

PIMCO STRATEGIC GLOBAL GOVERNMENT FUND INC

Form N-CSR

April 04, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number **811-08216**

**PIMCO Strategic Global Government Fund, Inc.**

(Exact name of registrant as specified in charter)

**1345 Avenue of the Americas, New York, NY**  
(Address of principal executive offices)

**10105**  
(Zip code)

**Lawrence G. Altadonna 1345 Avenue of the Americas, New York, New York 10105**  
(Name and address of agent for service)

Registrant's telephone number, including area code: **212-739-3371**

Date of fiscal year end: **January 31, 2011**

Date of reporting period: **January 31, 2011**

## Edgar Filing: PIMCO STRATEGIC GLOBAL GOVERNMENT FUND INC - Form N-CSR

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ( OMB ) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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ITEM 1. REPORT TO SHAREHOLDERS

# Annual Report

January 31, 2011

**PIMCO Strategic Global Government Fund, Inc.**

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Hans W. Kertess

*Chairman*

Brian S. Shlissel

*President & CEO*

Dear Stockholder:

The U.S. economy expanded throughout the fiscal twelve-month period ended January 31, 2011, providing clear and convincing evidence that the recession of 2007-09 was finally over. Gross domestic product ( GDP ) grew at a 3.7% annualized rate between January and March 2010, eased to 1.7% during the second quarter and accelerated to a 2.6% and 2.8% annualized rate, respectively, during the third and fourth quarters of 2010. In January 2011, the final month of the fiscal year, this strengthening trend continued.

Against this backdrop, U.S. government and corporate bonds rose, though not without volatility. At the beginning of the fiscal period, many fixed-income investors, eyeing the strengthening economy, shifted out of lower yielding U.S. Treasury bonds and into corporate bonds and stocks. This narrative, however, would change, as GDP slowed and investors fretted about international developments such as sovereign debt concerns in Europe and the cooling of China's red-hot economy. Many investors reversed

course, moving right back into the perceived safety of U.S. Treasuries. Yields on the benchmark 10-year Treasury bond reflected this shift, falling from 4.01% in April 2010 to 2.41% in October 2010. The markets pivoted yet again as the fiscal year drew to a close, as the U.S. economy accelerated and investor fears eased. By the end of the twelve-month reporting period, the yield on the 10-year Treasury had rebounded to 3.37%. Bond prices, which move in the opposite direction of bond yields, bounced up and down accordingly.

### **Twelve Months in Review**

For the fiscal twelve-month period ended January 31, 2011, PIMCO Strategic Global Government Fund, Inc. returned 26.80% on net asset value ( NAV ) and 11.82% on market price. In contrast, U.S. government bonds, as measured by the Barclays Capital Long Term U.S. Treasury Index, gained 4.29% and the Barclays Capital U.S. Credit Index, which reflects corporate bond performance, rose 7.03%. The Barclays Capital U.S. Aggregate Bond Index, a measure of the broad U.S. bond market, returned 5.06%, and the Barclays Capital U.S. Intermediate Aggregate Bond Index, a broad measure of intermediate-term bonds, rose 4.92%. Mortgage-backed securities, represented by the Barclays Capital Mortgage Index, advanced 4.12%. The Barclays Capital Global Aggregate Bond Index, a broad market measure of U.S. and non-U.S. government and corporate bonds, advanced 5.30%. During the twelve-month reporting period, U.S. stocks rose, with the Standard & Poor's 500 Index increasing 22.19%.

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The U.S. Federal Reserve ( the Fed ) indicated it would purchase up to \$900 billion in U.S. Treasury bonds through June 2011. The goal of this quantitative easing, was to keep stimulating the economy by lowering interest rates. The Fed continued to maintain its closely-watched Federal Funds Rate, the rate banks charge to lend federal funds to other banks, usually on an overnight basis, in the 0.0% to 0.25% range. However, the Fed did raise the discount rate, the interest rate it charges banks for direct loans, to 0.75% from 0.50%. This was perceived as a signal for banks to borrow money not from the government, but from a healthier private sector.

## **The Road Ahead**

Although housing remains troubled and unemployment is stubbornly high, concerns that the U.S. economy could slip back into recession have faded. We anticipate that the recovery that began in the summer of 2009 will continue and may, in fact, shift into a higher gear. At some point, companies are likely to accelerate hiring and since the American consumer represents approximately

two-thirds of U.S. economic activity, this should boost the expansion still further. We caution, however, that interest rates, which typically rise during an economic recovery, may head higher and act as an economic headwind.

For specific information on the Fund and its performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Fund's shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds).

Together with Allianz Global Investors Fund Management LLC, the Fund's investment manager, and Pacific Investment Management Company LLC ( PIMCO ), the Fund's sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess

Chairman

Brian S. Shlissel

President & CEO

Receive this report electronically and eliminate paper mailings. To enroll, go to [www.allianzinvestors.com/edelivery](http://www.allianzinvestors.com/edelivery).

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**PIMCO Strategic Global Government Fund, Inc. Fund Insights**

January 31, 2011 (unaudited)

For the fiscal year ended January 31, 2011 PIMCO Strategic Global Government Fund, Inc. returned 26.80 % on net asset value ( NAV ) and 11.82% on market price. The unmanaged Barclays Capital U.S. Aggregate Bond and Barclays Capital U.S. Intermediate Aggregate Bond Indexes returned 5.06% and 4.92%, respectively, during the reporting period.

Bond markets turned in a solid performance in 2010 overall, though gains were moderated by a partial retracement in the fourth quarter. Sovereign and high-quality bonds in particular benefited from general risk aversion early in the year, as mounting concerns about the fiscal health of peripheral European economies as well as continued anemic employment and housing data in the U.S. weighed on expectations. Concerns in the U.S. centered on the waning effects of policy stimulus as unemployment remained stubbornly high and consumer confidence weakened. The uncertain impact of new regulations for the health care and financial services industries also added to the anxiety.

The creation of the Greek bailout package late in the second quarter served to reassure markets, as did the growing expectation for further quantitative easing by the Federal Reserve (the Fed ), leading to a sharp and sustained rally for risk assets from July through the end of October. In November, the Fed announced its widely anticipated second round of quantitative easing ( QE2 ), which included a commitment to buy a total of as much as \$850 to \$900 billion of longer-maturity Treasuries through June 2011. Gains in manufacturing, retail sales and consumer confidence, as well as surging equity markets and increasing inflation expectations indicated that the Fed 's efforts were having an impact. While QE2 raised concern in some quarters about long term inflation risk, actual levels of inflation excluding volatile food and fuel costs remained below the Fed 's targeted range during the quarter. Treasury yields rose in the final months of the year as investors turned to riskier assets in pursuit of higher returns. For the 12-month review period, 10-year U.S. Treasury yields declined 21 basis points to end January 2011 at 3.37%.

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**Risk exposures drive absolute gains**

Several factors contributed to the Fund's absolute returns during the fiscal year. The Fund's portfolio was well-positioned to benefit from the steepening of the U.S. yield curve during the fiscal year, in which the 2-year Treasury yield fell 25 basis points and the 30-year yield rose by 8 basis points. An overweight to duration, or sensitivity to changes in market interest rates, also boosted performance given the decline in Treasury yields.

Sector positioning also supported the Fund's returns during the period. An overweighing to U.S. investment-grade credit enhanced to returns as corporate credit outperformed like-duration Treasuries. Within corporate, the Fund's emphasis on financials was particularly helpful as this sector outperformed the broader corporate market. Agency mortgage-backed securities (MBS) also outperformed like-duration Treasuries during the fiscal year, making an overweighing to the sector beneficial to the Fund's absolute returns for 12-month reporting period.



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**PIMCO Strategic Global Government Fund, Inc. Fund Performance & Statistics**

January 31, 2011 (unaudited)

Total Return <sup>(1)</sup> :	Market Price	NAV
1 Year	11.82%	26.80%
5 Year	9.84%	12.12%
10 Year	10.60%	9.86%
Commencement of Operations (2/24/94) to 1/31/11	9.03%	8.62%

Market Price/NAV Performance:

Commencement of Operations (2/24/94) to 1/31/11

Market Price/NAV:

Market Price	\$10.44
NAV	\$9.97
Premium to NAV	4.71%
Market Price Yield <sup>(2)</sup>	8.62%

Moody's Ratings

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends and capital gain distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund shares, or changes in Fund dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a onetime public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to shareholders by the market price per share at January 31, 2011.



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January 31, 2011

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>U.S. GOVERNMENT AGENCY SECURITIES 175.6%</b>			
<b>Fannie Mae 129.1%</b>			
\$28	2.45%, 4/1/30, FRN, MBS (k)	Aaa/AAA	\$28,647
8	2.525%, 10/1/31, FRN, MBS	Aaa/AAA	8,026
21	2.53%, 9/1/28, FRN, MBS	Aaa/AAA	21,795
73	2.614%, 11/1/27, FRN, MBS (k)	Aaa/AAA	76,467
143	2.65%, 3/1/32, FRN, MBS (k)	Aaa/AAA	149,768
9	2.665%, 2/1/32, FRN, MBS	Aaa/AAA	9,801
93	2.69%, 12/1/28, FRN, MBS (k)	Aaa/AAA	97,630
84	2.75%, 3/1/31, FRN, MBS (k)	Aaa/AAA	88,884
48	2.809%, 2/1/27, FRN, MBS (k)	Aaa/AAA	50,506
229	2.815%, 12/1/30, FRN, MBS (k)	Aaa/AAA	241,569
110	2.847%, 12/1/25, FRN, MBS (k)	Aaa/AAA	115,740
63,000	4.00%, MBS, TBA (e)	Aaa/AAA	62,317,047
430	4.25%, 11/25/24, CMO (k)	Aaa/AAA	451,419
16	4.25%, 3/25/33, CMO	Aaa/AAA	16,745
4,311	4.50%, 7/25/40, CMO (k)	Aaa/AAA	4,273,663
153,000	4.50%, MBS, TBA (e)	Aaa/AAA	155,892,618
13	5.00%, 12/1/18, MBS	Aaa/AAA	14,252
76	5.50%, 8/25/14, CMO (k)	Aaa/AAA	78,041
22	5.50%, 12/25/16, CMO	Aaa/AAA	24,064
125	5.50%, 7/25/24, CMO (k)	Aaa/AAA	133,008
15,018	5.50%, 11/25/32, CMO (k)	Aaa/AAA	16,436,232
2,870	5.50%, 6/1/33, MBS (k)	Aaa/AAA	3,091,724
793	5.50%, 7/1/33, MBS (k)	Aaa/AAA	854,871
9	5.50%, 9/1/33, MBS	Aaa/AAA	9,729
1,157	5.50%, 10/1/33, MBS (k)	Aaa/AAA	1,246,269
42	5.50%, 12/1/33, MBS (k)	Aaa/AAA	45,082
658	5.50%, 1/1/34, MBS (k)	Aaa/AAA	709,004
6,940	5.50%, 2/1/34, MBS (k)	Aaa/AAA	7,476,878
81	5.50%, 7/1/34, MBS (k)	Aaa/AAA	86,981
549	5.50%, 8/1/34, MBS (k)	Aaa/AAA	591,955
174	5.50%, 10/1/34, MBS (k)	Aaa/AAA	186,972
887	5.50%, 12/25/34, CMO (k)	Aaa/AAA	970,215
1,370	5.50%, 4/25/35, CMO (k)	Aaa/AAA	1,490,543
148	5.50%, 9/1/35, MBS (k)	Aaa/AAA	159,474
39	5.50%, 1/1/36, MBS (k)	Aaa/AAA	41,741
92	5.50%, 8/1/37, MBS (k)	Aaa/AAA	98,563
397	5.50%, 6/1/38, MBS (k)	Aaa/AAA	427,765
954	5.50%, 7/1/38, MBS (k)	Aaa/AAA	1,027,451
9,311	5.50%, 12/1/38, MBS (k)	Aaa/AAA	9,994,307
412	5.50%, 3/1/39, MBS (k)	Aaa/AAA	443,221
101,000	5.50%, MBS, TBA (e)	Aaa/AAA	107,975,363
100	5.75%, 6/25/33, CMO (k)	Aaa/AAA	109,422
2,500	5.807%, 8/25/43, CMO (k)	Aaa/AAA	2,769,735
50	6.00%, 2/25/17, CMO (k)	Aaa/AAA	54,333
262	6.00%, 4/25/17, CMO (k)	Aaa/AAA	285,314
1,921	6.00%, 12/1/32, MBS (k)	Aaa/AAA	2,118,411
1,625	6.00%, 1/1/33, MBS (k)	Aaa/AAA	1,792,428

**Table of Contents****PIMCO Strategic Global Government Fund, Inc. Schedule of Investments**

January 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
<b>Fannie Mae (continued)</b>			
\$418	6.00%, 2/1/33, MBS (k)	Aaa/AAA	\$460,865
3,927	6.00%, 4/1/35, MBS (k)	Aaa/AAA	4,330,660
5,269	6.00%, 1/1/36, MBS (k)	Aaa/AAA	5,761,635
1,457	6.00%, 10/1/36, MBS (k)	Aaa/AAA	1,606,665
8,224	6.00%, 9/1/37, MBS (k)	Aaa/AAA	8,962,159
14,353	6.00%, 4/1/39, MBS (k)	Aaa/AAA	15,695,811
6,321	6.00%, 1/25/44, CMO (k)	Aaa/AAA	6,984,150
78	6.434%, 12/25/42, CMO, VRN (k)	Aaa/AAA	90,702
19	6.50%, 5/1/13, MBS	Aaa/AAA	21,138
17	6.50%, 10/1/13, MBS	Aaa/AAA	18,201
117	6.50%, 2/1/14, MBS (k)	Aaa/AAA	128,197
157	6.50%, 10/1/18, MBS (k)	Aaa/AAA	172,081
133	6.50%, 9/1/19, MBS (k)	Aaa/AAA	145,545
221	6.50%, 1/1/20, MBS (k)	Aaa/AAA	241,854
226	6.50%, 6/25/23, CMO (k)	Aaa/AAA	260,024
2	6.50%, 12/1/23, MBS	Aaa/AAA	1,805
(g)	6.50%, 3/1/24, MBS	Aaa/AAA	107
22	6.50%, 4/1/27, MBS	Aaa/AAA	24,217
165	6.50%, 11/18/27, CMO (k)	Aaa/AAA	183,684
11	6.50%, 1/1/28, MBS	Aaa/AAA	12,421
476	6.50%, 2/1/28, MBS (k)	Aaa/AAA	534,961
18	6.50%, 4/1/28, MBS	Aaa/AAA	20,555
113	6.50%, 9/1/28, MBS (k)	Aaa/AAA	126,861