial or other clarification of the denomination or value of such securities.

Real estate risk

To the extent that the Fund invests in real estate related investments, including [REITs or] real-estate linked derivative instruments, it will be subject to the risks associated with owning real estate and with the real estate industry generally. These include difficulties in valuing and disposing of real estate, the possibility of declines in the value of real estate, risks related to general and local economic conditions, the possibility of adverse changes in the climate for real estate, environmental liability risks, the risk of increases in property taxes and operating expenses, possible adverse changes in zoning laws, the risk of casualty or condemnation losses, limitations on rents, the possibility of adverse changes in interest rates and in the credit markets and the possibility of borrowers paying off mortgages sooner than expected, which may lead to reinvestment of assets at lower prevailing interest rates. [To the extent that the Fund invests in REITs, it will also be subject to the risk that a REIT may default on its obligations or go bankrupt. By investing in REITs indirectly through the Fund, a shareholder will bear not only his or her proportionate share of the expenses of the Fund, but also, indirectly, similar expenses of the REITs. The Fund s investments in REITs could cause the Fund to recognize income in excess of cash received from those securities and, as a result, the Fund may be required to sell portfolio securities, including when it is not advantageous to do so, in order to make distributions.]

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U.S. government securities risk

The Fund may invest in debt securities issued or guaranteed by agencies, instrumentalities and sponsored enterprises of the U.S. Government. Some U.S. Government securities, such as U.S. Treasury bills, notes and bonds, and mortgage-related securities guaranteed by the Government National Mortgage Association (GNMA), are supported by the full faith and credit of the United States; others, such as those of the Federal Home Loan Banks or the Federal Home Loan Mortgage Corporation (FHLMC), are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association (FNMA), are supported by the discretionary authority of the U.S. Government to purchase the agency s obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the issuing agency, instrumentality or enterprise. Although U.S. Government-sponsored enterprises, such as the Federal Home Loan Banks, FHLMC, FNMA and the Student Loan Marketing Association, may be chartered or sponsored by Congress, they are not funded by Congressional appropriations, and their securities are not issued by the U.S. Treasury or supported by the full faith and credit of the U.S. Government and involve increased credit risks. Although legislation has been enacted to support certain government sponsored entities, including the Federal Home Loan Banks, FHLMC and FNMA, there is no assurance that the obligations of such entities will be satisfied in full, or that such obligations will not decrease in value or default. It is difficult, if not impossible, to predict the future political, regulatory or economic changes that could impact the government sponsored entities and the values of their related securities or obligations. In addition, certain governmental entities, including FNMA and FHLMC, have been subject to regulatory scrutiny regarding their accounting policies and practices and other concerns that may result in legislation, changes in regulatory oversight and/or other consequences that could adversely affect the credit quality, availability or investment character of securities issued by these entities. See Investment Objectives and Policies Mortgage-Related and Other Asset-Backed Securities in the Statement of Additional Information.

U.S. Government debt securities generally involve lower levels of credit risk than other types of debt securities of similar maturities, although, as a result, the yields available from U.S. Government debt securities are generally lower than the yields available from such other securities. Like other debt securities, the values of U.S. Government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in the Fund s net asset value.

[Foreign (non-U.S.) government securities risk

The Fund s investments in debt obligations of foreign (non-U.S.) governments or their sub-divisions, agencies and government sponsored enterprises and obligations of international agencies and supranational entities (together Foreign Government Securities) can involve a high degree of risk. The foreign governmental entity that controls the repayment of debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A governmental entity s willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity s policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject. Foreign governmental entities also may be dependent on expected disbursements from other governments, multilateral agencies and others abroad to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on the implementation of economic reforms and/or economic performance and the timely service of such debtor s obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties commitments to lend funds to the foreign governmental entity, which may further impair such debtor s ability or willingness to timely service its debts. Consequently, foreign governmental entities may default on their debt. Holders of Foreign Government Securities may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In the event of a default by a governmental entity, there may be few or no effective legal remedies for collecting on such debt. These risks are particularly severe with respect to the Fund s investments in Foreign Government Securities of emerging market countries. See Principal risks of the Fund Emerging Markets Risk. Among other risks, if the Fund s investments in Foreign Government

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Securities issued by an emerging market country need to be liquidated quickly, the Fund could sustain significant transaction costs. Also, governments in many emerging market countries participate to a significant degree in their economies and securities markets, which may impair investment and economic growth, and which may in turn diminish the value of the Fund s holdings in emerging market Foreign Government Securities and the currencies in which they are denominated and/or pay revenues.]

Convertible securities risk

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

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

Valuation risk

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

Leverage risk

The Fund s use of leverage (as described under Use of leverage in the body of this prospectus) creates the opportunity for increased common share net income, but also creates special risks for Common Shareholders. To the extent used, there is no assurance that the Fund s leveraging strategies will be successful. Leverage is a speculative technique that may expose the Fund to greater risk and increased costs. The net proceeds that the Fund obtains from its use of reverse repurchase agreements, dollar rolls and/or borrowings (as well as from any future issuance of preferred shares) will be invested in accordance with the Fund s investment objectives and policies as described in this prospectus. Interest expense payable by the Fund with respect to its reverse repurchase agreements, dollar rolls and borrowings (or dividends payable with respect to any outstanding preferred shares) will generally be based on shorter-term interest rates that would be periodically reset. So long as the Fund s portfolio investments provide a higher rate of return (net of applicable Fund expenses) than the interest expenses and other costs to the Fund of such leverage, the investment of the proceeds thereof will generate more income than will be needed to pay the costs of

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the leverage. If so, and all other things being equal, the excess may be used to pay higher dividends to Common Shareholders than if the Fund were not so leveraged. If, however, shorter-term interest rates rise relative to the rate of return on the Fund s portfolio, the interest and other costs to the Fund of leverage (including interest expenses on reverse repurchase agreements, dollar rolls and borrowings and the dividend rate on any outstanding preferred shares) could exceed the rate of return on the debt obligations and other investments held by the Fund, thereby reducing return to Common Shareholders. In addition, fees and expenses of any form of leverage used by the Fund will be borne entirely by the Common Shareholders (and not by preferred shareholders, if any) and will reduce the investment return of the Fund s common shares. Therefore, there can be no assurance that the Fund s use of leverage will result in a higher yield on the common shares, and it may result in losses. In addition, any preferred shares issued by the Fund are expected to pay cumulative dividends, which may tend to increase leverage risk.

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

- the likelihood of greater volatility of net asset value and market price of the Fund s common shares, and of the investment return to Common Shareholders, than a comparable portfolio without leverage;

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

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

In addition, the counterparties to the Fund s leveraging transactions and any preferred shareholders of the Fund will have priority of payment over the Fund s Common Shareholders.

The use by the Fund of reverse repurchase agreements and dollar rolls to obtain leverage also involves special risks. For instance, the market value of the securities that the Fund is obligated to repurchase under a reverse repurchase agreement or dollar roll may decline below the repurchase price. See Portfolio contents Reverse Repurchase Agreements and Dollar Rolls.

In addition to reverse repurchase agreements, dollar rolls and/or borrowings (or a future issuance of preferred shares), the Fund may engage in other transactions that may give rise to a form of leverage including, among others, [futures and forward contracts (including foreign currency exchange contracts),] credit default swaps, total return swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions). The Fund s use of such transactions give rise to associated leverage risks described above, and may adversely affect the Fund s income, distributions and total returns to Common Shareholders. The Fund manages some of its derivative positions by segregating an amount of cash or liquid securities equal to the face value or the market value, as applicable, of those positions. The Fund may also offset derivatives positions against one another or against other assets to manage effective market exposure resulting from derivatives in its portfolio. To the extent that any offsetting positions do not behave in relation to one another as expected, the Fund may perform as if it is leveraged through use of these derivative strategies. See Leverage.

Because the fees received by the Investment Manager and the Sub-Adviser are based on the total managed assets of the Fund (including assets attributable to any reverse repurchase agreements, borrowings and preferred shares that may be outstanding), the Investment Manager and the Sub-Adviser have a financial incentive for the Fund to use certain forms of leverage (*e.g.*, reverse repurchase agreements and other borrowings), which may create a conflict of interest between the Investment Manager and the Sub-Adviser, on the one hand, and the Common Shareholders, on the other hand.

Focused investment risk

To the extent that the Fund focuses its investments in a particular industry, the net asset value of the common shares will be more susceptible to events or factors affecting companies in that industry. These may include, but are not limited to, governmental regulation, inflation, rising interest rates, cost increases in raw materials, fuel and other operating expenses, technological innovations that may render existing products and equipment obsolete,

competition from new entrants, high research and development costs, increased costs associated with compliance with environmental or other regulation and other economic, market, political or other developments specific to that industry. Also, the Fund may invest a substantial portion of its assets in companies in related sectors that may share common characteristics, are often subject to similar business risks and regulatory burdens and whose securities may react similarly to the types of events and factors described above, which will subject the Fund to greater risk. The Fund also will be subject to focused investment risk to the extent that it invests a substantial portion of its assets in a particular country or geographic region. See Principal risks of the Fund Foreign (Non-U.S.) Investment Risk, Principal risks of the Fund Emerging Markets Risk and Principal risks of the Fund Foreign Currency Risk.

As a matter of fundamental policy, the Fund, under normal circumstances, will invest at least 25% of its total assets (*i.e.*, concentrate) in privately-issued (commonly known as non-agency) mortgage-related securities, and therefore will be particularly susceptible to the risks associated with these securities. See Principal risks of the Fund Mortgage-Related and Other Asset-Backed Securities Risk.

Derivatives risk

The Fund may utilize a variety of derivative instruments (both long and short positions) for investment or risk management purposes. The Fund may use derivatives to gain exposure to securities markets in which it may invest (*e.g.*, pending investment of the proceeds of the Offer in individual securities, as well as on an ongoing basis). The Fund may also use derivatives to add leverage to its portfolio. See Principal risks of the Fund Leverage Risk. Derivatives transactions that the Fund may utilize include, but are not limited to, purchases or sales of [futures and forward contracts (including foreign currency exchange contracts),] call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements. 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 s use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks described elsewhere in this prospectus, such as liquidity risk, interest rate risk, issuer risk, credit risk, leveraging risk, counterparty risk, management risk and, if applicable, smaller company risk. They also involve the risk of mispricing or improper valuation, the risk of unfavorable or ambiguous documentation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. If the Fund invests in a derivative instrument, it could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial. The Fund s use of derivatives also may increase the amount and affect the character and/or timing of taxes payable by Common Shareholders.

Counterparty risk

The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts and other instruments entered into by the Fund or held by special purpose or structured vehicles in which the Fund invests. In the event that the Fund enters into a derivative transaction with a counterparty that subsequently becomes insolvent or becomes the subject of a bankruptcy case, the derivative transaction may be terminated in accordance with its terms and the Fund s ability to realize its rights under the derivative instrument and its ability to distribute the proceeds could be adversely affected. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery (including recovery of any collateral it has provided to the counterparty) in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If the Fund is owed this fair market value in the termination of the derivative transaction and its claim is unsecured, the Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to any underlying security or asset. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

Equity securities and related market risk

The Fund may own and hold common stocks in its portfolio from time to time in connection with a corporate action or the restructuring of a debt instrument or through the conversion of a convertible or preferred security held by the

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Fund. However, under normal circumstances, common stocks may not represent more than 20% of the Fund s total assets. [The Fund may invest in other equity securities and related derivative instruments.] The market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. See Principal risks of the Fund Issuer Risk. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater price volatility than bonds and other debt securities.

Preferred securities risk

In addition to equity securities risk (see Principal risks of the Fund Equity Securities and Related Market Risk), credit risk (see Principal risks of the Fund Credit Risk) and possibly high yield risk (see Principal risks of the Fund High Yield Risk), investment in preferred securities involves certain other risks. Certain preferred securities contain provisions that allow an issuer under certain conditions to skip or defer distributions. If the Fund owns a preferred security that is deferring its distribution, the Fund may be required to include the amount of the deferred distribution in its taxable income for tax purposes despite the fact that it does not currently receive such amount. In order to receive the special treatment accorded to RICs and their shareholders under the Code and to avoid U.S. federal income and/or excise taxes at the Fund level, the Fund may be required to distribute this income to shareholders in the tax year in which the income is recognized (without a corresponding receipt of cash). Therefore, the Fund may be required to pay out as an income distribution in any such tax year an amount greater than the total amount of cash income the Fund actually received, and to sell portfolio securities, including at potentially disadvantageous times or prices, to obtain cash needed for these income distributions. Preferred securities often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer s call. In the event of redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities are subordinated to bonds and other debt securities in an issuer s capital structure in terms of priority for corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt securities. Preferred securities may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than many other securities, such as common stocks, corporate debt securities and U.S. Government securities.

Smaller company risk

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

Confidential information access risk

In managing the Fund, PIMCO may from time to time have the opportunity to receive material, non-public information (Confidential Information) about the issuers of certain investments, including, without limitation, senior floating rate loans, other bank loans and related investments being considered for acquisition by the Fund or held in the Fund s portfolio. For example, a bank issuer of privately placed senior floating rate loans considered by the Fund may offer to provide PIMCO with financial information and related documentation regarding the bank issuer that is not publicly available. Pursuant to applicable policies and procedures, PIMCO may (but is not required to) seek to avoid receipt of Confidential Information from the issuer so as to avoid possible restrictions on its ability to purchase and sell investments on behalf of the Fund and other clients to which such Confidential Information relates (*e.g.*, other securities issued by the bank used in the example above). In such circumstances, the Fund (and other PIMCO clients) may be disadvantaged in comparison to other investors, including with respect to the price the Fund pays or receives when it buys or sells an investment. Further, PIMCO s and the Fund s abilities to assess the desirability of proposed consents, waivers or amendments with respect to certain investments may be compromised if they are not privy to available Confidential Information. PIMCO may also determine to receive such Confidential Information in certain circumstances under its applicable policies and procedures. If PIMCO intentionally or unintentionally comes into possession of Confidential Information, it may be unable, potentially for a substantial period of time, to purchase or sell investments to which such Confidential Information relates.

Short sale risk

The Fund may use short sales to the extent that short positions do not represent more than 25% of the Fund s total assets. The Fund may use short sales for investment and risk management purposes, including when PIMCO anticipates that the market price of securities will decline or will underperform relative to other securities held in the Fund s portfolio. Short sales are transactions in which the Fund sells a security or other instrument (such as an option, forward, futures or other derivative contract) that it does not own. Short exposure with respect to securities or market segments may also be achieved through the use of derivative instruments, such as futures or swaps on indices or on individual securities. When the Fund engages in a short sale on a security or other instrument, it must, to the extent required by law, borrow the security or other instrument sold short and deliver it to the counterparty. The Fund will ordinarily have to pay a fee or premium to borrow particular securities and be obligated to repay the lender of the security any dividends or interest that accrue on the security during the period of the loan. The amount of any gain from a short sale will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the Fund pays in connection with the short sale. 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, to the extent permitted by law, engage in short sales where it does not own or have the right to acquire the security (or basket of securities) sold short at no additional cost. The Fund s loss on a short sale could theoretically be unlimited in a case in which the Fund is unable, for whatever reason, to close out its short position. The use by the Fund of short sales in combination with long positions in its portfolio in an attempt to improve performance may not be successful and may result in greater losses or lower positive returns than if the Fund held only long positions. It is possible that the Fund s long positions will decline in value at the same time that the value of the securities underlying its short positions increase, thereby increasing potential losses to the Fund. In addition, the Fund s short selling strategies, if any, may limit its ability to fully benefit from increases in the relevant securities markets. Short selling also involves a form of financial leverage that may exaggerate any losses realized by the Fund. See Principal risks of the Fund Leverage Risk. Also, there is the risk that the counterparty to a short sale may fail to honor its contractual terms, causing a loss to the Fund. See Principal risks of the Fund Counterparty Risk. To the extent the Fund seeks to obtain some or all of its short exposure by using derivative instruments instead of engaging directly in short sales on individual securities, it will be subject to many of the foregoing risks, as well as to those described under Principal risks of the Fund Derivatives Risk.

Other investment companies risk

The Fund may invest in securities of other open- or closed-end investment companies, including without limitation ETFs, to the extent that such investments are consistent with the Fund s investment objectives and policies and permissible under the 1940 Act. As a shareholder in an investment company, the Fund will bear its ratable share of that investment company s expenses, and would remain subject to payment of the Fund s investment management fees with respect to the assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, these other investment companies may utilize leverage, in which case an investment would subject the Fund to additional risks associated with leverage. See Principal risks of the Fund Leverage Risk.

Private placements risk

A private placement involves the sale of securities that have not been registered under the Securities Act, or relevant provisions of applicable non-U.S. law, to certain institutional and qualified individual purchasers, such as the Fund. In addition to the general risks to which all securities are subject, securities received in a private placement generally are subject to strict restrictions on resale, and there may be no liquid secondary market or ready purchaser for such securities. See Principal risks of the Fund Liquidity Risk. Therefore, the Fund may be unable to dispose of such securities when it desires to do so, or at the most favorable time or price. Private placements may also raise valuation risks. See Principal risks of the Fund Valuation Risk.

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Inflation/deflation risk

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

Risk of regulatory changes

To the extent that legislation or national or sub-national bank or other regulators in the U.S. or relevant foreign jurisdiction impose additional requirements or restrictions on the ability of certain financial institutions to make loans, particularly in connection with highly leveraged transactions, the availability of investments sought after by the Fund may be reduced. Further, such legislation or regulation could depress the market value of investments held by the Fund. Additionally, legislative, regulatory or tax developments may affect the investment techniques available to PIMCO and the portfolio manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment objectives.

On July 21, 2010, the President signed into law major financial services reform legislation in the form of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act, among other things, grants regulatory authorities, such as the Commodity Futures Trading Commission (the CFTC) and the Securities and Exchange Commission (SEC), broad rulemaking authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the over-the-counter derivatives market. It is unclear how these regulators will exercise these revised and expanded powers and whether they will undertake rulemaking, supervisory or enforcement actions (in addition to those that have been proposed or taken thus far) that would adversely affect the Fund or investments made by the Fund. Possible regulatory actions taken under these revised and expanded powers may include actions related to, among others, financial consumer protection, proprietary trading and derivatives. There can be no assurance that future regulatory actions authorized by the Dodd-Frank Act will not adversely affect the Fund s performance and/or yield, perhaps to a significant extent. For example, the implementation of the Dodd-Frank Act could adversely affect the Fund by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny may increase the Fund s and the Investment Manager s or Sub-Adviser s exposure to potential liabilities or restrictions. Increased regulatory oversight can also impose administrative burdens on the Fund and the Investment Manager or Sub-Adviser including, without limitation, making them subject to examinations or investigations and requiring them to implement new policies and procedures.

Regulatory risk commodity pool operator

The Fund has claimed an exclusion from the definition of the term commodity pool operator under the Commodity Exchange Act (CEA) pursuant to Rule 4.5 under the CEA promulgated by the CFTC. The Fund currently is not, therefore, subject to registration or regulation as a commodity pool operator under the CEA and the Fund intends to be operated so as not to be deemed to be a commodity pool under the regulations of the CFTC under current law. The CFTC has adopted amendments to its rules that may affect the ability of the Fund to continue to claim this exclusion. The Fund could be limited in its ability to use futures or options on futures or engage in swaps transactions if it continued to claim the exclusion. If the Fund did not continue to claim the exclusion, the Fund believes that the Investment Manager and/or Sub-Adviser would likely become subject to registration and regulation as a commodity pool operator with respect to the Fund. The Fund may incur additional expenses as a result of the CFTC s registration and regulatory requirements. The effect of the rule changes on the operations of the Fund and the Investment Manager and/or Sub-Adviser is not fully known at this time. The Fund and the Investment Manager and/or Sub-Adviser are continuing to analyze the effect of these rule changes on the Fund.

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Tax risk

The Fund has elected to be treated as a regulated investment company under the Code and intends each year to qualify and be eligible to be treated as such. If the Fund qualifies as a regulated investment company, it generally will not be subject to U.S. federal income tax on its net investment income or net short-term or long-term capital gains, distributed (or deemed distributed, as described below) to shareholders, provided that, for each taxable year, the Fund distributes (or is treated as distributing) to its shareholders an amount equal to or exceeding 90% of its investment company taxable income as that term is defined in the Code (which includes, among other things, dividends, taxable interest and the excess of any net short-term capital gains over net long-term capital losses, as reduced by certain deductible expenses). The Fund intends to distribute all or substantially all of its investment company taxable income and net capital gain each year. In order for the Fund to qualify as a regulated investment company in any taxable year, the Fund must meet certain asset diversification tests and at least 90% of its gross income for such year must be certain types of qualifying income. Foreign currency gains will generally be treated as qualifying income for purposes of the 90% gross income requirement. However, the U.S. Treasury Department has authority to issue regulations in the future that could treat some or all of the Fund s foreign currency gains as non-qualifying income, thereby jeopardizing the Fund s status as a regulated investment company for all years to which the regulations are applicable. Income derived from some commodity-linked derivatives is not qualifying income, and the treatment of income from some other commodity-linked derivatives is uncertain, for purposes of the 90% gross income test. If for any taxable year the Fund were to fail to meet the income or diversification test described above, the Fund could in some cases cure such failure, including by paying a fund-level tax and, in the case of a diversification test failure, disposing of certain assets. If the Fund were ineligible to or otherwise did not cure such failure for any year, or were otherwise to fail to qualify as a regulated investment company accorded special tax treatment in any taxable year, it would be treated as a corporation subject to U.S. federal income tax, thereby subjecting any income earned by the Fund to tax at the corporate level (currently at a 35% U.S. federal tax rate) and, when such income is distributed, to a further tax at the shareholder level to the extent of the Fund s current or accumulated earnings and profits.

Recent economic conditions risk

The debt and equity capital markets in the United States and in foreign countries have been negatively affected by significant write-offs in the banking and financial services sectors relating to subprime mortgages and the re-pricing of credit risk in the broadly syndicated market, among other things. These events, along with the deterioration of housing markets, the failure of banking and other major financial institutions and resulting governmental actions have led to worsening general economic conditions, which have materially and adversely affected the broader financial and credit markets and have reduced the availability of debt and equity capital for the market as a whole and financial firms in particular. These developments may increase the volatility of the value of securities owned by the Fund, and also may make it more difficult for the Fund to accurately value securities or to sell securities on a timely basis. These developments have adversely affected the broader global economy, and may continue to do so, which in turn may adversely affect the ability of issuers of securities owned by the Fund to make payments of principal and interest when due, lead to lower credit ratings and increase the rate of defaults. Such developments could, in turn, reduce the value of securities owned by the Fund and adversely affect the net asset value and/or market value of the Fund s common shares. In addition, the prolonged continuation or further deterioration of current market conditions could adversely affect the Fund s portfolio.

The above-noted instability in the financial markets discussed above has led the U.S. and certain foreign governments to take a number of unprecedented actions designed to support certain banking and other financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state and other governments and their regulatory agencies or self-regulatory organizations may take actions that affect the regulation of the instruments in which the Fund invests, or the issuers of such instruments, in ways that are unforeseeable or not fully understood or anticipated. See Principal risks of the Fund Risk of Regulatory Changes.

The implications of government ownership and disposition of these assets are unclear, and such programs may have positive or negative effects on the liquidity, valuation and performance of the Fund s portfolio holdings and the value of the Fund s common shares. Governments or their agencies have and may in the future acquire distressed assets from financial institutions and acquire ownership interests in those institutions.

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U.S. legislation or regulation may also change the way in which the Fund itself is regulated. Such legislation or regulation could limit or preclude the Fund s ability to achieve its investment objectives. See Principal risks of the Fund Risk of Regulatory Changes.

Market disruption and geopolitical risk

The wars with Iraq and Afghanistan and similar conflicts and geopolitical developments, their aftermath and substantial military presence in Afghanistan are likely to have a substantial effect on the U.S. and world economies and securities markets. The nature, scope and duration of the wars and the potential costs of rebuilding infrastructure cannot be predicted with any certainty. Terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 closed some of the U.S. securities markets for a four-day period and similar future events cannot be ruled out. The war and occupation, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Likewise, natural and environmental disasters, such as the earthquake and tsunami in Japan in early 2011, and systemic market dislocations of the kind surrounding the insolvency of Lehman Brothers in 2008, if repeated, could be highly disruptive to economies and markets. Those events, as well as other changes in foreign and domestic economic and political conditions also could have an acute effect on individual issuers or related groups of issuers. These risks also could adversely affect individual issuers and securities markets, interest rates, secondary trading, ratings, credit risk, inflation, deflation and other factors relating to the Fund s investments and the market value and net asset value of the Fund s common shares.

Potential conflicts of interest risk allocation of investment opportunities

The Investment Manager and the Sub-Adviser are involved worldwide with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Fund. The Investment Manager and the Sub-Adviser may provide investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Fund. Subject to the requirements of the 1940 Act, the Investment Manager and the Sub-Adviser intend to engage in such activities and may receive compensation from third parties for their services. The results of the Fund s investment activities may differ from those of the Fund s affiliates, or another account managed by the Fund s affiliates, and it is possible that the Fund could sustain losses during periods in which one or more of the Fund s affiliates or and other accounts achieve profits on their trading for proprietary or other accounts.

Certain affiliations

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

Anti-takeover provisions

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

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Summary of Fund expenses

The following table is intended to assist investors in understanding the fees and expenses (annualized) that an investor in common shares of the Fund would bear, directly or indirectly, as a result of the Offer being fully subscribed and the receipt of net proceeds from the Offer of approximately $[ ] million. If the Fund issues fewer Shares in the Offer and the net proceeds to the Fund are less, all other things being equal, the total annual expenses shown would increase. The table assumes the use of leverage attributable to reverse repurchase agreements following the Offer in an amount equal to [ ]% of the Fund s total assets (taking into account amounts attributable to such reverse repurchase agreements), which reflects approximately the percentage of the Fund s total assets attributable to such leverage as of [ ], 2012. The extent of the Fund s assets attributable to leverage following the Offer, and the Fund s associated expenses, are likely to vary (perhaps significantly) from these assumptions.

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

	Percentage of Net Assets Attributable to Common Shares
Annual Expenses	
Management fees(4)	[ ] %
Interest expense on borrowed funds(5)	[ ] %
Other expenses(6)	[ ] %
Total annual expenses	[ ] %

(1) The Dealer Manager will receive a fee for its financial structuring and soliciting services equal to [ ]% of the aggregate Subscription Price for Shares issued pursuant to the Offer. The Dealer Manager will reallow to broker-dealers in the selling group to be formed and managed by the Dealer Manager selling fees equal to [ ]% of the Subscription Price per Share for each Share issued pursuant to the Offer as a result of their selling efforts. In addition, the Dealer Manager will reallow to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights solicitation fees equal to [ ]% of the Subscription Price per Share for each Share issued pursuant to the exercise of Rights as a result of their soliciting efforts, subject to a maximum fee based on the number of Shares held by each broker-dealer through The Depository Trust Company (DTC) on the Record Date.

(2) The fees and expenses of the Offer will be borne by the Fund and indirectly by all of its Common Shareholders, including those who do not exercise their Rights.

(3) You will pay brokerage charges if you direct your broker or the plan agent to sell your common shares that you acquired pursuant to a dividend reinvestment plan. You may also pay a pro rata share of brokerage commissions incurred in connection with open-market purchases pursuant to the Fund s Dividend Reinvestment Plan. See Dividend reinvestment plan.

(4) Management fees are charged to the Fund on the basis of total managed assets, but have been converted to a percentage of net assets attributable to common shares of the Fund for purposes of the presentation in the table above as follows: management fees, assuming no leverage attributable to reverse repurchase agreements or other borrowings, divided by one minus the percentage of the Fund s total assets estimated to be attributable to reverse repurchase agreements and other borrowings following the Offer ([ ]% of the Fund s total assets, based on amounts of leverage outstanding as of [ ], 2012).

(5) Assumes the use of leverage in the form of reverse repurchase agreements representing [ ]% of the Fund s total assets following the Offer (including the amounts of leverage obtained through the use of such instruments) at an annual interest rate cost to the Fund of [ ]%, which is based on current market conditions. See Use of leverage Effects of Leverage. The actual amount of interest expense borne by the Fund will vary over time in accordance with the level of the Fund s use of reverse repurchase agreements and/or other borrowings and variations in market interest rates. Interest expense is required to be treated as an expense of the Fund for accounting purposes. Any associated income or gains (or losses) realized from leverage obtained through such instruments is not reflected in the Annual Expenses table above, but would be reflected in the Fund s performance results.

(6) Other expenses are estimated for the Fund s current fiscal year ending December 31, 2012.

EXAMPLE

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

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Shareholders of $[ ]), assuming (1) that the Fund s net assets following the Offer (taking into account the additional assets raised through the issuance of Shares in the Offer) do not increase or decrease, (2) that the Fund incurs total annual expenses of [ ]% of net assets attributable to common shares in years 1 through 10 (assuming reverse repurchase agreements utilized equal to [ ]% of the Fund s total assets) and (3) a 5% annual return(1):

	1 Year	3 Years	5 Years	10 Years
Total Expenses Incurred	$ [ ]	$ [ ]	$ [ ]	$ [ ]

(1) **The example above should not be considered a representation of future expenses. Actual expenses may be higher or lower than those shown.** The example assumes that the estimated Interest expenses on borrowed funds and Other expenses set forth in the Annual Expenses table are accurate, that the rate listed under Total annual expenses remains the same each year 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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Financial Highlights

[To be updated by amendment.] [The information in the table below for the fiscal years ended December 31, 2011, 2010, 2009, 2008 and 2007 is derived from the Fund s financial statements for the fiscal year ended December 31, 2011 audited by [ ], whose report on such financial statements is contained in the Fund s December 31, 2011 Annual Report and is incorporated by reference into the Statement of Additional Information. The information in the table below for the fiscal years ended December 31, 2006, 2005, 2004, 2003 and 2002 is derived from the Fund s financial statements for the fiscal year ended December 31, 2006 audited by [ ], whose report on such financial statements is contained in the Fund s December 31, 2006 Annual Report and is incorporated by reference into the Statement of Additional Information.]

	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Net asset value, beginning of period	$ 9.88	$ 7.73	$ 5.77	$ 11.28	$ 11.85
Investment Operations:					
Net investment income	1.13	1.12	0.81	0.48[1]	0.80[1]
Net realized and unrealized gain (loss) on investments, futures contracts, options written, swaps, unfunded loan commitments, securities sold short and foreign currency transactions	(0.47)	2.29	2.18	(4.84)	(0.48)
Total from investment operations	0.66	3.41	2.99	(4.36)	0.32
Dividends and Distributions to Shareholders from:					
Net investment income	(1.06)	(1.26)	(1.03)	(1.15)	(0.89)
Capital Share Transactions:					
Net asset value, end of period	$ 9.48	$ 9.88	$ 7.73	$ 5.77	$ 11.28
Market price, end of period	$ 10.77	$ 10.80	$ 7.93	$ 6.13	$ 10.25
Total Investment Return[2]	10.43%	54.01%	52.01%	(30.79)%	(23.17)%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000s)	$ 108,810	$ 113,020	$ 88,290	$ 65,572	$ 128,092
Ratio of expenses to average net assets, including interest expense[3]	2.44%	2.41%	2.67%	4.22%	4.03%
Ratio of expenses to average net assets, excluding interest expense	1.75%	1.75%	1.71%	1.67%	1.08%
Ratio of net investment income to average net assets	11.30%	11.91%	12.86%	5.24%	6.94%
Portfolio turnover	26%	28%	57%	23%	17%

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	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Net asset value, beginning of period	$ 11.94	$ 12.49	$ 12.53	$ 12.80	$ 12.85
Investment Operations:					
Net investment income[4]	0.90	0.98	1.01	1.09	1.22
Net realized and unrealized gain (loss) on investments, futures contracts, options written, swaps, unfunded loan commitments, securities sold short and foreign currency transactions	0.14	(0.40)	0.08	(0.23)	0.14
Total from investment operations	1.04	0.58	1.09	0.86	1.36
Dividends and Distributions to Shareholders from:					
Net investment income	(1.13)	(1.13)	(1.13)	(1.13)	(1.41)
Capital Share Transactions:					
Net asset value, end of period	$ 11.85	$ 11.94	$ 12.49	$ 12.53	$ 12.80
Market price, end of period	$ 14.40	$ 14.03	$ 13.17	$ 14.53	$ 14.32
Total Investment Return[2]	11.17%	15.40%	(1.62)%	9.76%	11.59%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000s)	$ 134,259	$ 134,792	$ 140,267	$ 139,891	$ 142,063
Ratio of expenses to average net assets, including interest expense[3]	3.69%	2.77%	1.75%	1.52%	1.94%
Ratio of expenses to average net assets, excluding interest expense	1.03%	1.07%	1.00%	1.05%	1.08%
Ratio of net investment income to average net assets	7.64%	8.00%	8.09%	8.62%	9.34%
Portfolio turnover	21%	8%	24%	40%	42%

(1) Calculated on average of shares outstanding.

(2) Total investment return is calculated assuming a purchase of common stock at the current market price on the first day and a sale of share of common stock at the current market price on the last day of each year reported. Dividends are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund s dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.

(3) Interest expense relates primarily to investments in reverse repurchase agreement transactions.

(4) Per share amounts based on average number of shares outstanding during the period.

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The Offer

PURPOSE OF THE OFFER

The Board, the Investment Manager and PIMCO have determined that it would be in the best interests of the Fund and its shareholders to increase the assets of the Fund, in order to more fully take advantage of current and prospective investment opportunities that may enable the Fund to increase the overall investment yield and return on its investments and would result in greater portfolio diversification with respect to sector, industry and issuer concentrations. The Board, the Investment Manager and the Sub-Adviser believe the current market environment of ongoing deleveraging by global financial institutions continues to create opportunities for the Fund to deploy additional capital across the structured, corporate and municipal credit sectors. In addition, the impaired liquidity in structured credit markets has resulted in an opportunity for the Fund to capture the additional liquidity premium that is currently priced into many structured credit sectors. The Offer is expected to provide shareholders an opportunity to take advantage of such investments, which could result in potentially higher earnings per share, increased portfolio diversification and, over time, a greater potential for price appreciation.

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

IMPORTANT TERMS OF THE OFFER

The Fund is issuing transferable rights (Rights) to its Common Shareholders of record (Record Date Shareholders) as of 5:00 p.m., Eastern time, on [ ], 2012 (the Record Date), entitling the holders of those Rights to subscribe for up to an aggregate of [ ] of the Fund s common shares (the Shares) (the Offer). Record Date Shareholders will receive one Right for each outstanding whole common share of the Fund held on the Record Date. The Rights entitle their holders to purchase one Share for every [ ] Rights held ([ ]-for-[ ]). Fractional Shares will not be issued upon the exercise of Rights; accordingly, Rights may be exercised only in integer multiples of [ ], except that any Record Date Shareholder who is issued fewer than [ ] Rights may subscribe, at the Subscription Price (as defined below), for one full Share. Assuming the exercise of all Rights, the Offer will result in an approximately [ ]% increase in the Fund s common shares outstanding.

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

The subscription period commences on [ ], 2012 and ends at 5:00 p.m., Eastern time, on [ ], 2012, unless otherwise extended (the Expiration Date).

The Fund expects to declare a monthly common share dividend in [ ], 2012. Such dividend will not be payable with respect to Shares that are issued pursuant to the Offer after the record date for such dividend.

The Fund will bear the expenses of the Offer and all such expenses will be borne indirectly by the Fund s Common Shareholders, including those who do not exercise their Rights. These expenses include, but are not limited to, the dealer manager fee and the reimbursement of dealer manager expenses, the expenses of preparing, printing and mailing the prospectus and Rights subscription materials for the Offer and the expenses of Fund counsel and the Fund s independent registered public accounting firm in connection with the Offer.

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

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

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

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

IMPORTANT DATES TO REMEMBER

Record Date:	[ ], 2012
Subscription Period:	[ ], 2012 to [ ] 2012*
Final Date Rights Will Trade on NYSE:	[ ], 2012*
Expiration Date and Pricing Date:	[ ], 2012*
Payment for Shares Due or Notice of Guarantees of Delivery Due:	[ ], 2012*
Payment for Guarantees of Delivery Due:	[ ], 2012*
Confirmation Mailed to Participants:	[ ], 2012*
Final Payment for Shares Due:	[ ], 2012*

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

SUBSCRIPTION PRICE

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

Because the Expiration Date of the subscription period will be [ ], 2012 (unless the subscription period is extended), Rights holders may not know the Subscription Price at the time of exercise and will be required initially to pay for both the Shares subscribed for pursuant to the primary subscription and, if eligible, any additional Shares subscribed for pursuant to the over-subscription privilege at the estimated Subscription Price of $[ ] per Share. See Payment for Shares. A Rights holder will have no right to rescind his subscription after the Subscription Agent has received a completed subscription certificate together with payment for the Shares subscribed for, except as provided under Notice of Net Asset Value Decline. The Fund does not have the right to withdraw the Rights or to cancel the Offer after the Rights have been distributed.

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The net asset value per share of the Fund s common shares at the close of business on [ ], 2012 (the last trading date prior to the date of this prospectus on which the Fund determined its net asset value) was $[ ], and the last reported sale price of a common share on the NYSE on that day was $[ ].

OVER-SUBSCRIPTION PRIVILEGE

Record Date Shareholders who exercise all the Rights issued to them (other than those Rights that cannot be exercised because they represent the right to acquire less than one Share) are entitled to subscribe for additional Shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment. If sufficient remaining Shares are available following the primary subscription, all Record Date Shareholders over-subscription requests will be honored in full. Investors who are not Record Date Shareholders, but who otherwise acquire Rights pursuant to the Offer, are not entitled to subscribe for any Shares pursuant to the over-subscription privilege. If sufficient Shares are not available to honor all over-subscription requests, unsubscribed Shares will be allocated pro rata among those Record Date Shareholders who over-subscribe based on the number of common shares of the Fund they owned on the Record Date. The allocation process may involve a series of allocations in order to ensure that the total number of Shares available for over-subscriptions is distributed on a pro rata basis.

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

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

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

[The Fund has been advised that one or more of the [Directors of the Fund and one or more of the officers or employees of the Investment Manager and the Sub-Adviser] may exercise all of the Rights initially issued to them and may request additional Shares pursuant to the over-subscription privilege.] An exercise of the over-subscription privilege by such persons will increase their proportionate voting power and share of the Fund s assets.

SALE AND TRANSFERABILITY OF RIGHTS

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

Sales through the Subscription Agent and the Dealer Manager

Record Date Shareholders who do not wish to exercise any of the Rights issued to them pursuant to the Offer may instruct the Subscription Agent to sell any unexercised Rights through or to the Dealer Manager. Subscription certificates representing the Rights to be sold through or to the Dealer Manager must be received by the Subscription Agent by 5:00 p.m., Eastern time, on [ ], 2012 (or, if the subscription period is extended, by 5:00 p.m., Eastern time, on the second business day prior to the extended Expiration Date). Upon the timely receipt by the Subscription Agent of appropriate instructions to sell Rights, the Subscription Agent will ask the Dealer Manager either to purchase them or to use its best efforts to complete their sale, and the Subscription Agent will remit the proceeds of the sale to the selling Rights holder. If the Rights are sold, sales of those Rights will be deemed to have been effected at the weighted average price received by the Dealer Manager on the day those Rights are sold. The sale price of any Rights sold to the Dealer Manager will be based upon the then-current market price for the Rights. The Dealer Manager will also attempt to sell all Rights that remain unclaimed as a result of subscription certificates being returned by the postal authorities to the Subscription Agent as undeliverable as of the fourth business day prior to the Expiration Date. The Subscription Agent will hold the proceeds from those sales for the benefit of those non-claiming Common Shareholders until the proceeds are either claimed or revert to the state of Maryland. There can be no assurance that the Dealer Manager will purchase or be able to complete the sale of any Rights, and neither the Fund nor the Dealer Manager have guaranteed any minimum sale price for the Rights. If a Record Date Shareholder does not utilize the services of the Subscription Agent and chooses to use another broker-dealer or other financial institution to sell Rights issued to that shareholder pursuant to the Offer, then the other broker-dealer or financial institution may charge a fee to sell the Rights.

Other transfers

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

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

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

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

METHOD FOR EXERCISING RIGHTS

Rights are evidenced by subscription certificates that will be mailed to Record Date Shareholders (except as described below under Requirements for Foreign Shareholders) or, if their common shares are held by [ ] or any other depository or nominee on their behalf, to [ ] or such other depository or nominee. Rights may be exercised by completing and signing the subscription certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed subscription certificate to the Subscription Agent, together with payment in full of the estimated Subscription Price for the Shares subscribed for by the Expiration Date as described under Payment For Shares. Rights may also be exercised by contacting your broker, banker, trust company or other intermediary, which can arrange, on your behalf, to guarantee delivery of payment and of a properly completed and executed subscription certificate pursuant to a notice of guaranteed delivery by the close of business on the third business day after the Expiration Date. A fee may be charged for this service. Completed subscription certificates and payments must be received by the Subscription Agent by 5:00 p.m., Eastern time, on the Expiration Date (unless delivery of subscription certificate and payment is effected by means of a notice of guaranteed delivery as described below under Payment for Shares) at the offices of the Subscription Agent at one of the addresses set forth below under Subscription Agent. Fractional Shares will not be issued upon exercise of Rights.

Shareholders who are record owners

Shareholders who are record owners of common shares can choose between either option set forth under Payment For Shares. If time is of the essence, option (2) will permit delivery of the subscription certificate and payment after the Expiration Date.

Investors whose common shares are held by a nominee

Investors whose common shares are held by a nominee, such as a bank, broker, trustee or other intermediary, must contact that nominee to exercise their Rights. In that case, the nominee will complete the subscription certificate on behalf of the investor and arrange for proper payment by one of the methods set forth below under Payment For Shares.

Nominees

Nominees, such as banks, brokers, trustees or depositories for securities, who hold common shares of the Fund for the account of others should notify the respective beneficial owners of such common shares as soon as possible to ascertain those beneficial owners intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the nominee should complete the subscription certificate and submit it to the Subscription Agent with the proper payment as described under Payment For Shares.

Banks, brokers, trustees and other nominee holders of Rights will be required to certify to the Subscription Agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner who is a Record Date Shareholder, as to the aggregate number of Rights exercised during the subscription period and the number of Shares subscribed for pursuant to the over-subscription privilege by the beneficial owner, and that the beneficial owner exercised all the Rights issued to it pursuant to the Offer.

REQUIREMENTS FOR FOREIGN SHAREHOLDERS

Subscription certificates will not be mailed to Record Date Shareholders whose addresses are outside the United States (for these purposes, the United States includes the District of Columbia and the territories and possessions of the United States) (Foreign Shareholders). The Subscription Agent will send a letter via regular mail to Foreign Shareholders to notify them of the Offer. The Rights of Foreign Shareholders will be held by the Subscription Agent for their accounts until instructions are received to exercise the Rights. If instructions have not been received by 5:00 p.m., Eastern time, on [ ], 2012, three business days prior to the Expiration Date (or, if the subscription period is extended, on or before the third business day prior to the extended Expiration Date), the Rights of Foreign Shareholders will be transferred by the Subscription Agent to the Dealer Manager, who will either purchase the Rights or use its best efforts to sell the Rights. The net proceeds, if any, from the sale of those Rights by or to the Dealer Manager will be remitted to those Foreign Shareholders.

DISTRIBUTION ARRANGEMENTS

[ ] will act as Dealer Manager for this Offer. Under the terms and subject to the conditions contained in the Dealer Manager Agreement among the Dealer Manager, the Fund and the Investment Manager, the Dealer Manager will provide financial structuring services in connection with the Offer and will solicit the exercise of Rights and participation in the over-subscription privilege. The Fund has agreed to pay the Dealer Manager a fee for its financial structuring and soliciting services equal to [ ]% of the aggregate Subscription Price for the Shares issued pursuant to the exercise of Rights and the over-subscription privilege. The fees paid to the Dealer Manager and other expenses of the Offer will be borne by the Fund and indirectly by all of its Common Shareholders, including those who do not exercise their Rights.

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The Dealer Manager will reallow a portion of its fees to other broker-dealers who have assisted in soliciting the exercise of Rights. The Dealer Manager will reallow to broker-dealers included in the selling group to be formed and managed by the Dealer Manager selling fees equal to [ ]% of the Subscription Price per share for each Share issued pursuant to the Offer as a result of their selling efforts.

In addition, the Dealer Manager will reallow to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights solicitation fees equal to [ ]% of the Subscription Price per Share for each Share issued pursuant to exercise of Rights as a result of their soliciting efforts, subject to a maximum fee based on the number of Shares held by each broker-dealer through DTC on the Record Date. Fees will be paid to the broker-dealer designated on the applicable portion of each subscription certificate or, in the absence of such designation, to the Dealer Manager.

[In addition to the fees noted above, the Fund also has agreed to reimburse the Dealer Manager for its reasonable expenses incurred in connection with its activities under the Dealer Manager Agreement in an amount up to [ ].]

[The Fund and the Investment Manager have each agreed to indemnify the Dealer Manager for losses arising out of certain liabilities, including liabilities under the Securities Act. The Dealer Manager Agreement also provides that the Dealer Manager will not be subject to any liability to the Fund in rendering the services contemplated by the Dealer Manager Agreement except for any act of bad faith, willful misconduct or gross negligence of the Dealer Manager or reckless disregard by the Dealer Manager of its obligations and duties under the Dealer Manager Agreement.]

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

In the ordinary course of their businesses, the Dealer Manager and/or its affiliates may engage in investment banking or financial transactions with the Fund, the Investment Manager, the Sub-Adviser and their affiliates.

The principal business address of [ ] is [ ].

SUBSCRIPTION AGENT

[ ] is the Subscription Agent for the Offer. The Subscription Agent will receive for its administrative, processing, invoicing and other services a fee estimated to be approximately $[ ], plus reimbursement for all out-of-pocket expenses related to the Offer. The fees and expenses of the Subscription Agent are included in the fees and expenses of the Offer and therefore will be borne by the Fund and indirectly by all Common Shareholders, including those who do not exercise their Rights. Questions regarding the subscription certificates should be directed by mail to [ ]. **Shareholders may also subscribe for the Offer by contacting their broker-dealer, trust company, bank or other nominee.**

Completed subscription certificates must be sent together with proper payment of the estimated Subscription Price for all Shares subscribed for in the primary subscription and the over-subscription privilege (for Record Date Shareholders) to the Subscription Agent by one of the methods described below. Alternatively, Rights holders may arrange for their financial intermediaries to send notices of guaranteed delivery by facsimile to DTC to be received by the Subscription Agent prior to 5:00 p.m., Eastern time, on the Expiration Date. Facsimiles should be confirmed by telephone at DTC. The Fund will accept only properly completed and executed subscription certificates actually received at any of the addresses listed below, prior to 5:00 p.m., Eastern time, on the Expiration Date, or by the close of business on the third business day after the Expiration Date following timely receipt of a notice of guaranteed delivery. See Payment for Shares.

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Subscription Certificate Delivery Method	Address/Number
Notice of Guaranteed Delivery:	Contact your broker-dealer, trust company, bank or other nominee to notify the Fund of your intent to exercise the Rights.
First Class Mail Only (No Express Mail or Overnight Courier):	[ ]
Hand:	[ ]
Express Mail or Overnight Courier:	[ ]

The Fund will honor only subscription certificates received by the Subscription Agent prior to 5:00 p.m., Eastern time, on the Expiration Date at one of the addresses listed above. Delivery to an address other than those listed above will not constitute good delivery.

INFORMATION AGENT

The information agent for the Offer is [ ]. If you have questions or need further information about the Offer, please write the Information Agent at [ ] or call [ ]. Any questions or requests for assistance concerning the method of subscribing for Shares or additional copies of this prospectus or subscription certificates should be directed to the Information Agent. Shareholders may also contact their brokers or nominees for information with respect to the Offer.

The Information Agent will receive a fee estimated to be approximately $[ ] for its services, plus reimbursement for all out-of-pocket expenses related to the Offer. The fees and expenses of the Information Agent are included in the fees and expenses of the Offer and therefore will be borne by the Fund and indirectly by all of its Common Shareholders, including those who do not exercise their Rights.

EXPIRATION OF THE OFFER

The Offer will expire at 5:00 p.m., Eastern time, on [ ], 2012, unless the Fund extends the subscription period. Rights will expire on the Expiration Date and may not be exercised after that date. If the Fund extends the subscription period, the Fund will make an announcement as promptly as practicable. This announcement will be issued no later than 9:00 a.m., Eastern time, on the next business day following the previously scheduled Expiration Date. Without limiting the manner in which the Fund may choose to make this announcement, the Fund will not, unless otherwise required by law, have any obligation to publish, advertise or otherwise communicate this announcement other than by making a release to the Dow Jones News Service or any other means of public announcement as the Fund may deem proper.

PAYMENT FOR SHARES

Rights holders who wish to acquire Shares pursuant to the Offer may choose between the following methods of payment:

(1) A Rights holder can send the properly completed and executed subscription certificate together with payment for the Shares subscribed for during the subscription period and, if eligible, for any additional Shares subscribed for pursuant to the over-subscription privilege to the Subscription Agent based upon an estimated Subscription Price of $[ ] per Share. A subscription will be accepted when payment, together with the executed subscription certificate, is received by the Subscription Agent at one of the addresses set forth under Subscription Agent; the payment and the properly completed and executed subscription certificate must be received by the Subscription Agent by 5:00 p.m., Eastern time, on the Expiration Date. The Subscription Agent will deposit all checks received by it for the purchase of Shares into a segregated interest-bearing account of the Fund (the interest from which will belong to the Fund) pending proration and distribution of Shares. A payment pursuant to this method must be in U.S. dollars by money order or check drawn on a bank located in the United States, must be payable to PCM Fund, Inc. and must accompany a properly completed and executed subscription certificate for such subscription to be accepted.

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(2) Alternatively, a subscription will be accepted by the Subscription Agent if, by 5:00 p.m., Eastern time, on the Expiration Date, the Subscription Agent has received a notice of guaranteed delivery by facsimile (telecopy) or otherwise from a bank, a trust company or an NYSE member guaranteeing delivery of (i) payment of the full Subscription Price for the Shares subscribed for during the subscription period and, if eligible, any additional Shares subscribed for pursuant to the over-subscription privilege and (ii) a properly completed and executed subscription certificate. The Subscription Agent will not honor a notice of guaranteed delivery unless a properly completed and executed subscription certificate and full payment for the Shares at the estimated Subscription Price are received by the Subscription Agent by the close of business on the third business day after the Expiration Date.

On the confirmation date, which will be eight business days following the Expiration Date, a confirmation will be sent by the Subscription Agent to each Rights holder exercising its Rights (or, if a Rights holder s common shares are held by DTC or any other depository or nominee, to DTC and/or that other depository or nominee) showing (i) the number of Shares acquired during the subscription period, (ii) the number of Shares, if any, acquired pursuant to the over-subscription privilege, (iii) the per Share and total purchase price for the Shares and (iv) any additional amount payable to the Fund by the Rights holder or any excess to be refunded by the Fund to the Rights holder, in each case based on the Subscription Price as determined on the Expiration Date. Any additional payment required from a Rights holder must be received by the Subscription Agent within ten business days after the confirmation date ([ ], 2012, unless the subscription period is extended). Any excess payment to be refunded by the Fund to a Rights holder will be mailed by the Subscription Agent to such Rights holder as promptly as practicable. All payments by a Rights holder must be in U.S. dollars by money order or check drawn on a bank located in the United States and payable to PCM Fund, Inc.

Whichever of the two methods described above is used, issuance and delivery of the Shares subscribed for are contingent upon actual payment for such Shares. No certificates will be issued or delivered with respect to Shares issued and sold in the Offer.

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

If a Rights holder who acquires Shares during the subscription period or pursuant to the over-subscription privilege (for Record Date Shareholders) does not make payment of any amounts due by the Expiration Date or the date payment is due under a notice of guaranteed delivery, the Fund reserves the right to take any or all of the following actions through all appropriate means: (i) find other Record Date Shareholders for the subscribed and unpaid-for Shares; (ii) apply any payment actually received by the Fund toward the purchase of the greatest whole number of Shares that could be acquired by the Rights holder upon exercise of such Rights acquired during the subscription period or pursuant to the over-subscription privilege; and/or (iii) exercise any and all other rights or remedies to which the Fund may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Shares.

The method of delivery of completed subscription certificates and payment of the Subscription Price to the Subscription Agent will be at the election and risk of exercising Rights holders, but if sent by mail it is recommended that such forms and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment by 5:00 p.m., Eastern time, on the Expiration Date. Because uncertified personal checks may take at least five business days to clear, exercising Rights holders are strongly urged to pay, or arrange for payment, by means of certified or cashier s check or money order.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, which determinations will be final and binding. The Fund, in its sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until substantially all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. The Fund will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription certificates or incur any liability for failure to give such notification.

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NOTICE OF NET ASSET VALUE DECLINE

The Fund has, pursuant to the SEC s regulatory requirements, undertaken to suspend the Offer until the Fund amends this prospectus if, after [ ], 2012, the effective date of the Fund s Registration Statement, the Fund s net asset value declines more than 10% from the Fund s net asset value as of that date. In that event, the Expiration Date will be extended and the Fund will notify Record Date Shareholders of any such decline and permit Rights holders to cancel their exercise of Rights.

DELIVERY OF SHARES

Participants in the Fund s dividend reinvestment plan (the Plan) will have any Shares acquired pursuant to the Offer credited to their shareholder dividend reinvestment accounts in the Plan. Common Shareholders whose shares are held of record by DTC or by any other depository or nominee on their behalf or their broker-dealers behalf will have any Shares acquired during the subscription period credited to the account of DTC or other depository or nominee. No certificates will be issued or delivered with respect to Shares issued and sold in the Offer.

U.S. FEDERAL INCOME TAX CONSEQUENCES

[To be updated by amendment.] [The following is a general summary of the material U.S. federal income tax consequences of the Offer under the provisions of the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations promulgated thereunder (Treasury regulations), and other applicable authorities in effect as of the date of this prospectus that are generally applicable to Record Date Shareholders and other Rights holders who are United States persons within the meaning of the Code, and does not address any foreign, state, local or other tax consequences. These authorities may be changed, possibly with retroactive effect, or subject to new legislative, administrative or judicial action. Record Date Shareholders and other Rights holders should consult their tax advisors regarding the tax consequences, including U.S. federal, state, local, foreign or other tax consequences, relevant to their particular circumstances.

The Fund believes that the value of a Right will not be includible in the income of a Record Date Shareholder at the time the Right is issued, and the Fund will not report to the Internal Revenue Service (IRS) that a Record Date Shareholder has income as a result of the issuance of the Right; however, there is no guidance directly on point concerning certain aspects of the Offer. The remainder of this discussion assumes that the receipt of the Rights by Record Date Shareholders will not be a taxable event for U.S. federal income tax purposes.

The basis of a Right issued to a Record Date Shareholder will be zero, and the basis of the common share with respect to which the Right was issued (the Old Share) will remain unchanged, except that the Record Date Shareholder must allocate the basis of the Old Share and the Right in proportion to their respective fair market values on the date of distribution if (i) either (a) the fair market value of the Right on the date of distribution is at least 15% of the fair market value of the Old Share on that date, or (b) the Record Date Shareholder affirmatively elects (in the manner set out in Treasury regulations) to allocate to the Right a portion of the basis of the Old Share and (ii) the Right does not expire unexercised in the hands of the Record Date Shareholder (*i.e.*, the Record Date Shareholder either exercises or sells the Right following its issuance).

No loss will be recognized by a Record Date Shareholder if a Right distributed to such Record Date Shareholder expires unexercised in the hands of such Record Date Shareholder.

The basis of a Right purchased in the market will generally be its purchase price. If a Right that has been purchased in the market expires unexercised, the holder will recognize a loss equal to the basis of the Right.

Any gain or loss on the sale of a Right or, in the case of Rights purchased in the market, any loss from a Right that expires unexercised, will be a capital gain or loss if the Right is held as a capital asset (which in the case of Rights issued to Record Date Shareholders will depend on whether the Old Share is held as a capital asset), and will be a long-term capital gain or loss if the holding period of the Right exceeds (or is deemed to exceed) is deemed to exceed one year. The deductibility of capital losses is subject to limitation. The holding period of a Right issued to a Record Date Shareholder will include the holding period of the Old Share.

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No gain or loss will be recognized by a Rights holder upon the exercise of a Right, and the basis of any Share acquired upon exercise of the Right (the New Share) will equal the sum of the basis, if any, of the Right and the Subscription Price for the New Share. When a Rights holder exercises a Right, the Rights holder s holding period in the New Shares does not include the time during which the Rights holder held the unexercised Right; the holding period for the New Shares will begin no later than the date following the date of exercise of the Right.]

EMPLOYEE PLAN CONSIDERATIONS

[To be updated by amendment.] [Shareholders whose shares are in employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA) or Section 4975 of the Code (including corporate savings and 401(k) plans, Keogh or H.R. 10 plans of self-employed individuals and individual retirement accounts) (each a Plan) should be aware that additional contributions of cash to the Plan (other than rollover contributions or trustee-to-trustee transfers from other Plans) in order to exercise Rights would be treated as contributions to such Plan and, when taken together with contributions previously made, may result in, among other things, excise taxes for excess or nondeductible contributions. In the case of Plans qualified under Section 401(a) of the Code and certain other retirement plans, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. In addition, there may be other adverse tax and ERISA consequences if Rights are sold or transferred by a Plan.

Plans also should be aware that if they borrow in order to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income (UBTI) under Section 511 of the Code. If any portion of an individual retirement account (IRA) is used as security for a loan, the portion so used also is treated as distributed to the IRA depositor.

ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transaction rules that may affect the exercise or transfer of Rights. Due to the complexity of these rules and the penalties for noncompliance, fiduciaries of Plans and other retirement plans should consult with their counsel and other advisors regarding the consequences of their exercise or transfer of Rights under ERISA and the Code.]

BENEFITS TO THE INVESTMENT MANAGER AND THE SUB-ADVISER

The Investment Manager and the Sub-Adviser will benefit from the Offer, in part because the investment management fee paid by the Fund to the Investment Manager and the sub-advisory fee paid by the Investment Manager to the Sub-Adviser are each based on the Fund s average daily total managed assets. It is not possible to state precisely the amount of additional compensation the Investment Manager and the Sub-Adviser will receive as a result of the Offer because it is not known how many Shares of the Fund will be subscribed for and because the proceeds of the Offer will be invested in additional portfolio securities which will fluctuate in value. However, assuming (i) all Rights are exercised, (ii) the Fund s average daily net asset value during the twelve-month period beginning [ ], 2012 is $[ ] per common share (the net asset value per common share on [ ], 2012) (iii) the Subscription Price is $[ ] per Share ([ ]% of the last reported sale price of the Fund s common shares on [ ], 2012), and (iv) for purposes of this example, the Fund increases the amount of leverage it has outstanding (through the use of reverse repurchase agreements) while maintaining approximately the same percentage of total assets attributable to leverage, and after giving effect to the Dealer Manager fee and other estimated offering expenses, the Investment Manager and the Sub-Adviser would receive additional investment management fees (after payment of the sub-advisory fees) and sub-advisory fees of approximately $[ ] and $[ ], respectively, for the twelve-month period beginning [ ], 2012, and would continue to receive additional investment management fees and sub-advisory fees, respectively, as a result of the Offer, based on the Fund s average daily total managed assets attributable to the Shares issued in the Offer and related additional leverage, thereafter.

INVESTMENT CONSIDERATIONS AND DILUTION

Upon completion of the Offer, Common Shareholders who do not exercise their Rights fully will own a smaller proportional interest in the Fund than would be the case if the Offer had not been made. In addition, because the Subscription Price per Share is likely to be less than the Fund s net asset value per common share, the Offer will likely result in a dilution of the Fund s net asset value per common share for all Common Shareholders, irrespective of whether they exercise all or any portion of their Rights. Although it is not possible to state precisely the amount of such a decrease in value, because it is not known at this time what the Subscription Price will be, what the net

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asset value per common share will be on the Expiration Date or what proportion of Shares will be subscribed for, the dilution could be substantial. For example, assuming (i) that all Rights are exercised, (ii) that the Fund s net asset value on the Expiration Date is $[ ] per common share (the net asset value per common share on [ ], 2012), and (iii) that the Subscription Price is $[ ] per Share ([ ]% of the last reported sale price of the Fund s common shares on [ ], 2012), the Fund s net asset value per common share on this date would be reduced by approximately $[ ] per common share, after giving effect to the estimated Dealer Manager fee of $[ ] and to other estimated offering expenses of $[ ], each payable by the Fund. Record Date Shareholders will experience a decrease in the net asset value per common share held by them, irrespective of whether they exercise all or any portion of their Rights. The distribution of transferable Rights, which may themselves have value, will afford non-participating Common Shareholders the potential of receiving a cash payment upon the sale of the Rights, receipt of which may be viewed as partial compensation for the economic dilution of their interests, although there can be no assurance that a market for the Rights will develop.

Use of proceeds

The net proceeds of the Offer will be invested in accordance with the Fund s investment objectives and policies as set forth below. Assuming current market conditions, the Fund estimates that the net proceeds of the Offer will be substantially invested in accordance with its investment objectives and policies within three months after the completion of the Offer. Pending such investment, it is anticipated that the proceeds of the Offer will be invested in high grade, short-term instruments. Following the completion of the Offer, the Fund currently intends to add leverage to its portfolio in order to maintain approximately the total amount of leverage (as a percentage of the Fund s total assets) that the Fund currently maintains. See Use of leverage.

The Fund

PCM Fund, Inc. is a non-diversified, closed-end management investment company. The Fund was organized as a Maryland corporation on June 23, 1993, pursuant to Articles of Incorporation governed by the laws of the State of Maryland. The Fund commenced operations on September 2, 1993, following the initial public offering of its common shares. The Fund s principal office is located at 1633 Broadway, New York, New York, 10019 and its telephone number is [ ].

Investment objectives and policies

The Fund s primary investment objective is to achieve high current income. Capital gain from the disposition of investments is a secondary objective. The Fund seeks to achieve its investment objectives by investing in a portfolio of fixed-income securities and related instruments of any type and any quality as discussed under Portfolio contents below. The Fund cannot assure you that it will achieve its investment objectives, and you could lose all of your investment in the Fund.

The Fund cannot change its investment objectives without the approval of the holders of a majority of the outstanding shares of the Fund. 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.

Investment selection strategies

On behalf of the Fund, PIMCO will invest in various fixed-income and credit sectors based on, among other things, market conditions, valuation assessments and economic outlook, credit market trends and other economic factors. With PIMCO s macroeconomic analysis as the basis for top-down investment decisions, including geographic and credit sector emphasis, the Fund has the flexibility to allocate its assets among a broad spectrum of asset classes and issuers of any credit quality, including mortgage-related and any other asset-backed securities, government and sovereign debt, corporate debt (including fixed- and floating-rate bonds, bank loans and convertible securities), municipal bonds (including [both taxable and] tax-exempt) and other income-producing securities of U.S. issuers and foreign issuers. PIMCO may choose to focus on particular regions, asset classes, industries and sectors to the exclusion of others at any time and from time to time based on market conditions and other factors. The relative value assessment within fixed-income sectors draws on PIMCO s regional and sector specialist expertise.

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Once the Fund s top-down, portfolio positioning decisions have been made as described above, PIMCO selects particular investments for the Fund by employing a bottom-up, disciplined credit approach which is driven by fundamental, independent research within each asset class/sector represented in the Fund, with a focus on identifying securities and other instruments with solid and/or improving fundamentals.

PIMCO utilizes strategies that focus on credit quality analysis and other risk management techniques. PIMCO attempts to identify, through fundamental research, driven by independent credit analysis and proprietary analytical tools, debt obligations and other income-producing securities that provide current income and/or opportunities for capital appreciation based on its analysis of the issuer s credit characteristics and the position of the security in the issuer s capital structure.

PIMCO also attempts to identify investments that may appreciate in value based on PIMCO s assessment of the issuer s credit characteristics, forecast for interest rates and outlook for particular countries/regions, currencies, industries, sectors and the global economy and bond markets generally.

Credit quality

The Fund may invest without limit in debt instruments that are, at the time of purchase, rated below investment grade, or unrated but determined by PIMCO to be of comparable quality, and may invest without limit in securities of any rating. Debt instruments of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal, and are commonly referred to as high yield securities or junk bonds. Debt instruments in the lowest investment grade category also may be considered to possess some speculative characteristics. The Fund may, for hedging, investment or leveraging purposes, make use of credit default swaps, which are contracts whereby one party makes periodic payments to a counterparty in exchange for the right to receive from the counterparty a payment equal to the par (or other agreed-upon) value of a referenced debt obligation in the event of a default by the issuer of the debt obligation.

Independent credit analysis

PIMCO relies primarily on its own analysis of the credit quality and risks associated with individual debt instruments considered for the Fund, rather than relying exclusively on rating agencies or third-party research. The Fund s portfolio manager utilizes this information in an attempt to minimize credit risk and to identify issuers, industries or sectors that are undervalued or that offer attractive yields relative to PIMCO s assessment of their credit characteristics. This aspect of PIMCO s capabilities is particularly important to the extent that the Fund invests in high yield securities.

Diversification

The Fund is a non-diversified investment company in that it may invest a greater percentage of its assets in the securities of a single issuer than investment companies that are diversified. See Principal risks of the Fund Issuer Non-Diversification Risk.

Portfolio contents

The Fund normally invests in a portfolio of debt obligations and other income-producing securities of any type and credit quality with varying maturities, including, among other investments, mortgage-related and other asset-backed securities, as well as related derivative instruments. The Fund expects to invest in mortgage-related and other asset-backed securities issued or sponsored by various public and private entities, including securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities (U.S. Government securities), residential and commercial mortgage-backed securities (some of which may be U.S. Government securities), privately-issued mortgage-related securities and any other type of mortgage-related or asset-backed securities issued on a public or private basis, including collateralized mortgage obligations (CMOs).

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As a matter of fundamental policy, the Fund, under normal circumstances, will invest at least 25% of its total assets (*i.e.*, concentrate) in privately-issued (commonly known as non-agency) mortgage-related securities. The Fund will observe certain other guidelines with respect to certain asset classes as summarized below.

The Fund s portfolio of income-producing securities may also include, without limitation, other types of U.S. Government securities, corporate debt securities and municipal securities and other debt securities issued by states or local governments and their agencies, authorities and other government-sponsored enterprises, including tax-exempt [and taxable municipal securities (such as Build America Bonds)]. The