AllianzGI Convertible & Income Fund
Form 497
September 13, 2018
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 13, 2018

Filed Pursuant to Rule 497(c)
Registration Statement No. 333-225293

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus dated August 17, 2018)

$

Shares

AllianzGI Convertible & Income Fund

% Series A Cumulative Preferred Shares

Liquidation Preference $25.00 per share

AllianzGI Convertible & Income Fund (the Fund) is offering for sale shares of % Series A Cumulative Preferred Shares, par value $0.00001 per share, liquidation preference $25.00 per share (the Series A Preferred Shares). Investors in Series A Preferred Shares will be entitled to receive, when, as and if declared by, or under authority granted by, the Fund s Board of Trustees (the Board), out of funds legally available therefor, cumulative cash dividends and distributions at the rate of % per annum of the $25.00 per share liquidation preference on the Series A Preferred Shares. Dividends and distributions on Series A Preferred Shares will be payable quarterly on March 31, June 30, September 30 and December 31 in each year (or, if any such day is not a Business Day, then on the next succeeding Business Day) (each a Dividend Payment Date) commencing on October 1, 2018, with the first payment pro-rated from the date of issuance. The Series A Preferred Shares will rank on parity with the Fund s outstanding Auction Rate Preferred Shares (ARPS and, together with the Series A Preferred Shares and any future preferred shares issued by the Fund, Preferred Shares) and any future preferred shares and senior to the Fund s common shares of beneficial interest (the Common Shares) with respect to dividend and distribution rights and rights upon the Fund s liquidation.

The Fund is a diversified, closed-end management investment company that commenced operations on March 31, 2003, following the initial public offering of its Common Shares. The Fund s investment objective is to provide total return through a combination of capital appreciation and high current income. The Fund cannot assure you that it will achieve its investment objective, and you could lose all of your investment in the Series A Preferred Shares.

The Series A Preferred Shares have no history of public trading. The Fund has applied to list the Series A Preferred Shares on the New York Stock Exchange (NYSE). If the application is approved, the Series A Preferred Shares are expected to commence trading on the NYSE under the symbol NCV PR A within thirty days of the date of issuance.

Investing in the Series A Preferred Shares involves risks associated with the Fund s portfolio investments and certain special risks, including, without limitation, redemption risk, subordination risk, credit rating risk, distribution risk, secondary market risk and interest rate risk. See Special Risks of the Series A Preferred Shares for details. Before investing in the Series A Preferred 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, in Principal Risks of the Fund in the accompanying prospectus.

The Securities and Exchange Commission has not approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total[1]
Public offering price	$ 25.00	$
Underwriting discounts and commissions[2]	$ 0.7875	$
Proceeds, before expenses, to the Fund[1]	$ 24.2125	$

(1) The aggregate expenses of the offering are estimated to be $622,000 (excluding underwriting discounts and commissions).

(2) The underwriting discount is $0.50 per share for institutional placements.

The underwriters are expected to deliver the Series A Preferred Shares in book-entry form through the Depository Trust Company on or about , 2018.

Wells Fargo Securities **UBS Investment Bank** **Morgan Stanley**

The date of this Prospectus Supplement is , 2018.

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You should read this prospectus supplement and the accompanying prospectus before deciding whether to invest in the Series A Preferred Shares and retain them for future reference. The prospectus supplement and the accompanying prospectus contain important information about the Fund. Material that has been incorporated by reference and other information about us can be obtained from us by calling (800) 254-5197 or by writing to the Fund at 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 Securities and Exchange Commission s Public Reference Room in Washington, D.C. by calling (202) 551-8090. The Securities and Exchange 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 (https://us.allianzgi.com). You can obtain the same information, free of charge, from the Securities and Exchange Commission s web site (http://www.sec.gov).

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. The Fund 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 has authorized or verified it. The Fund 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 supplement or the accompanying prospectus is accurate as of any date other than the dates on their respective front covers. The Fund s business, financial condition, results of operations and prospects may have changed since the date of this prospectus.

This document has two parts. The first part is this prospectus supplement, which describes the terms of this offering of Series A Preferred Shares and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from or is additional to the information contained in the accompanying prospectus, you should rely only on the information contained in this prospectus supplement. You should read this prospectus supplement and the accompanying prospectus before investing in the Series A Preferred Shares.

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SUMMARY OF TERMS OF THE SERIES A PREFERRED SHARES

This prospectus supplement sets forth certain terms of the Series A Preferred Shares that the Fund is offering pursuant to this prospectus supplement and the accompanying prospectus. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the Statement of Preferences (as defined herein) governing and establishing the terms of the Series A Preferred Shares.

The Fund	The Fund is a diversified, closed-end management investment company. The Fund commenced operations on March 31, 2003, following the initial public offering of the Common Shares.

The Fund s investment objective is to provide total return through a combination of capital appreciation and high current income. The Fund cannot assure you that it will achieve its investment objective, and you could lose all of your investment in the Series A Preferred Shares.

Under normal circumstances, the Fund will invest at least 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities. The portion of the Fund s assets invested in convertible securities, on the one hand, and non-convertible income-producing securities, on the other, will vary from time to time consistent with the Fund s investment objective, although the Fund will normally invest at least 50% of its total assets in convertible securities. In making allocation decisions, Allianz Global Investors U.S. LLC (AllianzGI U.S. or the Investment Manager), the Fund s adviser, will consider factors such as changes in equity prices, changes in interest rates and other economic and market factors. The Fund may invest without limit in convertible securities and non-convertible income-producing securities that are rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s) or below BBB- by either S&P Global Rating Services (S&P) or Fitch, Inc. (Fitch)) or that are unrated but judged by AllianzGI U.S. to be of comparable quality, and expects that ordinarily AllianzGI U.S. s portfolio strategies will result in the Fund investing primarily in these securities. The Fund may invest without limit in securities of any rating. The Fund typically invests in securities with a broad range of maturities.

Securities Offered	The Fund is offering an aggregate of shares of % Series A Cumulative Preferred Shares, par value $0.00001 per share, liquidation preference $25.00 per share (previously defined as the Series A Preferred Shares). The Series A Preferred Shares will rank on parity with the ARPS and any future preferred shares and senior to the Common Shares with respect to dividend and distribution rights and rights upon liquidation.
Liquidation Preference	$25.00 per share.
Dividend Rate	Dividends and distributions on the Series A Preferred Shares are cumulative from their original issue date at the annual rate of % of the $25.00 per share liquidation preference.

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Dividend Payment Dates	Holders of Series A Preferred Shares will be entitled to receive, when, as and if declared by, or under authority granted by, the Board, out of funds legally available therefor, cumulative cash dividends and distributions, paid quarterly on March 31, June 30, September 30 and December 31 each year, commencing on October 1, 2018, with the first payment pro-rated from the date of issuance.
Non-Call Period/Optional Redemption	The Series A Preferred Shares generally may not be called for redemption at the option of the Fund prior to , 2023. The Fund reserves the right, however, to redeem the Series A Preferred Shares at any time if it is necessary, in the judgment of the Board, to maintain its status as a regulated investment company (a RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). The Fund may also be required under certain circumstances to redeem Series A Preferred Shares before or after , 2023, in order to meet certain regulatory or rating agency asset coverage requirements. Commencing , 2023, and thereafter, to the extent permitted by the Investment Company Act of 1940, as amended (the 1940 Act), and Massachusetts law, the Fund may at any time, upon notice of redemption, redeem the Series A Preferred Shares in whole or in part at the liquidation preference per share plus accumulated unpaid dividends through the date of redemption.
Asset Coverage/Mandatory Redemption	Under the Statement Establishing and Fixing the Rights and Preferences of Cumulative Preferred Shares (including all appendices and exhibits thereto, the Statement of Preferences), which governs the Series A Preferred Shares, the Series A Preferred Shares will be subject to mandatory redemption if the Fund fails to satisfy certain asset coverage tests, subject to applicable cure periods and other terms and conditions.
Use of Proceeds	The net proceeds of the offering will be used to refinance outstanding indebtedness or other forms of leverage, potentially including amounts outstanding under the Fund s liquidity facility with State Street Bank and Trust Company and/or the Fund s existing ARPS, and/or to purchase additional portfolio securities in accordance with the Fund s investment objective and policies as set forth below. To the extent offering proceeds are used to refinance existing leverage, it is presently anticipated that the Fund will be able to deploy such net proceeds promptly after receipt by the Fund. To the extent offering proceeds are used to purchase additional portfolio securities, it is presently anticipated that the Fund will be able to deploy substantially all such net proceeds within 30 days after receipt by the Fund. The Fund anticipates using all or substantially all of the proceeds from any offering of Cumulative Preferred Shares to refinance existing leverage. See Use of Proceeds.

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Rating	The offering of the Series A Preferred Shares is conditioned on the Series A Preferred Shares receiving an initial rating of from Fitch.
Stock Exchange Listing	Application has been made to list the Series A Preferred Shares on the NYSE. Prior to this offering, there has been no public market for Series A Preferred Shares. If the application is approved, the Series A Preferred Shares are expected to commence trading on the NYSE under the symbol NCV PR A within thirty days of the date of issuance.
Tax Considerations	The distributions with respect to the Series A Preferred Shares (other than distributions in redemption of Series A Preferred Shares subject to Section 302(b) of the Code) will constitute dividends to the extent of the Fund s current or accumulated earnings and profits, as calculated for federal income tax purposes. Such dividends generally will be taxable as ordinary income to holders. Distributions of net capital gains (i.e., the excess of net long-term capital gains over net short-term capital losses) that are properly reported by the Fund as capital gain dividends will be treated as long-term capital gains in the hands of holders receiving such distributions. The Internal Revenue Service (the IRS) currently requires that a RIC that has two or more classes of stock allocate to each such class proportionate amounts of each type of the RIC s income (such as ordinary income and capital gains) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the Fund intends each year to allocate capital gain dividends between and among its Common Shares and each series of its Preferred Shares, including the Series A Preferred Shares, in proportion to the total dividends paid to each class during or with respect to such year. Ordinary income dividends and dividends qualifying for the dividends received deduction, if any, will similarly be allocated between and among such share classes. For additional information, see Tax Matters in the accompanying prospectus.
Dividend Disbursing Agent	American Stock Transfer & Trust Company, LLC.

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DESCRIPTION OF THE SERIES A PREFERRED SHARES

The following is a brief description of the terms of the Series A Preferred Shares. This is not a complete description and will be subject to and entirely qualified by reference to the Statement of Preferences as in effect from time to time. The Statement of Preferences will be attached as an exhibit to a post-effective amendment to the Fund s registration statement. **Any capitalized terms in this section that are not defined have the meaning assigned to them in the Statement of Preferences.**

Pursuant to the Fund s Amended and Restated Agreement and Declaration of Trust (the Declaration), as amended from time to time, the Fund s Board may, without shareholder approval, authorize one or more classes of shares (which classes may be divided into multiple series) having such par value and such preferences, voting powers, terms of redemption, if any, and special or relative rights or privileges (including conversion rights, if any) as the Board may determine, subject to various terms and conditions. An unlimited number of the Fund s shares are available for classification by the Board as preferred shares. All Series A Preferred Shares will have a liquidation preference of $25.00 per share plus accumulated and unpaid dividends. Holders of Series A Preferred Shares shall be entitled to receive, when, as and if declared by, or under authority granted by the Board, out of funds legally available therefor, cumulative cash dividends and distributions at a fixed rate per annum of % (computed on the basis of a 360 day year consisting of twelve 30 day months) of the $25.00 per share liquidation preference. Dividends and distributions on the Series A Preferred Shares will accumulate from the date of their original issue and shall be pro-rated for the period from the date they were issued.

The Series A Preferred Shares, when issued by the Fund and paid for pursuant to the terms of this prospectus supplement and the accompanying prospectus, will be fully paid and non-assessable and will have no preemptive, exchange or conversion rights, subject to matters discussed in Anti-Takeover Provisions in the Declaration of Trust in the accompanying prospectus.

Any dividend payment made on the Series A Preferred Shares will first be credited against the dividends and distributions accumulated with respect to the earliest dividend period for which dividends and distributions have not been paid.

The 1940 Act requires that the holders of Cumulative Preferred Shares, together with holders of any other Preferred Shares then outstanding voting as a separate class, have the right to elect at least two Trustees at all times and to elect a majority of the Trustees at any time when two years dividends and distributions on any Preferred Shares are unpaid. The holders of the Cumulative Preferred Shares and any other Preferred Shares, or series thereof, will vote as a separate class on certain other matters as required under the Fund s Declaration and Fifth Amended and Restated Bylaws and under the 1940 Act. When holders of Preferred Shares vote separately from the Common Shares as a class, or one or more series of Preferred Shares votes separately, each Preferred Shareholder is entitled to one vote per $25.00 of liquidation preference held. As a result, for matters that are voted on by Preferred Shareholders as a separate class, voting authority is allocated among Preferred Shareholders in proportion to the liquidation preference of their holdings, as opposed to the number of their Preferred Shares.

The Statement of Preferences requires redemption of Cumulative Preferred Shares (and, under certain circumstances, other Preferred Shares) if the Fund fails to maintain certain asset coverage ratios, subject to cure periods and other terms and conditions specified in the Statement of Preferences. The Cumulative Preferred Shares are also subject to redemption without premium or penalty following the expiration of a non-call period (five years from the date of issuance in the case of the Series A Preferred Shares).

The disclosure set forth in this Description of the Series A Preferred Shares and under the heading Characteristics of the Series A Preferred Shares is intended to be a summary of the material provisions of the Series A Preferred Shares. Since this Description of the Series A Preferred Shares is only a summary, you should refer to the Statement of Preferences for a complete description of the obligations of the Fund and your rights. The disclosure set forth in this Description of the Series A Preferred Shares and under the heading Characteristics of the Series A Preferred Shares supplements the description of the disclosure regarding the Cumulative Preferred Shares, par value $0.00001 per share (the Cumulative Preferred Shares) in the

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accompanying Prospectus, and in the event that any provision described in the disclosure set forth in this Description of the Series A Preferred Shares and under the heading Characteristics of the Series A Preferred Shares is inconsistent with any description contained in the accompanying prospectus, the disclosure set forth in this Description of the Series A Preferred Shares and under the heading Characteristics of the Series A Preferred Shares will apply and supersede the description in the accompanying Prospectus.

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USE OF PROCEEDS

The net proceeds of the offering of the Series A Preferred Shares will be approximately $ after payment of the estimated offering costs. The net proceeds of the offering will be used to refinance outstanding indebtedness or other forms of leverage, potentially including amounts outstanding under the Fund s liquidity facility with State Street Bank and Trust Company and/or the Fund s existing ARPS, and/or to purchase additional portfolio securities in accordance with the Fund s investment objective and policies as set forth below. The Fund anticipates using all or substantially all of the proceeds from the offering of Series A Preferred Shares to refinance existing leverage. The Fund will be able to deploy substantially all net proceeds within 30 days after receipt by the Fund. Pending such use of proceeds, it is anticipated that the proceeds of the offering will be invested in cash and cash equivalents or high grade, short-term securities, credit-linked trust certificates and/or high yield securities index futures contracts or similar derivative instruments designed to give the Fund exposure to the securities and markets in which it typically invests.

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CAPITALIZATION

The following table sets forth the capitalization of the Fund as of August 3, 2018, and as adjusted to give effect to the issuance of the Series A Preferred Shares offered hereby, assuming the Fund issues 5,191,596 Series A Preferred Shares (including estimated offering expenses of $622,000 and an aggregate sales load of $4,088,380).

	Actual as of August 3, 2018	As Adjusted as of August 3, 2018
ARPS ($0.00001 par value and $25,000 liquidation preference per share; aggregate of 8,931 shares issued and outstanding)	$ 223,275,000	$ 223,275,000
Series A Preferred Shares ($0.00001 par value and $25.00 liquidation preference per share; no shares outstanding as of August 3, 2018 and 5,191,596 shares estimated issued and outstanding as adjusted)	$ 0	$ 129,789,900
Total Preferred Shares	$ 223,275,000	$ 353,064,900
Composition of Net Assets Applicable to Common Shareholders:		
Common Shares:		
Par value $0.00001 per share, unlimited shares authorized (89,185,329 shares outstanding as of August 3, 2018)	$ 892	$ 892
Paid-in-capital in excess of par	$ 801,519,223	$ 796,808,843
Dividends in excess of net investment income	$ (16,166,482)	$ (16,166,482)
Accumulated net realized loss	$ (184,633,146)	$ (184,633,146)
Net unrealized depreciation	$ (29,542,295)	$ (29,542,295)
Net Assets Applicable to Common Shareholders	$ 571,178,192	$ 566,467,812
Total Capitalization	$ 794,453,192	$ 919,532,712

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REGULATORY ASSET COVERAGE RATIOS

As provided in the 1940 Act and subject to certain exceptions, the Fund may issue debt and/or preferred shares with the condition that immediately after issuance the value of its total assets, less certain ordinary course liabilities, exceed 300% of the amount of the debt outstanding and exceed 200% of the sum of the amount of debt and preferred shares outstanding. The Fund s Preferred Shares and any other forms of senior securities issued by the Fund, in aggregate, are expected to have an initial asset coverage on the date of issuance of approximately %, assuming that the SSB Facility is not outstanding and that the Fund s net assets on the date of issuance equal the Fund s net assets on August 21, 2018.

In addition to the 1940 Act asset coverage Requirement, the Fund is expected to be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies that are expected to issue ratings for the Series A Preferred Shares. See Characteristics of the Series A Preferred Shares Rating Agency Guidelines in this Prospectus Supplement. The offering of the Series A Preferred Shares is conditioned on the Series A Preferred Shares receiving an initial rating of from Fitch.

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CHARACTERISTICS OF THE SERIES A PREFERRED SHARES

Dividends

Dividends and distributions will be payable quarterly on March 31, June 30, September 30 and December 31 in each year (or, if any such day is not a business day, then on the next succeeding business day) (each, as previously defined, a Dividend Payment Date) commencing on October 1, 2018 to holders of record of Series A Preferred Shares as they appear on the share register of the Fund at the close of business on the fifth preceding business day. Dividends and distributions on Series A Preferred Shares that were originally issued on the Date of Original Issue (*i.e.*, the Series A Preferred Shares to be issued in this offering) shall accumulate from the Date of Original Issue. Dividends and distributions on any other Series A Preferred Shares shall accumulate from the date of issuance. Each period beginning on and including a Dividend Payment Date (or the date of original issue, in the case of the first dividend period after the first issuance of the Series A Preferred Shares) and ending on but excluding the next succeeding Dividend Payment Date is referred to herein as a Dividend Period. Dividends and distributions on account of arrears for any past Dividend Period or in connection with the redemption of Series A Preferred Shares may be declared and paid at any time, without reference to any Dividend Payment Date, to holders of record on such date as shall be fixed by the Board that is not more than 30 days before the Dividend Payment Date.

No full dividends or distributions will be declared or paid on Series A Preferred Shares for any Dividend Period or part thereof unless full cumulative dividends and distributions due through the most recent Dividend Payment Dates therefor on all outstanding shares of any series of preferred shares of the Fund ranking on a parity with the Series A Preferred Shares as to the payment of dividends and distributions have been or contemporaneously are declared and paid through the most recent Dividend Payment Dates therefor. If full cumulative dividends and distributions due have not been paid on all of the Fund s outstanding preferred shares, any dividends and distributions being paid on such preferred shares (including the Series A Preferred Shares) will be paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on each such series of preferred shares on the relevant Dividend Payment Date.

Restrictions on Issuance, Dividend, Redemption and Other Payments

Under the 1940 Act, the Fund is not permitted to issue preferred shares (such as the Series A Preferred Shares) unless immediately after such issuance the Fund will have an asset coverage of at least 200% (or such other percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing stock of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its stock). In general, the term asset coverage for this purpose means the ratio which the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of senior securities representing indebtedness of the Fund plus the aggregate of the involuntary liquidation preference of the preferred shares. The involuntary liquidation preference refers to the amount to which the preferred shares would be entitled on the involuntary liquidation of the Fund in preference to a security junior to them. The Fund also is not permitted to declare any cash dividend or other distribution on its common shares or purchase its common shares unless, at the time of such declaration or purchase, the Fund satisfies this 200% asset coverage requirement after deducting the amount of the dividend, distribution or purchase price, as applicable.

In addition, the Fund may be limited in its ability to declare any cash distribution on its shares (including the Series A Preferred Shares) or purchase its capital stock (including the Series A Preferred Shares) unless, at the time of such declaration or purchase, the Fund has an asset coverage on its indebtedness, if any, of at least 300% after deducting the amount of such distribution or purchase price, as applicable. The 1940 Act contains an exception, however, that permits dividends to be declared upon any preferred shares issued by the Fund (including the Series A Preferred Shares) if the Fund s indebtedness has an asset coverage of at least 200% at the time of declaration after deducting the amount of the dividend. In general, the term asset coverage for this purpose means the ratio which the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of senior securities representing indebtedness of the Fund.

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So long as any Cumulative Preferred Shares are outstanding, the Fund may not pay any dividend or distribution (other than a dividend or distribution paid in Common Shares or in options, warrants or rights to subscribe for or purchase Common Shares) in respect of the Common Shares or call for redemption, redeem, purchase or otherwise acquire for consideration any Common Shares (except by conversion into or exchange for shares of the Fund ranking junior to the Preferred Shares as to the payment of dividends or distributions and the distribution of assets upon liquidation), unless: (i) immediately thereafter, the Fund shall have be in compliance with the asset coverage requirements of any rating agency that is then rating any Cumulative Preferred Shares at the Fund s request, and the Fund shall have 1940 Act asset coverage, (ii) all cumulative dividends and distributions on all Cumulative Preferred Shares due on or prior to the date of the transaction have been declared and paid (or shall have been declared and sufficient funds for the payment thereof deposited with the applicable dividend disbursing agent) and (iii) the Fund has redeemed the full number of Cumulative Preferred Shares to be redeemed mandatorily pursuant to any provision contained herein for mandatory redemption.

Voting Rights

The 1940 Act requires that the holders of Cumulative Preferred Shares, together with holders of any other Preferred Shares then outstanding voting as a separate class, have the right to elect at least two Trustees at all times and to elect a majority of the Trustees at any time when two years dividends and distributions on any Preferred Shares are unpaid. The holders of the Cumulative Preferred Shares and any other Preferred Shares, or series thereof, will vote as a separate class on certain other matters as required under the Fund s Declaration and Fifth Amended and Restated Bylaws and under the 1940 Act. When holders of Preferred Shares vote separately from the Common Shares as a class, or one or more series of Preferred Shares votes separately, each Preferred Shareholder is entitled to one vote per $25.00 of liquidation preference held. As a result, for matters that are voted on by Preferred Shareholders as a separate class, voting authority is allocated among Preferred Shareholders in proportion to the liquidation preference of their holdings, as opposed to the number of their Preferred Shares. For more information about the voting rights of holders of Cumulative Preferred Shares, including Series A Preferred Shares, see Description of Capital Structure in the accompanying prospectus.

Rating Agency Guidelines

As a condition of issuance, the Series A Preferred Shares must be initially rated by Fitch. Under the Statement of Preferences, for as long as Fitch or any other rating agency is rating the Series A Preferred Shares at the Fund s request, the Fund is required to maintain asset coverage at certain levels (Rating Agency Asset Coverage) consistent with the then-current ratings of the Series A Preferred Shares. At least initially, Rating Agency Asset Coverage will require the Fund s compliance with two asset coverage tests that are described in the current Fitch ratings criteria. One test, the Fitch Total OC test, requires the Fund to have sufficient assets, once adjusted for certain discount factors, to cover its financial obligations. The other test, the Fitch Net OC test, is substantively similar to the Fitch Total OC test, but gives effect to the position of the rated security in the Fund s capital structure. An agency rating the Series A Preferred Shares may also impose diversification, industry concentration and/or other constraints on the Fund to the extent that the Series A Preferred Shares maintain a rating. Insofar as a rating agency rating the Series A Preferred Shares were to modify its ratings criteria after initially rating the Series A Preferred Shares, the Fund expects that it would be permitted, but not required, to adopt any such modifications to the rating agency guidelines into the Statement of Preferences. Failure to adopt any such modifications could result in a change in the relevant rating agency s ratings or a withdrawal of such ratings altogether. A rating agency providing a rating for the Series A Preferred Shares could, at any time, change or withdraw any such rating. The Statement of Preferences requires maintenance of Rating Agency Asset Coverage as of the last business day of each month, as long as a rating agency is rating the Series A Preferred Shares at the request of the Fund. The Fund is not required to maintain a rating for the Series A Preferred Shares.

The Board, without further action by shareholders, retains the ability to amend, alter, add to or repeal any provision of the Statement of Preferences adopted pursuant to rating agency guidelines or add covenants and other obligations to the Statement of Preferences if the applicable rating agency confirms that such amendments

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or modifications are necessary to prevent a reduction in, or the withdrawal of, a rating of any series of Cumulative Preferred Shares and such amendments and modifications do not adversely affect the rights and preferences of the holders of the Cumulative Preferred Shares. Additionally, the Board, without further action by the shareholders, retains the authority to amend, alter, add to or repeal any provision of the Statement of Preferences if such amendments or modifications will not in the aggregate adversely affect the rights and preferences of the holders of any series of Cumulative Preferred Shares, provided that the Fund has received confirmation from each applicable rating agency that such amendment or modification would not adversely affect such rating agency s then-current rating of such series of Cumulative Preferred Shares.

Asset Maintenance Requirements

The Fund is required under the Statement of Preferences to determine whether it has asset coverage, as determined in accordance with Section 18(h) of the 1940 Act, of at least 200% with respect to all outstanding senior securities constituting stock, including Cumulative Preferred Shares, ARPS and any other Preferred Shares (Asset Coverage). This test applies quarterly.

Mandatory Redemption

Under certain circumstances, the Series A Preferred Shares may be subject to mandatory redemption by the Fund out of funds legally available therefor in accordance with the Statement of Preferences and applicable law. If the Fund fails to have Asset Coverage as of the last Business Day of March, June, September and December of each year in which any Cumulative Preferred Shares are outstanding, and such failure is not cured as of the cure date specified in the Statement of Preferences (49 days following such Business Day), (i) the Fund shall give a notice of redemption with respect to the redemption of a sufficient number of its Preferred Shares to restore Asset Coverage (assuming such redemption had occurred immediately prior to the opening of business on the applicable cure date) and, at the Fund s discretion, such additional number of Cumulative Preferred Shares or any other series of Preferred Shares in order for the Fund to have Asset Coverage as great as (but not more than) 220%, and (ii) deposit an amount with American Stock Transfer & Trust Company, and its successors or any other dividend-disbursing agent appointed by the Fund, having an initial combined value sufficient to effect the redemption of the Cumulative Preferred Shares or other series of preferred shares to be redeemed.

If the Fund is required to redeem any Preferred Shares (including Series A Preferred Shares) as a result of a failure to maintain Asset Coverage as of an applicable cure date, then the Fund shall, to the extent permitted by the 1940 Act and Massachusetts law, by the close of business on such cure date fix a redemption date that is on or before the 30th Business Day after such cure date and proceed to redeem the Preferred Shares, including any Series A Preferred Shares. On such redemption date, the Fund shall redeem, out of funds legally available therefor, (i) Preferred Shares, pursuant to the procedures below, with an aggregate liquidation preference that is equal to the minimum aggregate liquidation preference such that, if such redemption had occurred immediately prior to the opening of business on such cure date, the Fund would have had Asset Coverage or (ii) if Asset Coverage cannot be so restored, all of the outstanding Cumulative Preferred Shares, in each case at the applicable liquidation preference plus accumulated but unpaid dividends and distributions (whether or not earned or declared by the Fund) through and including the date of redemption. In addition, as reflected above, the Fund may, but is not required to, redeem an additional number of Preferred Shares that permits the Fund to have Asset Coverage as great as 220%.

At any time ARPS are outstanding, if the Fund is required to mandatorily redeem Preferred Shares (including Series A Preferred Shares) for a failure to maintain Asset Coverage, such redemption shall be allocated in accordance with the following: (i) the portion of the redemption allocated to the outstanding series of ARPS, in aggregate, shall be proportionate to the aggregate liquidation preference of the outstanding ARPS relative to the aggregate liquidation preference of the outstanding Preferred Shares, while the portion of the redemption allocated to the outstanding Series of Cumulative Preferred Shares, in aggregate, shall be proportionate to the aggregate liquidation preference of the outstanding Cumulative Preferred Shares relative to the aggregate liquidation preference of the outstanding Preferred Shares, (ii) the redemption proceeds applied to the ARPS pursuant to the foregoing shall be allocated among the series of outstanding ARPS pro rata based on

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the proportion that the aggregate liquidation preference of each series of outstanding ARPS represents of the aggregate liquidation preference of all outstanding ARPS and (iii) the redemption proceeds applied to the Cumulative Preferred Shares pursuant to the foregoing shall be allocated among the Series of outstanding

Cumulative Preferred Shares in any proportion in the discretion of the Fund. If no ARPS are outstanding and the Fund is required to mandatorily redeem Preferred Shares for a failure to maintain Asset Coverage, such redemption shall be allocated among the outstanding Series of Cumulative Preferred Shares and series of other outstanding Preferred Shares in any proportion at the discretion of the Fund.

So long as Fitch or another rating agency is rating the Fund s Cumulative Preferred Shares at the request of the Fund, the Fund will be required to maintain, on the last Business Day of each month, assets sufficient for Rating Agency Asset Coverage. If the Fund does not have Rating Agency Asset Coverage as of the last Business Day of any month, and such failure is not cured as of the cure date specified in the Statement of Preferences (10 Business Days following such Business Day), the Fund shall similarly follow the redemption protocol summarized above to restore compliance with Rating Agency Asset Coverage, and the Fund may, but is not required to, redeem an additional number of Preferred Shares sufficient for the Fund to have assets as great as 110% of the minimum amount required for Rating Agency Asset Coverage.

If the Fund is required to mandatorily redeem Preferred Shares for a failure to maintain Rating Agency Asset Coverage, such redemption shall be allocated among the outstanding Series of Cumulative Preferred Shares and series of other outstanding Preferred Shares in any proportion at the discretion of the Fund.

Optional Redemption

Prior to , 2023, the Series A Preferred Shares are not subject to optional redemption by the Fund unless the redemption is necessary, in the judgment of the Board, to maintain the Fund s status as a RIC under Subchapter M of the Code. Commencing , 2023, and thereafter, to the extent permitted by the 1940 Act and Massachusetts law, the Fund may at any time upon notice in the manner provided in the Statement of Preferences redeem the Series A Preferred Shares in whole or in part at a price equal to the liquidation preference per share plus accumulated but unpaid dividends and distributions through and including the date of redemption. A notice of redemption with respect to an optional redemption will be given to the holders of record of Series A Preferred Shares selected for redemption not less than 15 days (subject to NYSE requirements), nor more than 40 days prior to the date fixed for redemption. Holders of Series A Preferred Shares may receive shorter notice in the event of a mandatory redemption.

Liquidation

In the event of any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the holders of Cumulative Preferred Shares shall be entitled to receive out of the assets of the Fund available for distribution to shareholders, after satisfying claims of creditors but before any distribution or payment shall be made in respect of the Fund s Common Shares or any other shares of the Fund ranking junior to the Cumulative Preferred Shares as to liquidation payments, a liquidation distribution in the amount of $25.00 per share (the Liquidation Preference), plus an amount equal to all unpaid dividends and distributions accumulated to and including the date fixed for such distribution or payment (whether or not earned or declared by the Fund, but excluding interest thereon), and such holders shall be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up of the Fund.

If, upon any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the assets of the Fund available for distribution among the holders of all outstanding Cumulative Preferred Shares and all outstanding shares of any other series of the Fund s Preferred Shares ranking on a parity with the Cumulative Preferred Shares as to payment upon liquidation shall be insufficient to permit the payment in full to such holders of Cumulative Preferred Shares of the Liquidation Preference plus accumulated and unpaid dividends and distributions and the amounts due upon liquidation with respect to all outstanding shares of such other series of Preferred Shares of the Fund, then such available assets shall be distributed among the holders of Cumulative Preferred Shares and such other series of Preferred Shares of the Fund ratably in proportion to the

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respective preferential liquidation amounts to which they are entitled. Unless and until the Liquidation Preference plus accumulated and unpaid dividends and distributions has been paid in full to the holders of Cumulative Preferred Shares, no dividends or distributions will be made to holders of the Fund s Common Shares or any other shares of the Fund ranking junior to the Cumulative Preferred Shares as to liquidation.

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SPECIAL RISKS OF THE SERIES A PREFERRED SHARES

Primary risks associated with an investment in the Series A Preferred Shares include:

Redemption Risk

The Fund may at any time redeem Series A Preferred Shares to the extent necessary to meet regulatory asset coverage requirements or requirements imposed by credit rating agencies. For example, if the value of the Fund s investment portfolio declines, thereby reducing the asset coverage for the Series A Preferred Shares, the Fund may be obligated under the terms of the Series A Preferred Shares and/or the 1940 Act to redeem some or all of the Series A Preferred Shares. In addition, commencing , 2023, the Fund will be able to call the Series A Preferred Shares at the option of the Fund. Investors may not be able to reinvest the proceeds of any redemption in an investment providing the same or a higher dividend rate than that of the Series A Preferred Shares. Precipitous declines in the value of the Fund s assets could result in the Fund having insufficient assets to redeem all of the Series A Preferred Shares for the full redemption price.

Credit Rating Risk

The offering of the Series A Preferred Shares is conditioned on the Series A Preferred Shares receiving an initial rating of from Fitch. Any credit rating that is issued on the Series A Preferred Shares could be reduced or withdrawn while an investor holds Series A Preferred Shares. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Series A Preferred Shares. In addition, a credit rating does not eliminate or mitigate the risks of investing in the Series A Preferred Shares.

For additional information regarding the risks of the Series A Preferred Shares, including Subordination Risk, Distribution Risk and Secondary Market Risk, see Special Risks of the Cumulative Preferred Shares in the accompanying prospectus.

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TAXATION

The distributions with respect to the Series A Preferred Shares (other than distributions in redemption of Series A Preferred Shares subject to Section 302(b) of the Code) will constitute dividends to the extent of the Fund s current or accumulated earnings and profits, as calculated for federal income tax purposes. Such dividends generally will be taxable as ordinary income to holders. Distributions of net capital gains (i.e., the excess of net long-term capital gains over net short-term capital losses) that are properly reported by the Fund as capital gain dividends will be treated as long-term capital gains in the hands of holders receiving such distributions. The IRS currently requires that a RIC that has two or more classes of stock allocate to each such class proportionate amounts of each type of the RIC s income (such as ordinary income and capital gains) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the Fund intends each year to allocate capital gain dividends between and among its Common Shares and each series of its Preferred Shares, including the Series A Preferred Shares, in proportion to the total dividends paid to each class during or with respect to such year. Ordinary income dividends and dividends qualifying for the dividends received deduction, if any, will similarly be allocated between and among such share classes. For additional information, see Tax Matters in the accompanying prospectus.

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UNDERWRITING

Wells Fargo Securities, LLC, UBS Securities LLC and Morgan Stanley & Co. LLC are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in an underwriting agreement among the Fund, the Investment Manager and the underwriters, the Fund has agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from the Fund, the number of Series A Preferred Shares set forth opposite its name below.

Underwriter	Number of Series A Preferred Shares
Wells Fargo Securities, LLC	
UBS Securities LLC	
Morgan Stanley & Co. LLC	
Total	

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the Series A Preferred Shares sold pursuant to the underwriting agreement if any of the Series A Preferred Shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

The Fund and the Investment Manager have each agreed to indemnify the underwriters and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the Series A Preferred Shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Series A Preferred Shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer s certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The Fund expects that delivery of the Series A Preferred Shares will be made against payment therefor on or about the 5th business day following the date of confirmation of orders with respect to the Series A Preferred Shares (this settlement cycle being referred to as T+5). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade prior to the delivery of the Series A Preferred Shares hereunder on the date hereof will be required, by virtue of the fact that the Series A Preferred Shares initially settle in T+5, to specify an alternative settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of Series A Preferred Shares who wish to trade the Series A Preferred Shares prior to their date of delivery hereunder should consult their own advisors.

Commissions and Discounts

The representative has advised us that the underwriters propose initially to offer the Series A Preferred Shares to the public at the public offering price set forth on the cover page of this Prospectus Supplement and to certain dealers at such price less a concession not in excess of $ per share. Any underwriter may allow, and such dealers may reallow, a concession not in excess of $ per share to other underwriters or to certain dealers. After the initial offering, the public offering price, concession or any other term of the offering may be changed. The expenses of the offering, not including the underwriting discount, are estimated at $622,000 and are payable by the Fund.

No Sales of Similar Securities

The Fund and the Investment Manager have agreed that the Fund will not, for a period of 180 days from the date of this Prospectus Supplement, without the prior written consent of Wells Fargo Securities, LLC, directly or

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indirectly, issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, any of its preferred shares or securities exchangeable for or convertible into its preferred shares, except for the Series A Preferred Shares sold to the underwriters pursuant to the underwriting agreement.

NYSE

Application has been made to list the Series A Preferred Shares on the NYSE. Prior to the offering, there has been no public market for the Series A Preferred Shares or any other series of preferred shares of the Fund. If the application is approved, the Series A Preferred Shares are expected to commence trading on the NYSE under the symbol NCV PR A within thirty days of the date of issuance. Before the Series A Preferred Shares are listed on the NYSE, the underwriters may, but are not obligated to, make a market in the Series A Preferred Shares. Consequently, it is anticipated that, prior to the commencement of trading on the NYSE, an investment in Series A Preferred Shares will be illiquid.

If a secondary trading market develops prior to the commencement of trading on the NYSE, holders of the Series A Preferred Shares may be able to sell such shares, however, such shares may trade at discounts from the liquidation preference of the Series A Preferred Shares.

Price Stabilization, Short Positions

Until the distribution of the Series A Preferred Shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing the Series A Preferred Shares. However, the representatives may engage in transactions that have the effect of stabilizing the price of the Series A Preferred Shares, such as purchases and other activities that peg, fix or maintain that price.

In connection with the offering, the underwriters may purchase and sell Series A Preferred Shares in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of Series A Preferred Shares than they are required to purchase in the offering. The underwriters must close out any short position by purchasing Series A Preferred Shares in the open market. A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the Series A Preferred Shares in the open market after pricing that could adversely affect investors who purchase in the offering.

The underwriters may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the representative repurchases Series A Preferred Shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Similar to other purchase transactions, the underwriters purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Series A Preferred Shares or preventing or retarding a decline in the market price of the Series A Preferred Shares. As a result, the price of the Series A Preferred Shares may be higher than the price that might otherwise exist in the open market.

None of the Fund, the Investment Manager or any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series A Preferred Shares. In addition, none of the Fund, the Investment Manager or any of the underwriters makes any representation that the representative will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distribution

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail.

Other Relationships

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Fund, the Investment Manager or their respective affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

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In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Fund, the Investment Manager or their respective affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Fund anticipates that, from time to time, certain underwriters may act as brokers or dealers in connection with the execution of the Fund s portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as brokers while they are underwriters.

The principal business address of Wells Fargo Securities, LLC is 550 South Tryon Street, 5th Floor, Charlotte, North Carolina 28202. The principal business address of UBS Securities LLC is 1285 Avenue of the Americas, New York, New York 10019. The principal business address of Morgan Stanley & Co. LLC is 1585 Broadway, New York, New York 10036.

LEGAL MATTERS

Certain legal matters will be passed on for the Fund by Ropes & Gray LLP, Boston, Massachusetts. Certain legal matters will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP.

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BASE PROSPECTUS DATED AUGUST 17, 2018

Up to $338,000,000

AllianzGI Convertible & Income Fund

Cumulative Preferred Shares

Liquidation Preference $25.00 Per Share

Offering. AllianzGI Convertible & Income Fund (the Fund) may offer, from time to time, in one or more offerings, cumulative preferred shares of beneficial interest, par value $0.00001 per share (the Cumulative Preferred Shares). The Cumulative Preferred Shares may be offered in multiple series at prices and on terms to be set forth in one or more supplements to this prospectus. The Cumulative Preferred Shares will rank on parity with the Fund s outstanding auction rate preferred shares of beneficial interest (the ARPS) and any future preferred shares issued by the Fund (collectively, with the Cumulative Preferred Shares and the ARPS, the Preferred Shares) and senior to the Fund s common shares (the Common Shares) with respect to dividend and distribution rights and rights upon Fund liquidation. Investors should read this prospectus and the applicable prospectus supplement carefully before investing in our securities.

Investment Objective. The Fund is a diversified, closed-end management investment company that commenced operations on March 31, 2003, following the initial public offering of its Common Shares. The Fund s investment objective is to provide total return through a combination of capital appreciation and high current income. The Fund cannot assure you that it will achieve its investment objective, and you could lose all of your investment in the Cumulative Preferred Shares.

The Cumulative Preferred Shares have no history of public trading. The Fund anticipates that its Cumulative Preferred Shares will be listed on the New York Stock Exchange (NYSE).

The Common Shares are listed on the NYSE under the symbol NCV. The last reported sale price of the Common Shares, as reported by the NYSE on August 3, 2018 was $7.07 per Common Share. The net asset value of the Common Shares at the close of business on August 3, 2018, was $6.40 per Common Share.

Investing in the Cumulative Preferred Shares involves risks associated with the Fund s portfolio investments and certain special risks, including, without limitation, redemption risk, subordination risk, credit rating risk, distribution risk and secondary market risk. See Special Risks of the Cumulative Preferred Shares for details. Before investing in the Cumulative Preferred Shares, you also 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, in Principal Risks of the Fund. Certain of these risks are summarized in Prospectus Summary Principal Risks of the Fund.

The Securities and Exchange Commission has not approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Portfolio Contents. Under normal circumstances, the Fund will invest at least 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities. The portion of the Fund s assets invested in convertible securities, on the one hand, and non-convertible income-producing securities, on the other, will vary from time to time consistent with the Fund s investment objective, although the Fund will normally invest at least 50% of its total assets in convertible securities. In making allocation decisions, Allianz Global Investors U.S. LLC (AllianzGI U.S. or the Investment Manager), the Fund s adviser, will consider factors such as changes in equity prices, changes in interest rates and other economic and market factors. The Fund may invest without limit in convertible securities and non-convertible income-producing securities that are rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s) or below BBB- by either S&P Global Rating Services (S&P) or Fitch, Inc. (Fitch)) or that are unrated but judged by AllianzGI U.S. to be of comparable quality, and expects that ordinarily AllianzGI U.S. s portfolio strategies will result in the Fund investing primarily in these securities. The Fund may invest without limit in securities of any rating. The Fund typically invests in securities with a broad range of maturities.

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The Fund may invest up to 20% of its total assets in securities other than convertible securities and non-convertible income-producing securities. The Fund may invest up to 5% of its total assets 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). The Fund may hold or have exposure to equity securities. The Fund may invest in securities of other open- or closed-end investment companies, including, but not limited to, exchange-traded funds. The Fund may invest in securities of companies with small and medium market capitalizations.

The Fund may also invest in non-convertible income-producing securities, including, but not limited to, corporate bonds, debentures, notes and other similar types of corporate debt instruments of U.S. and foreign corporate and other issuers, including commercial paper, as well as non-convertible preferred stocks; bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments); real estate investment trusts and commercial and other mortgage-related and asset-backed securities issued on a public or private basis; payment-in-kind securities; credit-linked trust certificates and other securities issued by special purpose or structured vehicles; zero-coupon bonds; bank certificates of deposit, fixed time deposits and bankers acceptances; U.S. Government securities; and income-producing securities of distressed companies, including senior obligations issued in connection with restructurings (commonly known as debtor-in-possession or DIP financings) and other securities issued in connection with restructurings or bankruptcy proceedings. The Fund s investments in non-convertible income-producing securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero-coupon, contingent, deferred, payment-in-kind and auction-rate features.

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward 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.

The Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers based in developed countries. For this purpose, foreign securities include, but are not limited to, foreign convertible securities and non-convertible income-producing securities, foreign equity securities (including preferred securities of foreign issuers), foreign bank obligations, and obligations of foreign governments or their subdivisions, agencies and instrumentalities, international agencies and supranational entities. For this purpose, foreign securities do not include American Depository Receipts or securities guaranteed by a United States person, but may include foreign securities in the form of Global Depository Receipts or other securities representing underlying shares of foreign issuers. See Portfolio Contents Foreign (Non-U.S.) Investments.

The Fund may invest without limit in securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdiction, including, without limitation, securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), or relevant provisions of applicable non-U.S. law, and other securities issued in private placements.

Leverage. The Fund currently utilizes leverage through (i) its outstanding ARPS and (ii) a liquidity facility provided to the Fund by State Street Bank and Trust Company (the SSB Facility). The Fund expects to issue Cumulative Preferred Shares in one or more offerings and in one or more series and, in the future, may also issue additional Preferred Shares to further add leverage to its portfolio. Although the Fund currently expects to maintain approximately the same amount of leverage (as a percentage of its total assets) prior to and following any issuance of Cumulative Preferred Shares, it may increase or reduce leverage depending on market conditions and other factors. The Fund utilizes 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 AllianzGI U.S. s assessment of the yield curve environment, interest rate trends, market conditions and other factors. The Fund may also add leverage to its portfolio by utilizing securities loans, reverse repurchase agreements, dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities. 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,

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credit default swaps, total return swaps and other derivative transactions, short sales and when-issued, delayed delivery and forward commitment transactions. 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. The Fund and the Investment Manager continuously evaluate market conditions and the Fund s capital structure, and the Fund retains the flexibility to increase, decrease or refinance its leverage facilities, subject to applicable regulations. The Fund may conduct multiple offerings of Preferred Shares, potentially at different price points, and may use the proceeds of these offerings to refinance then-existing leverage. Because the Investment Manager earns fees based on managed assets, the Investment Manager has a financial incentive for the Fund to use certain forms of leverage, such as borrowings, debt securities or preferred shares, which may create a conflict of interest between the Investment Manager, on the one hand, and the Common Shareholders, on the other hand.

This prospectus is part of a registration statement that the Fund has filed with the Securities and Exchange Commission in connection with an offering that may take place on a delayed or continuous basis. The Fund may offer, from time to time, in one or more offerings, including through rights offerings, up to $338,000,000 in aggregate liquidation preference of the Cumulative Preferred Shares on terms to be determined at the time of the offering. This prospectus provides a general description of the Fund and the Cumulative Preferred Shares. Each time the Fund uses this prospectus to offer Cumulative Preferred Shares, the Fund will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement, which contains important information about the Fund, carefully before you invest in the Cumulative Preferred Shares. Cumulative Preferred Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents, underwriters or dealers involved in the sale of Cumulative Preferred Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund s underwriters, or the basis upon which such amount may be calculated. The Fund may not sell any Cumulative Preferred Shares through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the particular offering of the Cumulative Preferred Shares.

You should read this prospectus and the applicable prospectus supplement, which concisely set forth information about the Fund and the Cumulative Preferred Shares, before deciding whether to invest in the Cumulative Preferred Shares and retain them for future reference. A Statement of Additional Information, dated August 17, 2018, containing additional information about the Fund has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page 95 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 toll-free (800) 254-5197 or by writing to the Fund at 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 Securities and Exchange Commission s Public Reference Room in Washington, D.C. by calling (202) 551-8090. The Securities and Exchange Commission charges a fee for copies. The Fund s Statement of Additional Information and most recent annual and semiannual reports are available, free of charge, on the Fund s website (us.allianzgi.com). You can obtain the same information, free of charge, from the Securities and Exchange Commission s web site (http://www.sec.gov).

The Cumulative Preferred 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.

Prospectus dated August 17, 2018

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You should rely only on the information contained or incorporated by reference in this prospectus and any related prospectus supplement. The Fund 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 has authorized or verified it. The Fund 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 or any prospectus supplement is accurate as of any date other than the dates on their respective front covers. The Fund s business, financial condition, results of operations and prospects may have changed since the date of this prospectus or the date of any prospectus supplement.

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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 s Cumulative Preferred Shares, par value $0.00001 per share (the Cumulative Preferred Shares). You should review the more detailed information contained in this prospectus and in any related prospectus supplement and in the Statement of Additional Information, especially the information set forth under the headings Special Risks of the Cumulative Preferred Shares and Principal Risks of the Fund.

The Fund	AllianzGI Convertible & Income Fund (the Fund) is a diversified, closed-end management investment company. The Fund commenced operations on March 31, 2003, following the initial public offering of its common shares (the Common Shares). The Common Shares are listed on the New York Stock Exchange (NYSE) under the symbol NCV. As of August 3, 2018, the net assets of the Fund attributable to Common Shares were $571,178,192 and the Fund had outstanding 89,185,329 Common Shares and 8,931 auction rate preferred shares of beneficial interest (ARPS and, together with the Cumulative Preferred Shares and any future preferred shares issued by the Fund, Preferred Shares). The last reported sale price of the Common Shares, as reported by the NYSE on August 3, 2018 was $7.07 per Common Share. The net asset value of the Common Shares at the close of business on August 3, 2018 was $6.40 per Common Share. See Description of Capital Structure.
Offering of Cumulative Preferred Shares	The Fund may offer, from time to time, in one or more offerings, including through rights offerings, up to $338,000,000 in aggregate liquidation preference of the Cumulative Preferred Shares on terms to be determined at the time of the offering. The Cumulative Preferred Shares may be offered in multiple series at prices and on terms to be set forth in one or more prospectus supplements. The Cumulative Preferred Shares will rank on parity with the Fund s outstanding ARPS and any future Preferred Shares issued by the Fund and senior to the Common Shares with respect to dividend and distribution rights and rights upon our liquidation. You should read this prospectus and the applicable prospectus supplement carefully before you invest in the Cumulative Preferred Shares. Cumulative Preferred Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents, underwriters or dealers involved in the sale of Cumulative Preferred Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund s underwriters, or the basis upon which such amount may be calculated. The Fund may not sell any Cumulative Preferred Shares through agents, underwriters or dealers without delivery or deemed delivery of a prospectus supplement describing the method and terms of the particular offering of the Cumulative Preferred Shares.
Liquidation Preference	$25.00 per share.

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Non-Call Period/Optional Redemption	A series of Cumulative Preferred Shares generally may not be called for redemption at the option of the Fund prior to the date that is five years from initial issuance. Following the end of the initial non-call period, to the extent permitted by the Investment Company Act of 1940, as amended (the 1940 Act) and Massachusetts law, the Fund may at any time, upon notice of redemption, redeem the Cumulative Preferred Shares in whole or in part at the liquidation preference per share plus accumulated unpaid dividends and distributions through the date of redemption.
Voting Rights	The 1940 Act requires that the holders of Cumulative Preferred Shares, together with holders of any other Preferred Shares then outstanding voting as a separate class, have the right to elect at least two Trustees at all times and to elect a majority of the Trustees at any time when two years dividends and distributions on any Preferred Shares are unpaid. The holders of the Cumulative Preferred Shares and any other Preferred Shares, or series thereof, will vote as a separate class on certain other matters as required under the Fund s Amended and Restated Agreement and Declaration of Trust (the Declaration) and Fifth Amended and Restated Bylaws and under the 1940 Act. When holders of Preferred Shares vote separately from the Common Shares as a class, or one or more series of Preferred Shares votes separately, each Preferred Shareholder is entitled to one vote per $25.00 of liquidation preference held. As a result, for matters that are voted on by Preferred Shareholders as a separate class, voting authority is allocated among Preferred Shareholders in proportion to the liquidation preference of their holdings, as opposed to the number of their Preferred Shares.
Use of Proceeds	The net proceeds of the offering will be used to refinance outstanding indebtedness or other forms of leverage, potentially including amounts outstanding under the Fund s liquidity facility with State Street Bank and Trust Company (the SSB Facility) and/or the Fund s existing ARPS, and/or to purchase additional portfolio securities in accordance with the Fund s investment objective and policies as set forth below. To the extent offering proceeds are used to refinance existing leverage, it is presently anticipated that the Fund will be able to deploy such net proceeds promptly after receipt by the Fund. To the extent offering proceeds are used to purchase additional portfolio securities, it is presently anticipated that the Fund will be able to deploy substantially all such net proceeds within 30 days after receipt by the Fund. The Fund anticipates using all or substantially all of the proceeds from any offering of Cumulative Preferred Shares to refinance existing leverage. See Use of Proceeds.
Investment Objective	The Fund s investment objective is to provide total return through a combination of capital appreciation and high current income. The Fund attempts to achieve this objective by investing in a diversified portfolio of convertible securities and non-convertible income-producing securities

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described under Portfolio Contents below. As described below, in seeking to achieve its investment objective, the Fund expects ordinarily to invest primarily in high yield securities or junk bonds. The Fund cannot assure you that it will achieve its investment objective.

Portfolio Management Strategies

In selecting investments for the Fund, the Investment Manager attempts to identify issuers that successfully adapt to change. AllianzGI U.S. uses traditional credit analysis combined with a disciplined, fundamental bottom-up research process that facilitates the early identification of issuers demonstrating an ability to improve their fundamental characteristics. See Independent Credit Analysis below. AllianzGI U.S. attempts to identify potential investments that it expects will exceed minimum credit statistics and exhibit the highest visibility of future expected operating performance. AllianzGI U.S. s sell discipline is clearly defined and designed to drive the Fund s portfolio continually toward strength, taking into account factors such as a change in credit fundamentals, a decline in attractiveness relative to other securities and a decline in industry fundamentals.

In selecting convertible securities for investment by the Fund, AllianzGI U.S. evaluates each convertible security s investment characteristics as an income-producing security, using the techniques described above, as well as its potential for capital appreciation, using techniques that focus on the security s equity characteristics. AllianzGI U.S. seeks to capture approximately 60-80% of any increase in the market price of the underlying equities (upside potential) and 50% or less of any decrease in the market price of the underlying equities (downside exposure). In analyzing specific companies for possible investment, AllianzGI U.S. ordinarily looks for several of the following characteristics: above-average per share earnings growth; high return on invested capital; a healthy balance sheet; sound financial and accounting policies and overall financial strength; strong competitive advantages; effective research and product development and marketing; development of new technologies; efficient service; pricing flexibility; strong management; and general operating characteristics that will enable the companies to compete successfully in their respective markets. AllianzGI U.S. will consider selling a particular convertible security when any of those factors materially changes.

Independent Credit Analysis

AllianzGI U.S. relies heavily on its own analysis of the credit quality and risks associated with individual securities considered for the Fund, rather than relying exclusively on rating agencies or third-party research. The Fund s portfolio managers utilize this information in an attempt to minimize credit risk and identify issuers, industries or sectors that are undervalued or that offer attractive capital appreciation potential or high current income relative to AllianzGI U.S. s assessment of their credit characteristics. This aspect of AllianzGI U.S. s capabilities will be particularly important to the extent that the Fund invests in high yield securities.

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Portfolio Contents

Under normal circumstances, the Fund will invest at least 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities (the 80% Policy). The portion of the Fund s assets invested in convertible securities, on the one hand, and non-convertible income-producing securities, on the other, will vary from time to time consistent with the Fund s investment objective, although the Fund will normally invest at least 50% of its total assets in convertible securities (the 50% Policy). The Fund s investments in derivatives and other synthetic instruments that have economic characteristics similar to convertible securities or non-convertible income-producing securities will be counted toward satisfaction of the Fund s 80% Policy and 50% Policy. For purposes of the Fund s 80% Policy and 50% Policy, the Fund generally values its derivative instruments based on their market value. In making allocation decisions, AllianzGI U.S. will consider factors such as changes in equity prices, changes in interest rates and other economic and market factors. The Fund may invest without limit in convertible securities and non-convertible income-producing securities that are below investment grade quality, and expects that ordinarily AllianzGI U.S. s portfolio strategies will result in the Fund investing primarily in these securities. The Fund typically invests in securities with a broad range of maturities.

The Fund may invest up to 20% of its total assets in securities other than convertible securities and non-convertible income-producing securities. The Fund may invest up to 5% of its total assets 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). The Fund may hold or have exposure to equity securities. The Fund may invest in securities of other open- or closed-end investment companies, including, but not limited to, exchange-traded funds (ETFs). The Fund may invest in securities of companies with small and medium market capitalizations.

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward 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.

Convertible Securities

The Fund may invest without limit in convertible securities, and these securities will ordinarily constitute a principal component of the Fund s investment program. Under normal circumstances, the Fund will invest at least 50% of its total assets in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted or exchanged at either a stated price or stated rate into underlying shares of common stock. Convertible securities have general characteristics similar to both debt

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securities and equity securities. Although to a lesser extent than with debt obligations, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stocks and, therefore, also will react to variations in the general market for equity securities. Convertible securities are investments that provide for a stable stream of income with generally higher yields than common stocks. There can be no assurance of current income because the issuers of the convertible securities may default on their obligations. Convertible securities, however, generally offer lower interest or dividend yields than non-convertible debt securities of similar credit quality because of the potential for equity-related capital appreciation. A convertible security, in addition to providing current income, offers the potential for capital appreciation through the conversion feature, which enables the holder to benefit from increases in the market price of the underlying common stock. See Portfolio Contents Convertible Securities. The Fund may invest in contingent convertible securities (CoCos). The term contingent convertible securities refers solely to convertible securities that are generally convertible at the option of the security holder and not convertible securities that convert upon the occurrence of an external trigger event, such as the failure of the issuer to satisfy certain capitalization criteria.

Synthetic Convertible Securities

The Fund also may invest without limit in synthetic convertible securities, which will be selected based on the similarity of their economic characteristics to those of a traditional convertible security due to the 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 Fund may also purchase synthetic securities created by other parties, typically investment banks, including convertible structured notes. The income-producing and convertible components of a synthetic convertible security may be issued separately by different issuers and at different times. 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

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convertible element falls below the strike price of the warrant or option, the warrant or option may lose all value. The Fund s holdings of synthetic convertible securities are considered convertible securities for purposes of the Fund s policy to normally invest at least 50% of its total assets in convertible securities and 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities. See Portfolio Contents Synthetic Convertible Securities.

Non-Convertible Income-Producing Securities

The Fund may also invest in non-convertible income-producing securities, including, but not limited to, corporate bonds, debentures, notes and other similar types of corporate debt instruments of U.S. and foreign corporate and other issuers, including commercial paper, as well as non-convertible preferred stocks; bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments); real estate investment trusts (REITs) and commercial and other mortgage-related and asset-backed securities issued on a public or private basis; payment-in-kind securities; credit-linked trust certificates and other securities issued by special purpose or structured vehicles; zero-coupon bonds; bank certificates of deposit, fixed time deposits and bankers acceptances; U.S. Government securities; and income-producing securities of distressed companies, including senior obligations issued in connection with restructurings (commonly known as debtor-in-possession or DIP financings) and other securities issued in connection with restructurings or bankruptcy proceedings. The Fund s investments in non-convertible income-producing securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero-coupon, contingent, deferred, payment-in-kind and auction-rate features. See Portfolio Contents Non-Convertible Income-Producing Securities.

High Yield Securities (Junk Bonds)

The Fund may invest without limit in convertible securities and non-convertible income producing securities that are rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s) or below BBB- by either S&P Global Rating Services (S&P) or Fitch, Inc. (Fitch) or that are unrated but determined by AllianzGI U.S. to be of comparable quality, and expects that normally AllianzGI U.S. s portfolio strategies will result in the Fund investing primarily in those securities. Below investment grade securities are commonly referred to as high yield securities or junk bonds. The Fund may invest in high yield securities of any rating, including securities given the lowest non-default rating (Caa by Moody s or C by S&P or Fitch, as described in Appendix A) or unrated securities judged to be of comparable quality by AllianzGI U.S. The Fund may purchase distressed securities that are in default or the issuers of which are in bankruptcy. High yield securities involve a greater degree of risk (in particular, a greater risk of default) than, and special

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	risks in addition to the risks associated with, investment grade debt obligations. While offering a greater potential opportunity for capital appreciation and higher yields, high yield securities typically entail greater potential price volatility and may be less liquid than higher-rated securities. High yield securities may be regarded as predominantly speculative with respect to the issuer s continuing ability to make timely principal and interest payments. They also may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain ratings agencies. See Portfolio Contents High Yield Securities.
Foreign (Non-U.S.) Investments	The Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers based in developed countries. For this purpose, foreign securities include, but are not limited to, foreign convertible securities and non-convertible income-producing securities, foreign equity securities (including preferred securities of foreign issuers), foreign bank obligations, and obligations of foreign governments or their subdivisions, agencies and instrumentalities, international agencies and supranational entities. For this purpose, foreign securities do not include American Depository Receipts (ADRs) or securities guaranteed by a United States person (*i.e.*, the Fund does not count these securities for purposes of the 20% limitation noted above), but may include foreign securities in the form of Global Depository Receipts (GDRs) or other securities representing underlying shares of foreign issuers. See Portfolio Contents Foreign (Non-U.S.) Investments.
Restricted Securities	The Fund may invest without limit in securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdiction, including, without limitation, securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), or relevant provisions of applicable non-U.S. law, and other securities issued in private placements. Rule 144A under the Securities Act provides a non-exclusive safe harbor exemption from the registration requirements of the Securities Act for the resale of certain restricted securities to certain qualified institutional buyers, such as the Fund. Restricted securities and other private placement securities may be deemed illiquid and thus may be subject to the Fund s limit on investments in illiquid securities, although the Fund may determine that certain restricted securities are liquid in accordance with procedures adopted by the Fund s Board.
Use of Leverage	The Fund currently utilizes leverage through (i) its outstanding ARPS and (ii) the SSB Facility. As of August 3, 2018, the aggregate dollar amount (*i.e.*, liquidation preference) of the Fund s outstanding ARPS was $223,275,000, which then represented approximately 24.2% of the Fund s total assets (including assets attributable to the Fund s leverage), while the amount outstanding under the SSB Facility was $125,701,500, which then represented approximately 13.7% of the

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Fund s total assets (including assets attributable to the Fund s leverage). As of August 3, 2018, the Fund s outstanding ARPS and the amount outstanding under the SSB Facility, combined, represented approximately 37.9% of the Fund s total assets (including assets attributable to the Fund s leverage). On July 31, 2018, the Fund completed a tender offer for up to 100% of its outstanding ARPS, immediately prior to which the Fund had ARPS outstanding with an aggregate liquidation preference of $357,000,000 (representing 38.8% of the Fund s total assets as of July 31, 2018, including assets attributable to leverage) and no amount outstanding under the SSB Facility.

The Fund expects to issue Cumulative Preferred Shares in one or more offerings and in one or more series and, in the future, may also issue additional Preferred Shares to further add leverage to its portfolio. Although the Fund currently expects to maintain approximately the same amount of leverage (as a percentage of its total assets) prior to and following any issuance of Cumulative Preferred Shares, it may increase or reduce leverage depending on market conditions and other factors. The Fund utilizes 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 AllianzGI U.S. s assessment of the yield curve environment, interest rate trends, market conditions and other factors. The Fund may also add leverage to its portfolio by utilizing securities loans, reverse repurchase agreements, dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities. 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, short sales and when-issued, delayed delivery and forward commitment transactions.

The Fund s net assets attributable to its Preferred Shares and the net proceeds the Fund obtains under the SSB Facility or from other forms of leverage utilized, if any, will be invested in accordance with the Fund s investment objective and policies as described in this prospectus. So long as the rate of return, net of applicable Fund expenses, on the debt obligations and other investments purchased by the Fund exceeds the dividend rates payable on the Preferred Shares together with the costs to the Fund of other 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.

The Cumulative Preferred Shares will pay cash dividends at a rate to be determined at the time of issuance. Other key terms of the Cumulative Preferred Shares are described under Description of Capital Structure and/or will be described in a prospectus supplement prior to issuance.

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The dividends payable and other terms of the ARPS are summarized in this prospectus. The terms of the ARPS provide that they would ordinarily pay dividends at a rate set at auctions held every seven days, subject to a maximum applicable rate calculated as a function of the ARPS then-current rating and a reference interest rate. However, the weekly auctions for the ARPS, as well as auctions for similar preferred shares of other closed-end funds in the U.S., have failed since February 2008, and the dividend rates on the ARPS since that time have been paid at the maximum applicable rate (*i.e.* a multiple of a reference rate, which is the applicable AA Financial Composite Commercial Paper Rate (for a dividend period of fewer than 184 days) or the applicable Treasury Index Rate (for a dividend period of 184 days or more)). As of the date hereof, the Fund s ARPS have a Moody s rating of Aa3, meaning the multiple used to calculate the maximum applicable rate is 150%, subject to upward adjustment in the event of downgrade. See Use of Leverage and Description of Capital Structure. The Fund expects that the ARPS will continue to pay dividends at the maximum applicable rate for the foreseeable future and cannot predict whether or when the auction markets for the ARPS may resume normal functioning. See Principal Risks of the Fund Leverage Risk, Principal Risks of the Fund Risks Associated with the ARPS and Description of Capital Structure for more information.

The SSB Facility permits the Fund to borrow up to $265,000,000 on a revolving basis. Key terms of the SSB Facility are described under Description of Capital Structure Additional Information Regarding the SSB Facility. Amounts drawn under the facility are subject to a floating interest rate based on the three-month LIBOR rate plus a spread of 0.55%, subject to upward adjustment during continuations of event of default, if and when interest payments are past due and under certain other conditions.

Leveraging is a speculative technique and there are special risks and costs involved. The Fund cannot assure you that its Preferred Shares and use of the SSB Facility or any other forms of leverage (such as the use of bank borrowings, securities loans, reverse repurchase agreements or derivatives strategies), if any, will result in increases to the Fund s net asset value. Dividend, interest and other expenses borne by the Fund in connection with leverage may reduce the Fund s ability to pay dividends to holders of Preferred Shares, including the Cumulative Preferred Shares. See Principal Risks of the Fund Leverage Risk. In addition, because the fees received by the Investment Manager are based on the total managed assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding), the Investment Manager has a financial incentive for the Fund to maintain high levels of leverage, potentially increasing the risk that the Fund may not be able to service its indebtedness, pay dividends to holders of Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and Cumulative Preferred Shares.

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

The 1940 Act also generally prohibits the Fund from engaging in most forms of leverage representing indebtedness (including the use of bank loans, commercial paper or other credit facilities, reverse repurchase agreements, dollar rolls, 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 its Common Shares unless, at the time of such declaration, the 300% asset coverage requirement described above is satisfied, while 200% asset coverage of senior securities representing indebtedness is required for distributions on Preferred Shares. 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, for certain instruments, 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 (assuming such reverse repurchase agreement has a specified repurchase price). To the extent that instruments involving contractual obligations to pay are so covered (either through segregation of liquid assets, or, for certain instruments, entry into an offsetting position), 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. To the extent that reverse repurchase agreements, dollar rolls, derivatives and other instruments involving contractual payment obligations are not

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covered, they may be deemed to be senior securities under the 1940 Act and would, in that circumstance, be subject to the asset coverage requirements in Section 18 of the 1940 Act. However, reverse repurchase agreements 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 places holders of Cumulative Preferred Shares at greater risk of loss 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 s ability to utilize leverage is also limited by asset coverage requirements and other guidelines imposed by rating agencies that provide ratings for the ARPS (currently Moody s) and, if applicable, the Cumulative Preferred Shares at the request of the Fund, which may be more restrictive than the limitations imposed by the 1940 Act noted above. See Description of Capital Structure for more information.

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

Investment Manager

Allianz Global Investors U.S. LLC serves as the Investment Manager of the Fund. Organized as a Delaware limited liability company in 2000, the Investment Manager is registered as an investment adviser with the Securities and Exchange Commission (SEC). Subject to the supervision of the Fund s Board, the Investment Manager is responsible for managing, either directly or through others selected by it, the investment activities of the Fund and the Fund s business affairs and other administrative matters. The Investment Manager receives an annual fee from the Fund, payable monthly, in an amount equal to 0.70% of the Fund s average daily total managed assets. Total managed assets means the total assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding) minus accrued liabilities (other than liabilities representing leverage).

The Investment Manager provides investment management and advisory services to open-end mutual funds and closed-end funds. The Investment Manager is a wholly-owned indirect subsidiary of Allianz Asset Management of America L.P. and of Allianz SE, a publicly-traded European insurance and financial services company. As of June 30, 2018, the Investment Manager had approximately $115.7 billion in assets under management. The Investment Manager is located at 1633 Broadway, New York, NY 10019 and also has offices at 600 West Broadway, San Diego, CA 92101, 2100 Ross Avenue, Suite 700, Dallas, TX 75201 and 555 Mission Street, Suite 1700, San Francisco, CA 94105. The portfolio management team for the Fund is based in AllianzGI U.S. s San Diego office.

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Custodian, Transfer Agent, and Dividend Paying Agent

State Street Bank & Trust Co. serves as custodian of the Fund s assets and also provides certain fund accounting, sub-administrative and compliance services to the Investment Manager on behalf of the Fund. With respect to the Cumulative Preferred Shares, American Stock Transfer & Trust Company, LLC serves as the Fund s transfer agent and dividend paying agent. See Shareholder Servicing Agent, Custodian and Transfer Agent.

Special Risks of the Cumulative Preferred Shares

Primary risks associated with an investment in the Cumulative Preferred Shares include:

Redemption Risk. The Fund may redeem Cumulative Preferred Shares to the extent necessary to meet regulatory asset coverage requirements or requirements imposed by credit rating agencies. For example, if the value of the Fund s investment portfolio declines, thereby reducing the asset coverage for the Cumulative Preferred Shares, the Fund may be obligated under the terms of the Cumulative Preferred Shares and/or the 1940 Act to redeem some or all of the Cumulative Preferred Shares. In addition, after the end of a non-call period, the Fund will be able to call the Cumulative Preferred Shares at the option of the Fund. Investors may not be able to reinvest the proceeds of any redemption in an investment providing the same or a higher dividend rate than that of the Cumulative Preferred Shares. Precipitous declines in the value of the Fund s assets could result in the Fund having insufficient assets to redeem all of the Cumulative Preferred Shares for the full redemption price.

Subordination Risk. The Cumulative Preferred Shares are not a debt obligation of the Fund. The Cumulative Preferred Shares are junior in respect of distributions and liquidation preference to any indebtedness incurred by the Fund, and will have the same priority with respect to payment of dividends and distributions and liquidation preference as the ARPS and any other Preferred Shares that the Fund may issue. The Cumulative Preferred Shares are subject to greater credit risk than any of the Fund s debt instruments, which would be of higher priority in the Fund s capital structure.

Credit Rating Risk. Each series of Cumulative Preferred Shares is expected to receive a credit rating at the time of issuance. Any credit rating that is so issued could be reduced or withdrawn while an investor holds Cumulative Preferred Shares. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Cumulative Preferred Shares. In addition, a credit rating does not eliminate or mitigate the risks of investing in the Cumulative Preferred Shares.

Distribution Risk. The Fund may not earn sufficient income from its investments to make distributions on the Cumulative Preferred Shares. However, because income from the Fund s entire investment portfolio is available to pay Preferred Shares dividends (not just the

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portion of the portfolio associated with proceeds from Preferred Shares offerings), the dividend rates with respect to the Cumulative Preferred Shares and ARPS would have to greatly exceed the Fund s net portfolio income before the Fund s ability to pay Preferred Shares dividends would be jeopardized. Any failure by the Fund to meet asset coverage requirements with respect to senior indebtedness could prohibit the Fund from making distributions on the Cumulative Preferred Shares. The Cumulative Preferred Shares are also junior to the Fund s indebtedness in right of distributions.

Secondary Market Risk. The market price for the Cumulative Preferred Shares will be influenced by changes in interest rates, the perceived credit quality of the Cumulative Preferred Shares and other factors, and may be higher or lower than the liquidation preference of the Cumulative Preferred Shares. Cumulative Preferred Shares are designed for long-term investors and the Fund should not be treated as a trading vehicle.

The Cumulative Preferred Shares will pay dividends at a fixed rate. Prices of fixed income investments tend to vary inversely with changes in market yields. The market yields on securities comparable to the Cumulative Preferred Shares may increase, which would likely result in a decline in the market value of the Cumulative Preferred Shares. Additionally, if interest rates rise, securities comparable to the Cumulative Preferred Shares may pay higher dividend rates and the market value of Cumulative Preferred Shares may be adversely affected. Market interest rates recently have been significantly below historical average rates, which may increase the risk that these rates will rise in the future.

Interest Rate Risk Related to Cumulative Preferred Shares. Generally, when market interest rates rise, the prices of debt obligations fall, and vice versa. As noted above, because the Cumulative Preferred Shares have a fixed dividend, they may behave similarly to debt instruments in response to changes in market interest rates.

Principal Risks of the Fund

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

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

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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.

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. These risks can apply to the Cumulative Preferred Shares and to the issuers of securities and other instruments in which the Fund invests.

Convertible Securities Risk. The Fund may invest without limit in convertible securities, which may include, among others, bonds, debentures, notes, preferred stocks or other securities. Convertible securities will ordinarily constitute a principal component of the Fund s investment program. Under normal circumstances, the Fund will invest at least 50% of its total assets in convertible securities. 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. Convertible securities are often rated below investment grade or not rated because they fall below debt obligations and just above common equity in order of preference or priority on the issuer s balance sheet. See High Yield Securities Risk.

Synthetic Convertible Securities Risk. The Fund may invest without limit 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

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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.

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.

High Yield Securities 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 AllianzGI U.S. 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 Fund s ability to pay dividends on the Cumulative Preferred Shares. 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

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if such securities were widely traded. See Principal Risks of the Fund Liquidity Risk. To the extent the Fund invests in below investment grade debt obligations, AllianzGI U.S. s capabilities in analyzing credit quality and associated risks will be particularly important, and there can be no assurance that AllianzGI U.S. 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 debt instruments of many non-U.S. governments, including their agencies, sub-divisions and instrumentalities, are below investment grade, and are therefore considered high yield instruments.

The Fund s credit quality policies, if any, apply only at the time of investment, and the Fund is not required to dispose of a security in the event that a rating agency or AllianzGI U.S. downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell a security that has experienced a change in credit rating, AllianzGI U.S. may consider factors including, but not limited to, AllianzGI U.S. 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. For purposes of applying the Fund s credit-quality policies, in the case of securities with split ratings (*i.e.*, a security receiving two different ratings from two different rating agencies), the Fund will apply the higher of the applicable ratings.

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. AllianzGI U.S. s judgments about the credit quality of a financially distressed issuer and the relative value of its securities may prove to be wrong.

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. The prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as interest rates change. During

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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 interest rate risk. AllianzGI U.S. 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 may have a negative effect on the Fund s ability to pay dividends on the Cumulative Preferred Shares.

Equity Securities and Related Market Risk. The Fund will often have substantial exposure to equity securities by virtue of the equity component of the convertible securities in which the Fund invests. The Fund may also hold equity securities in its portfolio upon conversion of a convertible security or through direct investments in preferred stocks. 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.

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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 Securities 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 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. 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. The Fund may invest in convertible preferred securities, which are subject to the same risks as convertible securities generally. See Principal Risks of the Fund Convertible Securities Risk. In addition, convertible preferred securities may generate lower rates of income than other preferred securities, and the conversion option of a convertible preferred security may cause it to trade more like an equity security than a typical debt instrument.

Some preferred securities allow holders to convert the preferred securities into common stock of the issuer causing their market price to be sensitive to changes in the value of the issuer s common stock and, therefore, declining common stock values may also cause the value of a Fund s investments to decline. Preferred securities often have call features which allow the issuer to redeem the security at its discretion. The redemption of a preferred security having a higher than average yield may cause a decrease in the Fund s yield. Certain preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. Government securities.

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Leverage Risk. The Fund s use of leverage (as described under Use of Leverage in the body of this prospectus) creates special risks. To the extent used, there is no assurance that the Fund s Preferred Shares or any other leverage strategies will be successful. Leverage is a speculative technique that may expose the Fund to greater risk and increased costs. The Fund s assets attributable to Cumulative Preferred Shares, its outstanding ARPS, any future Preferred Shares that are issued or the net proceeds the Fund obtains from its use of securities loans, reverse repurchase agreements, dollar rolls and/or borrowings, if any, will be invested in accordance with the Fund s investment objective and policies as described in this prospectus. Dividends payable with respect to the ARPS and interest expense payable by the Fund with respect to any reverse repurchase agreements, dollar rolls and borrowings 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 dividend rates on the Preferred Shares and the interest expenses and other costs to the Fund of such other leverage, the investment of the proceeds thereof will generate more income than will be needed to pay the costs of the leverage. If, however, the dividends, interest and/or other costs to the Fund of leverage (including the dividend rates on the Preferred Shares and interest expenses on any reverse repurchase agreements, dollar rolls and borrowings) exceed the rate of return on the debt obligations and other investments held by the Fund, the Fund s net asset value will be adversely affected. Therefore, there can be no assurance that the Fund s use of leverage will result in a higher net asset value than if the Fund did not use leverage. In addition, the Preferred Shares pay cumulative dividends, which may tend to increase leverage risk. All other things being equal, extensive use of leverage by the Fund tends to increase the risk that the Fund may not be able to service its indebtedness, pay dividends to holders of Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and Cumulative Preferred Shares.

In addition, bank borrowings and similar forms of indebtedness generally have priority of payment over the Preferred Shares.

The use by the Fund of securities loans, reverse repurchase agreements and dollar rolls, if any, 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 the Preferred Shares, securities loans, 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, credit default swaps, total return swaps and other derivative transactions, short sales and when-issued, delayed delivery and forward commitment transactions). The Fund s

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use of such transactions give rise to associated leverage risks described above, and may adversely affect the Fund s income, net asset value and ability to pay dividends on its Preferred Shares. 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 Use of Leverage.

Among other negative consequences, any decline in the net asset value of the Fund s investments could result in the Fund being in danger of failing to meet its asset coverage requirements or of the Cumulative Preferred Shares being downgraded by the rating agency then rating the Cumulative Preferred Shares. In an extreme case, the Fund s current investment income might not be sufficient to meet the dividend requirements on the Cumulative Preferred Shares. In order to address these types of events, the Fund might need to liquidate investments in order to fund a redemption of some or all of the Cumulative Preferred Shares. Liquidation at times of adverse economic conditions may result in a loss to the Fund.

Because the fees received by the Investment Manager are based on the total managed assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding), the Investment Manager has a financial incentive for the Fund to use certain forms of leverage (*e.g.*, preferred shares, securities loans, reverse repurchase agreements and other borrowings), potentially increasing the risk that the Fund may not be able to service its indebtedness, pay dividends to holders of Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and Cumulative Preferred Shares.

Risks Associated with the ARPS. Although the Fund s ARPS ordinarily would pay dividends at rates set at periodic auctions, the weekly auctions for the ARPS (and auctions for similar preferred shares issued by closed-end funds in the U.S.) have failed since February 2008. The dividend rates on the ARPS since that time have been paid, and the Fund expects that they will continue to be paid for the foreseeable future, at the maximum applicable rate under the Fund s Bylaws (*i.e.*, a multiple of a reference rate, which is the applicable AA Financial Composite Commercial Paper Rate (for a dividend period of fewer than 184 days) or the applicable Treasury Index Rate (for a dividend period of 184 days or more)). An increase in market interest rates generally, therefore, could increase substantially the dividend rate required to be paid by the Fund to the holders of ARPS, which would increase the expenses associated with the Fund s leverage and increase the risk that the Fund would be unable to pay dividends on its Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and Cumulative Preferred Shares.

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In addition, the multiple used to calculate the maximum applicable rate is based in part on the credit rating assigned to the ARPS by the applicable rating agency (currently, Moody s), with the multiple generally increasing as the rating declines. As of the date hereof, the Fund s ARPS have a Moody s rating of Aa3, meaning the multiple used to calculate the maximum applicable rate is 150%, subject to upward adjustment in the event of downgrade. See Use of Leverage and Description of Capital Structure. The ARPS could be subject to ratings downgrades in the future, possibly resulting in further increases to the maximum applicable rate.

Therefore, it is possible that a substantial rise in market interest rates and/or ratings downgrades of the ARPS could make the Fund s continued use of Preferred Shares for leverage purposes less attractive than such use is currently considered to be. In such case, the Fund may elect to redeem some or all of the Preferred Shares outstanding, which may require it to dispose of investments at inopportune times and to incur losses on such dispositions. Such dispositions may adversely affect the Fund s investment performance generally.

The Fund is also subject to certain asset coverage tests associated with the rating agency that rates the ARPS currently Moody s. Failure by the Fund to maintain the asset coverages (or to cure such failure in a timely manner) may require the Fund to redeem ARPS. See Description of Capital Structure. Failure to satisfy ratings agency asset coverage tests or other guidelines could also result in the applicable ratings agency downgrading its then-current ratings on the ARPS, as described above. Moreover, the rating agency guidelines impose restrictions or limitations on the Fund s use of certain financial instruments or investment techniques that the Fund might otherwise utilize in order to achieve its investment objective, which may adversely affect the Fund s investment performance. Rating agency guidelines may be modified by the rating agencies in the future and, if adopted by the Fund, such modifications may make such guidelines substantially more restrictive, which could further negatively affect the Fund s investment performance.

Liquidity Risk. The Fund may invest up to 5% of its total assets in securities which are illiquid at the time of investment (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Illiquid securities may be subject to legal or contractual restrictions on disposition or may lack an established secondary trading market. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Fund may not be able to dispose readily of illiquid securities when that would be

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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. In addition, certain derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets the Fund may not be able to close out a position without incurring a loss.

Foreign (Non-U.S.) Investment Risk. The Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers based in developed countries. 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 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. Foreign countries may impose taxes on income from or transactions in foreign securities, thereby reducing the Fund s return on such securities. The increased expense of investing in foreign markets reduces the amount the Fund can earn on its investments and typically results in a higher operating expense ratio for the Fund than for investment companies invested only in the United States.

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

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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.

Derivatives Risk. The Fund may utilize various derivative strategies (both long and short positions) for investment or risk management purposes, as well as to leverage its portfolio. These may include derivatives used as a component of a synthetic convertible security or to gain exposure to high yield securities and other securities in which the Fund may invest (*e.g.*, pending investment of the proceeds of an offering). 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, 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.

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

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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.

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 managers believe the current holdings are overvalued or for other investment-related reasons.

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. The value of investments in the real estate sector also may be affected by macroeconomic developments, and social and economic trends. 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.

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. Generally, rising interest rates tend to extend the duration of fixed-rate mortgage-related securities, making them more sensitive to changes in interest rates. As

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a result, in a period of rising interest rates, the Fund may exhibit additional volatility. This is known as extension risk. In addition, adjustable and fixed-rate mortgage-related securities may involve special risks relating to unanticipated rates of prepayment on the mortgages underlying the securities. This is known as prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns of the Fund because the Fund may have to reinvest that money at the lower prevailing interest rates. 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 the nature of the assets and the servicing of those assets.

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.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. AllianzGI U.S. and the portfolio managers 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.

Loan Participations and Assignments Risk. The Fund may invest in fixed and floating rate loans arranged through private negotiations between an issuer and one or more financial institutions, which 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

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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.

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 Objective 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,

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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.

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 objective and policies and permissible under the 1940 Act. As a shareholder in an investment company, the Fund will bear its ratable share of that investment company s expenses, and would remain subject to payment of the Fund s investment management fees with respect to the assets so invested. 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.

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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, and a liquid secondary market may never develop. 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.

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.

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 Trustees 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.

Confidential Information Access Risk. In managing the Fund, AllianzGI U.S. 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 AllianzGI U.S. with financial information and related documentation regarding the bank issuer that is not publicly available. Pursuant to applicable policies and procedures, AllianzGI U.S. may (but is not

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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 AllianzGI U.S. 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, AllianzGI U.S. 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. AllianzGI U.S. may also determine to receive such Confidential Information in certain circumstances under its applicable policies and procedures. If AllianzGI U.S. 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.

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 the Investment Manager and the portfolio managers in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment objective. The SEC has also proposed a new rule related to certain aspects of derivatives use. As of the date for this prospectus, whether, when and in what form this proposed rule will be adopted and its potential effects on the Fund are unclear.

Regulatory Risk Commodity Pool Operator. The CFTC has adopted certain regulatory changes that subject registered investment companies and their investment advisers to regulation by the CFTC if the registered investment company invests more than a prescribed level of its liquidation value in commodity futures, options on commodities or commodity futures, swaps, or other financial instruments (commodity interests) regulated under the Commodity Exchange Act of 1936, as amended (the CEA), or if the fund markets itself as providing investment exposure to such instruments. In connection with these regulatory changes, the Investment Manager has registered with the National Futures Association as a commodity pool operator (CPO) under the CEA with respect to certain funds it manages and has also registered as a commodity trading adviser (CTA). The Investment Manager has claimed an exclusion from CPO registration pursuant to CFTC Rule 4.5 with respect to the Fund. To remain eligible for this

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exclusion, the Fund must comply with certain limitations, including limits on its ability to use any commodity interests and limits on the manner in which the Fund holds out its use of such commodity interests. These limitations may restrict the Fund s ability to pursue its investment objective and strategies, increase the costs of implementing its strategies, result in higher expenses for the Fund, and/or adversely affect the Fund s investment returns. Further, in the event the Investment Manager becomes unable to rely on the exclusion in Rule 4.5 with respect to the Fund, the Fund will be subject to additional regulation and its expenses may increase.

Risk of Adverse Economic Conditions. The debt and equity capital markets in the United States and in foreign countries in the recent past were 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 led to worsening general economic conditions, which materially and adversely affected the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial firms in particular. These developments may have increased the volatility of the value of securities owned by the Fund, and also may have made it more difficult for the Fund to accurately value securities or to sell securities on a timely basis. These developments adversely affected the broader global economy, and, if repeated, would 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. In turn, this could make it more difficult for the Fund to make dividend payments with respect to the Cumulative Preferred Shares.

The instability in the financial markets discussed above 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. 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 objective. See Principal Risks of the Fund Risk of Regulatory Changes.

Potential Conflicts of Interest Risk Allocation of Investment Opportunities. The Investment Manager is 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 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 intends 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 and/or other accounts achieve profits on their trading for proprietary or other accounts.

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, along with instability in Pakistan, Egypt, Libya, Syria, Russia, Ukraine, Yemen and the Middle East, possible terrorist attacks in the United States and around the world, social and political discord in the United States, the European debt crisis, the response of the international community through economic sanctions and otherwise to Russia s annexation of the Crimea region of Ukraine and posture vis-a-vis Ukraine, downgrade of U.S. Government securities, the outbreak of infectious diseases such as Ebola and other similar events may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. 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 uncertainty surrounding the sovereign debt of a significant number of European Union countries, as well as the status of the Euro, the European Monetary Union and the European Union itself, has disrupted and may continue to disrupt markets in the U.S. and around the world. The risks associated with investments in Europe may be heightened due to the approval by citizens of the United Kingdom, in June 2016, of a referendum to leave the European Union. Significant uncertainty remains in the market regarding the ramifications of that development, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict. If the United Kingdom s exit from the European Union is consummated, or if one or more additional countries leave the European Union, or the European

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Union partially or completely dissolves, the world s securities markets may be significantly disrupted and adversely affected. Substantial government interventions (*e.g.*, currency controls) also could negatively impact the Fund. War, terrorism, economic uncertainty, and related geopolitical events have led, and in the future may 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, adversely affecting individual companies and industries, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of the Fund s investments. Market disruptions, including sudden government interventions, can also prevent the Fund from implementing its investment program for a period of time and achieving its investment objectives. For example, a market disruption may adversely affect the orderly functioning of the securities markets and may cause the Fund s derivatives counterparties to discontinue offering derivatives on some underlying commodities, securities, reference rates, or indices, or to offer them on a more limited basis. 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.

Certain Affiliations. Certain broker-dealers may be considered to be affiliated persons of the Fund or the Investment Manager due to their possible affiliations with Allianz SE, the ultimate parent of the Investment Manager. 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 Declaration includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. Preferred Shareholders will have voting rights in addition to and separate from the voting rights of the Common Shareholders in certain situations. Preferred Shareholders, on the one hand, and Common Shareholders, on the other, may have interests that conflict in these situations. See Anti-Takeover Provisions in the Declaration of Trust.

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Tax Considerations

The distributions with respect to the Cumulative Preferred Shares (other than distributions in redemption of Cumulative Preferred Shares subject to Section 302(b) of the Code) will constitute dividends to the extent of the Fund s current or accumulated earnings and profits, as calculated for federal income tax purposes. Such dividends generally will be taxable as ordinary income to holders. Distributions of net capital gains (*i.e.*, the excess of net long-term capital gains over net short-term capital losses) that are properly reported by the Fund as capital gain dividends will be treated as long-term capital gains in the hands of holders receiving such distributions. The Internal Revenue Service (the IRS) currently requires that a regulated investment company (RIC) that has two or more classes of stock allocate to each such class proportionate amounts of each type of the RIC s income (such as ordinary income and capital gains) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the Fund intends each year to allocate capital gain dividends between and among its Common Shares and each series of its Preferred Shares, including the Cumulative Preferred Shares, in proportion to the total dividends paid to each class during or with respect to such year. Ordinary income dividends and dividends qualifying for the dividends received deduction, if any, will similarly be allocated between and among such share classes.

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FINANCIAL HIGHLIGHTS

The information in the table below for the fiscal years ended February 28, 2018, 2017, 2015 and 2014, and February 29, 2016 is derived from the Fund s financial statements for the fiscal year ended February 28, 2018 audited by PricewaterhouseCoopers LLP, whose report on such financial statements is contained in the Fund s February 28, 2018 Annual Report and is incorporated by reference into the Statement of Additional Information.

	Year ended February 28, 2018	Year ended February 28, 2017	Year ended February 29, 2016	Year ended February 28, 2015	Year ended February 28, 2014
Net asset value, beginning of year	$ 6.86	$ 5.50	$ 8.44	$ 9.49	$ 8.78
Investment Operations:					
Net Investment Income	0.69	0.73	0.83	0.87	1.02[1]
Net realized and change in unrealized gain (loss)	(0.16)	1.44	(2.83)	(0.85)	0.75
Total from investment operations	0.53	2.17	(2.00)	0.02	1.77
Dividends on Preferred Shares from Net Investment Income[1]	(0.07)	(0.03)	(0.01)	(0.00)[2]	(0.01)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	0.46	2.14	(2.01)	0.02	1.76
Dividends and Distributions to Common Shareholders from:					
Net Investment Income	(0.77)	(0.78)	(0.93)	(1.08)	(1.08)
Return of capital	(0.01)				
Total dividends and distributions to common shareholders	(0.78)	(0.78)	(0.93)	(1.08)	(1.08)
Common Share Transactions:					
Accretion to net asset value, resulting from offerings				0.01	0.03
Capital charge resulting from issuance of common shares and related offering costs				(0.00)[2]	(0.00)[2]
Total common share transactions				0.01	0.03
Net asset value, end of year	$ 6.54	$ 6.86	$ 5.50	$ 8.44[3]	$ 9.49
Market price, end of year	$ 6.93	$ 6.93	$ 4.92	$ 9.12	$ 10.20
Total Investment Return[4]	12.22%	59.15%	(38.23)%	0.37%	24.87%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, applicable to common shareholders, end of year (000s)	$ 580,867	$ 605,194	$ 484,512	$ 739,983	$ 811,397
Ratio of expenses to average net assets[5]	1.28%	1.36%[7]	1.26%[7]	1.23%[7]	1.21%[6][7]
Ratio of net investment income to average net assets[5]	10.32%	11.33%[7]	11.51%[7]	9.73%[7]	11.13%[6][7]
Preferred shares asset coverage per share	$ 65,668	$ 67,376	$ 58,927	$ 76,819	$ 81,820
Portfolio turnover rate	34%	28%	51%	56%	79%

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	Year ended February 28, 2013	Year ended February 29, 2012	Year ended February 28, 2011	Year ended February 28, 2010	Year ended February 28, 2009
Net asset value, beginning of year	$ 8.65	$ 9.76	$ 8.80	$ 4.80	$ 12.52
Investment Operations:					
Net investment income	1.02	1.07	1.20	1.07	1.56
Net realized and change in unrealized gain (loss)	0.20	(1.04)	1.02	4.02	(7.75)
Total from investment operations	1.22	0.03	2.22	5.09	(6.19)
Dividends on Preferred Shares from Net Investment Income	(0.01)	(0.01)	(0.01)	(0.01)	(0.17)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	1.21	0.02	2.21	5.08	(6.36)
Dividends to Common Shareholders from Net Investment Income	(1.08)	(1.13)	(1.25)	(1.08)	(1.36)
Common Share Transactions:					
Accretion to net asset value, resulting from offerings	0.00[8]				
Capital charge resulting from issuance of common shares and related offering costs	(0.00)[2]				
Total common share transactions	0.00[8]				
Net asset value, end of year	$ 8.78	$ 8.65	$ 9.76	$ 8.80	$ 4.80
Market price, end of year	$ 9.18	$ 9.70	$ 11.00	$ 9.39	$ 4.05
Total Investment Return[4]	7.02%	(0.15)%	33.53%	166.37%	(61.55)%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, applicable to common shareholders, end of year (000s)	$ 680,022	$ 653,381	$ 727,229	$ 644,408	$ 348,544
Ratio of expenses to average net assets[5]	1.28%	1.28%	1.27%	1.39%	1.56%[9]
Ratio of net investment income to average net assets[5]	12.12%	12.32%	13.25%	14.21%	16.87%
Preferred shares asset coverage per share	$ 72,619	$ 70,755	$ 75,925	$ 70,125	$ 49,406
Portfolio turnover rate	39%	33%	52%	58%	62%

(1) Calculated on average common shares outstanding.

(2) Less than $(0.005) per common share.

(3) Payment from affiliate increased the net asset value by less than $0.01.

(4) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year reported. Dividends and distributions, if any, 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 in connection with the purchase or sale of Fund shares.

(5) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to average net assets of common shareholders.

(6) Inclusive of expense reimbursement from Investment Manager of 0.01%.

(7) Inclusive of excise tax expense of 0.03%, less than 0.005%, 0.05% and 0.04% for the years ended February 28, 2017, February 29, 2016, February 28, 2015 and February 28, 2014, respectively.

(8) Less than $0.005 per common share.

(9) Ratio of expenses to average net assets of common shareholders, excluding excise tax expense, was 1.53%.

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The following table sets forth certain information regarding the Fund s outstanding ARPS as of the end of each of the Fund s last ten fiscal years. The information is derived from the Fund s audited financial statements for the applicable fiscal years.

Fiscal Year Ended	Total Amount Outstanding	Asset Coverage per Preferred Share[1]	Involuntary Liquidating Preference per Preferred Share[2]	Average Market Value per Preferred Share[3]
February 28, 2018	$357,000,000	$65,668	$25,000	N/A
February 28, 2017	$357,000,000	$67,376	$25,000	N/A
February 29, 2016	$357,000,000	$58,927	$25,000	N/A
February 28, 2015	$357,000,000	$76,819	$25,000	N/A
February 28, 2014	$357,000,000	$81,820	$25,000	N/A
February 28, 2013	$357,000,000	$72,619	$25,000	N/A
February 29, 2012	$357,000,000	$70,755	$25,000	N/A
February 28, 2011	$357,000,000	$75,925	$25,000	N/A
February 28, 2010	$357,000,000	$70,125	$25,000	N/A
February 28, 2009	$357,000,000	$49,406	$25,000	N/A

(1) Asset Coverage per Preferred Share means the ratio that the value of the total assets of the Fund, less all liabilities and indebtedness not represented by Preferred Shares, bears to the aggregate of the involuntary liquidation preference of the Preferred Shares, expressed as a dollar amount per Preferred Share.

(2) Involuntary Liquidating Preference per Preferred Share means the amount to which a holder of Preferred Shares would be entitled upon the involuntary liquidation of the Fund in preference to the Common Shareholders, expressed as a dollar amount per Preferred Share.

(3) The Preferred Shares have no readily ascertainable market value. As discussed herein under Use of Leverage, auctions for the ARPS have failed since February 2008, there is currently no active trading market for the ARPS and the Fund is not able to reliably estimate what their value would be in a third-party market sale.

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THE FUND

AllianzGI Convertible & Income Fund is a diversified, closed-end management investment company. The Fund was organized as a Massachusetts business trust on January 17, 2003, pursuant to an Agreement and Declaration of Trust governed by the laws of the Commonwealth of Massachusetts. The Fund commenced operations on March 31, 2003, 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 (800) 254-5197.

USE OF PROCEEDS

The net proceeds of the offering will be used to refinance outstanding indebtedness or other forms of leverage, potentially including amounts outstanding under the Fund s liquidity facility with State Street Bank and Trust Company and/or the Fund s existing ARPS, and/or to purchase additional portfolio securities in accordance with the Fund s investment objective and policies as set forth below. The Fund anticipates using all or substantially all of the proceeds from any offering of Cumulative Preferred Shares to refinance existing leverage. The Fund will be able to deploy substantially all net proceeds within 30 days after receipt by the Fund. Pending such use of proceeds, it is anticipated that the proceeds of the offering will be invested in cash and cash equivalents or high grade, short-term securities, credit-linked trust certificates and/or high yield securities index futures contracts or similar derivative instruments designed to give the Fund exposure to the securities and markets in which it typically invests.

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INVESTMENT OBJECTIVE AND POLICIES

The Fund s investment objective is to provide total return through a combination of capital appreciation and high current income. The Fund attempts to achieve this objective by investing in a diversified portfolio of convertible securities and non-convertible income-producing securities described under Portfolio Contents below. As described below, in seeking to achieve its investment objective, the Fund expects ordinarily to invest primarily in high yield securities or junk bonds. The Fund cannot assure you that it will achieve its investment objective.

The Fund cannot change its investment objective without the approval of the holders of a majority of the outstanding Common Shares and any Preferred Shares voting together as a single class, and of the holders of a majority of the outstanding Preferred Shares voting as a separate class. A majority of the outstanding shares (whether voting together as a single class or voting as a separate class) means (i) 67% or more of such shares present at a meeting, if the holders of more than 50% of those shares are present or represented by proxy, or (ii) more than 50% of such shares, whichever is less.

Portfolio Management Strategies

In selecting investments for the Fund, AllianzGI U.S. attempts to identify issuers that successfully adapt to change. AllianzGI U.S. uses traditional credit analysis combined with a disciplined, fundamental bottom-up research process that facilitates the early identification of issuers demonstrating an ability to improve their fundamental characteristics. See Independent Credit Analysis below. AllianzGI U.S. attempts to identify potential investments that it expects will exceed minimum credit statistics and exhibit the highest visibility of future expected operating performance. AllianzGI U.S. s sell discipline is clearly defined and designed to drive the Fund s portfolio continually toward strength, taking into account factors such as a change in credit fundamentals, a decline in attractiveness relative to other securities and a decline in industry fundamentals.

In selecting convertible securities for investment by the Fund, AllianzGI U.S. evaluates each convertible security s investment characteristics as an income-producing security, using the techniques described above, as well as its potential for capital appreciation, using techniques that focus on the security s equity characteristics. AllianzGI U.S. seeks to capture approximately 60-80% of any increase in the market price of the underlying equities (upside potential) and 50% or less of any decrease in the market price of the underlying equities (downside exposure). In analyzing specific companies for possible investment, AllianzGI U.S. ordinarily looks for several of the following characteristics: above-average per share earnings growth; high return on invested capital; a healthy balance sheet; sound financial and accounting policies and overall financial strength; strong competitive advantages; effective research and product development and marketing; development of new technologies; efficient service; pricing flexibility; strong management; and general operating characteristics that will enable the companies to compete successfully in their respective markets. AllianzGI U.S. will consider selling a particular convertible security when any of those factors materially changes.

Independent Credit Analysis

AllianzGI U.S. relies heavily on its own analysis of the credit quality and risks associated with individual securities considered for the Fund, rather than relying exclusively on rating agencies or third-party research. The Fund s portfolio managers utilize this information in an attempt to minimize credit risk and identify issuers, industries or sectors that are undervalued or that offer attractive capital appreciation potential or high current income relative to AllianzGI U.S. s assessment of their credit characteristics. This aspect of AllianzGI U.S. s capabilities will be particularly important to the extent that the Fund invests in high yield securities.

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PORTFOLIO CONTENTS

Under normal circumstances, the Fund will invest at least 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities. The portion of the Fund s assets invested in convertible securities, on the one hand, and non-convertible income-producing securities, on the other, will vary from time to time consistent with the Fund s investment objective, although the Fund will normally invest at least 50% of its total assets in convertible securities. The Fund s investments in derivatives and other synthetic instruments that have economic characteristics similar to convertible securities or non-convertible income-producing securities will be counted toward satisfaction of the Fund s 80% Policy and 50% Policy. For purposes of the Fund s 80% Policy and 50% Policy, the Fund generally values its derivative instruments based on their market value. In making allocation decisions, AllianzGI U.S. will consider factors such as changes in equity prices, changes in interest rates and other economic and market factors. The Fund may invest without limit in convertible securities and non-convertible income-producing securities that are below investment grade quality, and expects that ordinarily AllianzGI U.S. s portfolio strategies will result in the Fund investing primarily in these securities. The Fund typically invests in securities with a broad range of maturities.

The Fund may invest up to 20% of its total assets in securities other than convertible securities and non-convertible income-producing securities. The Fund may invest up to 5% of its total assets 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). The Fund may hold or have exposure to equity securities. The Fund may invest in securities of other open- or closed-end investment companies, including, but not limited to, ETFs. The Fund may invest in securities of companies with small and medium market capitalizations.

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward 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.

The Fund may also invest in non-convertible income-producing securities, including, but not limited to, corporate bonds, debentures, notes and other similar types of corporate debt instruments of U.S. and foreign corporate and other issuers, including commercial paper, as well as non-convertible preferred stocks; bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments); REITs and commercial and other mortgage-related and asset-backed securities issued on a public or private basis; payment-in-kind securities; credit-linked trust certificates and other securities issued by special purpose or structured vehicles; zero-coupon bonds; bank certificates of deposit, fixed time deposits and bankers acceptances; U.S. Government securities; and income-producing securities of distressed companies, including senior obligations issued in connection with restructurings (commonly known as debtor-in-possession or DIP financings) and other securities issued in connection with restructurings or bankruptcy proceeding. The Fund s investments in non-convertible income-producing securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero-coupon, contingent, deferred, payment-in-kind and auction-rate features.

Upon AllianzGI U.S. s recommendation, for temporary defensive purposes and in order to keep the Fund s cash fully invested, including during the period in which the net proceeds of the offering are being invested, the Fund may deviate from its investment objective and policies and invest some or all of its net assets in investments such as high grade, short-term debt securities. The Fund may not achieve its investment objective when it does so.

It is the policy of the Fund not to engage in trading for short-term profits although portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for the Fund. Frequent changes in the Fund s investments (*i.e.*, portfolio turnover), which are more likely in periods of volatile market movements, involve some expense to the Fund, including brokerage commissions or dealer mark-ups and other transaction

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costs, and may increase the amount of capital gains (and, in particular, short-term gains) realized by the Fund, on which shareholders may pay tax. Please see Investment Objective and Policies Portfolio Trading and Turnover Rate in the Statement of Additional Information for more information regarding portfolio turnover.

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

Convertible Securities

The Fund may invest without limit in convertible securities, and these securities will ordinarily constitute a principal component of the Fund s investment program. Under normal circumstances, the Fund will invest at least 50% of its total assets in convertible securities. Convertible securities include bonds, debentures, notes, preferred stocks or other securities that may be converted or exchanged at either a stated price or stated rate into underlying shares of common stock. Convertible securities have general characteristics similar to both debt securities and equity securities. Although to a lesser extent than with debt obligations, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stocks and, therefore, also will react to variations in the general market for equity securities.

Convertible securities are investments that provide for a stable stream of income with generally higher yields than common stocks. There can be no assurance of current income because the issuers of the convertible securities may default on their obligations. Convertible securities, however, generally offer lower interest or dividend yields than non-convertible debt securities of similar credit quality because of the potential for equity-related capital appreciation. A convertible security, in addition to providing current income, offers the potential for capital appreciation through the conversion feature, which enables the holder to benefit from increases in the market price of the underlying common stock. The Fund may invest in contingent convertible securities (CoCos). The term contingent convertible securities refers solely to convertible securities that are generally convertible at the option of the security holder and not convertible securities that convert upon the occurrence of an external trigger event, such as the failure of the issuer to satisfy certain capitalization criteria.

Synthetic Convertible Securities

The Fund also may invest without limit in synthetic convertible securities, which will be selected based on the similarity of their economic characteristics to those of a traditional convertible security due to the 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 Fund may also purchase synthetic securities created by other parties, typically investment banks, including convertible structured notes. The income-producing and convertible components of a synthetic convertible security may be issued separately by different issuers and at different times. 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. The Fund s holdings of synthetic convertible securities are considered convertible securities for purposes of the Fund s policy to normally invest at least 50% of its total assets in convertible securities and 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities.

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Non-Convertible Income Producing Securities

The Fund may also invest in non-convertible income-producing securities, including, but not limited to, corporate bonds, debentures, notes and other similar types of corporate debt instruments of U.S. and foreign corporate and other issuers, including commercial paper, as well as non-convertible preferred stocks; bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments); real estate investment trusts (REITs) and commercial and other mortgage-related and asset-backed securities issued on a public or private basis; payment-in-kind securities; credit-linked trust certificates and other securities issued by special purpose or structured vehicles; zero-coupon bonds; bank certificates of deposit, fixed time deposits and bankers acceptances; U.S. Government securities; and income-producing securities of distressed companies, including senior obligations issued in connection with restructurings (commonly known as debtor-in-possession or DIP financings) and other securities issued in connection with restructurings or bankruptcy proceedings. The Fund s investments in non-convertible income-producing securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero-coupon, contingent, deferred, payment-in-kind and auction-rate features.

High Yield Securities (Junk Bonds)

The Fund may invest without limit in convertible securities and non-convertible income producing securities that are rated below investment grade (below Baa3 by Moody s or below BBB- by either S&P or Fitch) or that are unrated but determined by AllianzGI U.S. to be of comparable quality, and expects that normally AllianzGI U.S. s portfolio strategies will result in the Fund investing primarily in those securities. Below investment grade securities are commonly referred to as high yield securities or junk bonds. The Fund may invest in high yield securities of any rating, including securities given the lowest non-default rating (Caa by Moody s or C by S&P or Fitch, as described in Appendix A) or unrated securities judged to be of comparable quality by AllianzGI U.S. The Fund may purchase distressed securities that are in default or the issuers of which are in bankruptcy. High yield securities involve a greater degree of risk (in particular, a greater risk of default) than, and special risks in addition to the risks associated with, investment grade debt obligations. While offering a greater potential opportunity for capital appreciation and higher yields, high yield securities typically entail greater potential price volatility and may be less liquid than higher-rated securities. High yield securities may be regarded as predominantly speculative with respect to the issuer s continuing ability to make timely principal and interest payments. They also may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain ratings agencies.

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

Credit Ratings and Unrated Securities

Rating agencies are private services that provide ratings of the credit quality of debt obligations. Appendix A to this prospectus describes the various ratings assigned to debt obligations by Moody s, S&P and Fitch. As noted in Appendix A, Moody s, S&P and Fitch may modify their ratings of securities to show relative standing within a rating category, with the addition of numerical modifiers (1, 2 or 3) in the case of Moody s, and with the addition of a plus (+) or minus (-) sign in the case of S&P and Fitch. Ratings assigned by a rating agency are not absolute standards of credit quality and do not evaluate market risks. Rating agencies may fail to make timely changes in credit ratings and an issuer s current financial condition may be better or worse than a rating indicates. The Fund will not necessarily sell a security when its rating is reduced below its rating at the time of purchase. AllianzGI U.S. does not rely solely on credit ratings, and develops and relies primarily on its own

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analysis of issuer credit quality. The ratings of a debt security may change over time. Moody s, S&P and Fitch monitor and evaluate the ratings assigned to securities on an ongoing basis. As a result, debt instruments held by the Fund could receive a higher rating (which would tend to increase their value) or a lower rating (which would tend to decrease their value) during the period in which they are held by the Fund.

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

Foreign (Non-U.S.) Investments

The Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers based in developed countries. For this purpose, foreign securities include, but are not limited to, foreign convertible securities and non-convertible income-producing securities, foreign equity securities (including preferred securities of foreign issuers), foreign bank obligations, and obligations of foreign governments or their subdivisions, agencies and instrumentalities, international agencies and supranational entities. For this purpose, foreign securities do not include ADRs or securities guaranteed by a United States person (*i.e.*, the Fund does not count these securities for purposes of the 20% limitation noted above), but may include foreign securities in the form of GDRs or other securities representing underlying shares of foreign issuers. See Principal Risks of the Fund Foreign (Non-U.S.) Investment Risk.

The U.S. dollar-denominated foreign securities in which the Fund may invest include without limitation Eurodollar obligations and Yankee Dollar obligations. Eurodollar obligations are U.S. dollar-denominated certificates of deposit and time deposits issued outside the U.S. capital markets by foreign branches of U.S. banks and by foreign banks. Yankee Dollar obligations are U.S. dollar-denominated obligations issued in the U.S. capital markets by foreign banks. Eurodollar and Yankee Dollar obligations are generally subject to the same risks that apply to domestic debt issues, notably credit risk, interest rate risk, market risk and liquidity risk. Additionally, Eurodollar (and to a limited extent, Yankee Dollar) obligations are subject to certain sovereign risks. One such risk is the possibility that a sovereign country might prevent capital, in the form of U.S. dollars, from flowing across its borders. Other risks include adverse political and economic developments; the extent and quality of government regulation of financial markets and institutions; the imposition of foreign withholding or other taxes; and the expropriation or nationalization of foreign issuers.

The Fund also may invest in sovereign debt issued by foreign governments, their agencies or instrumentalities or other government-related entities. As a holder of sovereign debt, the Fund may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In addition, there are generally no bankruptcy proceedings similar to those in the United States by which defaulted sovereign debt may be collected. Investing in foreign securities involves special risks and considerations not typically associated with investing in U.S. securities. See Principal Risks of the Fund Foreign (Non-U.S.) Investment Risk.

The Fund also may invest in Brady Bonds, which are securities created through the exchange of existing commercial bank loans to sovereign entities for new obligations in connection with a debt restructuring. Investments in Brady Bonds may be viewed as speculative. Brady Bonds acquired by the Fund may be subject to restructuring arrangements or to requests for new credit, which may cause the Fund to realize a loss of interest or principal on any of its portfolio holdings.

Please see Investment Objective and Policies Non-U.S. Securities in the Statement of Additional Information for a more detailed description of the types of foreign investments in which the Fund may invest and their related risks.

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Restricted Securities

The Fund may invest without limit in securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdiction, including, without limitation, securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act, or relevant provisions of applicable non-U.S. law, and other securities issued in private placements. Rule 144A under the Securities Act provides a non-exclusive safe harbor exemption from the registration requirements of the Securities Act for the resale of certain restricted securities to certain qualified institutional buyers, such as the Fund. Restricted securities and other private placement securities may be deemed illiquid and thus may be subject to the Fund s limit on investments in illiquid securities, although the Fund may determine that certain restricted securities are liquid in accordance with procedures adopted by the Fund s Board.

Bonds

The Fund may invest in a wide variety of bonds of varying maturities issued by non-U.S. (foreign) and U.S. corporations and other business entities, governments and quasi-governmental entities and municipalities and other issuers. Bonds may include, among other things, fixed or variable/floating-rate debt obligations, including bills, notes, debentures, money market instruments and similar instruments and securities. Bonds generally are used by corporations as well as governments and other issuers to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Certain bonds are perpetual in that they have no maturity date.

Preferred Securities

The Fund may invest in preferred stocks. The Fund s investments in preferred stocks typically will be convertible securities, although the Fund may also invest in non-convertible preferred stocks. Preferred securities represent an equity interest in a company that generally entitles the holder to receive, in preference to the holders of other stocks such as common stocks, dividends and a fixed share of the proceeds resulting from liquidation of the company. Unlike common stocks, preferred stocks usually do not have voting rights. Preferred stocks in some instances are convertible into common stock. Some preferred stocks also entitle their holders to receive additional liquidation proceeds on the same basis as holders of a company s common stock, and thus also represent an ownership interest in the company. Some preferred stocks offer a fixed rate of return with no maturity date. Because they never mature, these preferred stocks may act like long-term bonds, can be more volatile than other types of preferred stocks and may have heightened sensitivity to changes in interest rates. Other preferred stocks have a variable dividend, generally determined on a quarterly or other periodic basis, either according to a formula based upon a specified premium or discount to the yield on particular U.S. Treasury securities or based on an auction process, involving bids submitted by holders and prospective purchasers of such stocks. Although they are equity securities, preferred securities have certain characteristics of both debt securities and common stock. They are like debt securities in that their stated income is generally contractually fixed. They are like common stocks in that they do not have rights to precipitate bankruptcy proceedings or collection activities in the event of missed payments. Furthermore, preferred securities have many of the key characteristics of equity due to their subordinated position in an issuer s capital structure and because their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows. Because preferred securities represent an equity ownership interest in a company, their value usually will react more strongly than bonds and other debt instruments to actual or perceived changes in a company s financial condition or prospects, or to fluctuations in the equity markets.

In order to be payable, dividends on preferred securities must be declared by the issuer s board of directors. In addition, distributions on preferred securities may be subject to deferral and thus may not be automatically payable. Income payments on some preferred securities are cumulative, causing dividends and distributions to accrue even if they are not declared by the board of directors of the issuer or otherwise made payable. Other preferred securities are non-cumulative, meaning that skipped dividends and distributions do not continue to accrue. There is no assurance that dividends on preferred securities in which the Fund invests will be declared or otherwise made payable.

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Preferred securities have a liquidation value that generally equals their original purchase price at the date of issuance. The market values of preferred securities may be affected by favorable and unfavorable changes affecting the issuers industries or sectors. They also may be affected by actual and anticipated changes or ambiguities in the tax status of the security and by actual and anticipated changes or ambiguities in tax laws, such as changes in corporate and individual income tax rates or the characterization of dividends as tax-advantaged. The dividends paid on the preferred securities in which the Fund may invest might not be eligible for tax-advantaged qualified dividend treatment. See Tax Matters. Because the claim on an issuer s earnings represented by preferred securities may become disproportionately large when interest rates fall below the rate payable on the securities or for other reasons, the issuer may redeem preferred securities, generally after an initial period of call protection in which the security is not redeemable. Thus, in declining interest rate environments in particular, the Fund s holdings of higher dividend-paying preferred securities may be reduced and the Fund may be unable to acquire securities paying comparable rates with the redemption proceeds.

Convertible preferred securities are subject to the same risks as convertible securities generally. See Principal Risks of the Fund Convertible Securities Risk. In addition, convertible preferred securities may generate lower rates of income than non-convertible preferred securities, and the conversion option of a convertible preferred security may cause it to trade more like an equity security than a typical fixed income instrument.

Common Stocks and Other Equity Securities

Consistent with its investment objective, the Fund may hold or have exposure to equity securities. The Fund will often have substantial exposure to equity securities by virtue of the equity component of the convertible securities in which the Fund invests. The Fund may also hold equity securities in its portfolio upon conversion of a convertible security or through direct investments in preferred stocks. The Fund may invest in common shares of pooled vehicles, such as those of other investment companies, and in common shares of REITs.

Although common stocks and other equity securities have historically generated higher average returns than debt securities over the long term, they also have experienced significantly more volatility in those returns and in certain years have significantly underperformed relative to debt securities. An adverse event, such as an unfavorable earnings report, may depress the value of a particular equity security held by the Fund. Also, prices of common stocks and other equity securities are sensitive to general movements in the equity markets and a decline in those markets may depress the prices of the equity securities held by the Fund. The prices of equity securities fluctuate for many different reasons, including changes in investors perceptions of the financial condition of an issuer or the general condition of the relevant stock market or when political or economic events affecting the issuer occur. In addition, prices of equity securities may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase.

U.S. Government Securities

U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. The U.S. Government does not guarantee the net asset value of the Fund s shares. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by GNMA, are supported by the full faith and credit of the United States; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the U.S. Treasury); others, such as those of 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 instrumentality. U.S. Government securities may include zero coupon securities, which do not distribute interest on a current basis and tend to be subject to greater risk than interest-paying securities of similar maturities.

Derivatives

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward contracts, call and put options, credit default swaps, total return swaps, basis swaps

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and other swap agreements and other derivative instruments for investment purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may also utilize derivative instruments to leverage its portfolio. See Use of Leverage. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to, among others, individual debt instruments, interest rates, currencies or currency exchange rates, commodities and related indexes. The Fund may use derivatives as a component of a synthetic convertible security or to gain exposure to high yield securities and other securities in which the Fund may invest. A warrant is a certificate that gives the holder of the warrant the right to buy, at a specified time or specified times, from the issuer of the warrant, the common stock of the issuer at a specified price. A call option is a contract that gives the holder of the option, in return for a premium, the right to buy from the writer of the option the common stock underlying the option (or the cash value of the index) at a specified exercise price at any time during the term of the option. The Fund may also have exposure to derivatives, such as credit default swaps and interest rate swaps, through investments in credit-linked trust certificates and related instruments. The Fund s use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investment directly in securities and other more traditional investments. See Principal Risks of the Fund Derivatives Risk. Certain types of derivative instruments that the Fund may utilize are described elsewhere in this section, including those described under Credit Default Swaps. Please see Investment Objective and Policies Derivative Instruments in the Statement of Additional Information for additional information about these and other derivative instruments that the Fund may use and the risks associated with such instruments. There is no assurance that these derivative strategies will be available at any time or that AllianzGI U.S. will determine to use them for the Fund or, if used, that the strategies will be successful. In addition, the Fund may be subject to certain restrictions on its use of derivative strategies imposed by guidelines of one or more rating agencies that may issue ratings for any preferred shares issued by the Fund.

Credit Default Swaps

The Fund may enter into credit default swaps for both investment and risk management purposes, as well as to add leverage to the Fund s portfolio. A credit default swap may have as reference obligations one or more securities that are not currently held by the Fund. The protection buyer in a credit default swap is generally obligated to pay the protection seller an upfront or a periodic stream of payments over the term of the contract provided that no credit event, such as a default, on a reference obligation has occurred. If a credit event occurs, the seller generally must pay the buyer the par value (full notional value) of the swap in exchange for an equal face amount of deliverable obligations of the reference entity described in the swap, or the seller may be required to deliver the related net cash amount, if the swap is cash settled. The Fund may be either the buyer or seller in the transaction. If the Fund is a buyer and no credit event occurs, the Fund may recover nothing if the swap is held through its termination date. However, if a credit event occurs, the buyer generally may elect to receive the full notional value of the swap from the seller, who, in turn, generally will recover an amount significantly lower than the equivalent face amount of the obligations of the reference entity, whose value may have significantly decreased, through (i) physical delivery of such obligations by the buyer, (ii) cash settlement or (iii) an auction process. As a seller, the Fund generally receives an upfront payment or a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap.

The spread of a credit default swap is the annual amount the protection buyer must pay the protection seller over the length of the contract, expressed as a percentage of the notional amount. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. For credit default swaps on asset-backed securities and credit indices, the quoted market prices and resulting values, as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

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Credit default swaps involve greater risks than if the Fund had invested in the reference obligation directly since, in addition to general market risks, credit default swaps are subject to illiquidity risk, counterparty risk and credit risk, among other risks associated with derivative instruments. A buyer generally also will lose its investment and recover nothing should no credit event occur and the swap is held to its termination date. If a credit event were to occur, the value of any deliverable obligation received by the seller, coupled with the upfront or periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the seller. The Fund s obligations under a credit default swap will be assessed daily. In connection with credit default swaps in which the Fund is the buyer, the Fund may segregate or earmark cash or liquid assets with a value at least equal to the Fund s exposure (any unpaid premiums owed by the Fund, plus any early termination penalty, to any counterparty) and will assess the adequacy of such segregated asset daily. In connection with credit default swaps in which the Fund is the seller, the Fund may segregate or earmark cash or liquid assets with a value at least equal to the full notional amount of the swap. Such segregation or earmarking will not limit the Fund s exposure to loss. See Principal Risks of the Fund Segregation and Coverage Risk and Principal Risks of the Fund Regulatory Risk Commodity Pool Operator.

Credit-Linked Trust Certificates

Subject to the investment limitations described in this Prospectus, the Fund may invest in credit-linked trust certificates during the period when the net proceeds of any offering of Common Shares or any offering of Preferred Shares are being invested, and during such period the high yield exposure will be broadly diversified. Thereafter, the Fund may invest up to 5% of its total assets in these instruments.

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

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

Zero-coupon bonds pay interest only at maturity rather than at intervals during the life of the security. Like zero-coupon bonds, step up bonds pay no interest initially but eventually begin to pay a coupon rate prior to maturity, which rate may increase at stated intervals during the life of the security. Payment-in-kind securities

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(PIKs) are debt obligations that pay interest in the form of other debt obligations, instead of in cash. Each of these instruments is normally issued and traded at a deep discount from face value. Zero-coupon bonds, step-ups and PIKs allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. Each instrument involves the risk that a borrower may default before deferred payments are due to be paid in cash. The Fund would be required to distribute the income on these instruments as it accrues, even though the Fund will not receive the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its shareholders. Zero-coupon bonds, step up bonds and PIKs may also be associated with heighted valuation risk, as accruals of non-cash interest earned may require judgments about the collectability of such payments and the value of associated collateral, if any. Non-cash dividends associated with PIKs and accruals related to OID securities held in the Fund s portfolio will be reflected in the Fund s NAV, thereby increasing the advisory fee paid by the Fund, even though the risk exists that the Fund will never realize the returns on such securities.

Other Investment Companies

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 objective, strategies and policies and permissible under the 1940 Act. The Fund may invest in other investment companies to gain broad market or sector exposure, including during periods when it has large amounts of uninvested cash (such as the period shortly after the Fund receives the proceeds of an offering of its Common Shares) or when AllianzGI U.S. believes share prices of other investment companies offer attractive values. As a shareholder in an investment company, the Fund would bear its ratable share of that investment company s expenses and would remain subject to payment of the Fund s management fees and other expenses with respect to assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. The securities of other investment companies may be leveraged, in which case the net asset value and/or market value of the investment company s shares will be more volatile than unleveraged investments. See Principal Risks of the Fund Leverage Risk.

Commercial Paper

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

Bank Obligations

The Fund may invest in other bank obligations including, without limitation, certificates of deposit, bankers acceptances and fixed time deposits. Certificates of deposit are negotiable certificates that are issued against funds deposited in a commercial bank for a definite period of time and that earn a specified return. Bankers acceptances are negotiable drafts or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are accepted by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity. Fixed time deposits are bank obligations payable at a stated maturity date and bearing interest at a fixed rate. Fixed time deposits may be withdrawn on demand by the investor, but may be subject to early withdrawal penalties which vary depending upon market conditions and the remaining maturity of the obligation. There are generally no contractual restrictions on the right to transfer a beneficial interest in a fixed time deposit to a third party, although there is generally no market for such deposits. The Fund may also hold funds on deposit with its custodian bank in an interest-bearing account for temporary purposes.

Bank Loans

The Fund may invest in bank loans, which include fixed- and floating-rate loans issued by banks (including, among others, interests in senior floating rate loans made to or issued by U.S. or non-U.S. banks or other

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corporations (Senior Loans), delayed funding loans and revolving credit facilities). Bank loans may also take the form of direct interests acquired during a primary distribution or the form of assignments of, novations of or participations in a bank loan acquired in secondary markets. The Fund may also gain exposure to bank loans and related investments through the use of total return swaps and/or other derivative instruments.

As noted, the Fund may purchase or gain economic exposure to assignments of bank loans from lenders. The purchaser of an assignment typically succeeds to all the rights and obligations under the loan agreement with the same rights and obligations as the assigning lender. Assignments may, however, be arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the assigning lender.

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

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

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

Senior Loans and interests in other bank loans may not be readily marketable and may be subject to restrictions on resale. In some cases, negotiations involved in disposing of indebtedness may require weeks to complete. Consequently, some indebtedness may be difficult or impossible to dispose of readily at what AllianzGI U.S. believes to be a fair price.

Senior Loans usually require, in addition to scheduled payments of interest and principal, the prepayment of the Senior Loan from free cash flow. The degree to which borrowers prepay Senior Loans, whether as a contractual requirement or at their election, may be affected by general business conditions, the financial

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condition of the borrower and competitive conditions among lenders, among others. As such, prepayments cannot be predicted with accuracy. Upon a prepayment, either in part or in full, the actual outstanding debt on which the Fund derives interest income will be reduced. However, the Fund may receive both a prepayment penalty fee from the prepaying borrower and a facility fee upon the purchase of a new Senior Loan with the proceeds from the prepayment of the former. The effect of prepayments on the Fund s performance may be mitigated by the receipt of prepayment fees and the Fund s ability to reinvest prepayments in other Senior Loans that have similar or identical yields.

The interest rates on many bank loans reset frequently, and thus bank loans are subject to interest rate risk. Most bank loans are not traded on any national securities exchange. There may also be less public information available about bank loans as compared to other debt securities.

Bank loans are generally less liquid than many other debt securities. Transactions in bank loans may settle on a delayed basis (and in certain cases may take longer than seven days to settle), such that the Fund may not receive the proceeds from the sale of a loan for a substantial period of time after the sale. As a result, the proceeds related to the sale of bank loans may not be available to make additional investments or to meet the Fund s redemption obligations until a substantial period after the sale of the loans. Some loans may not be considered securities for certain purposes under the federal securities laws, and purchasers, such as the Fund, therefore may not be entitled to rely on the anti-fraud protections of the federal securities laws. Loans and other debt instruments that are not in the form of securities may offer less legal protection to the Fund in the event of fraud or misrepresentation.

Economic exposure to loan interests through the use of derivative transactions, including, among others, total return swaps, generally involves greater risks than if the Fund had invested in the loan interest directly during a primary distribution or through assignments of, novations of or participations in a bank loan acquired in secondary markets since, in addition to the risks described above, certain derivative transactions may be subject to leverage risk and greater illiquidity risk, counterparty risk, valuation risk and other risks. See Principal Risks of the Fund Derivatives Risk for more information on these risks.

Delayed Funding Loans and Revolving Credit Facilities

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

REITs and Other Mortgage-Related and Asset-Backed Securities

The Fund may invest in REITs. REITs primarily invest in income-producing real estate or real estate related loans or interests. REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and derive income from the collection of interest payments. REITs are not taxed on income distributed to shareholders provided they comply with the applicable requirements of the Code. The Fund will indirectly bear its proportionate share of any management and other expenses paid by REITs in which it invests in addition to the expenses paid by the Fund. Debt securities issued by REITs are, for the most part, general and unsecured obligations and are subject to risks associated with REITs.

Other mortgage-related securities include debt instruments which provide periodic payments consisting of interest and/or principal that are derived from or related to payments of interest and/or principal on underlying mortgages. Additional payments on mortgage-related securities may be made out of unscheduled prepayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs that may be incurred.

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

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

The Fund may invest in other types of asset-backed securities that are offered in the marketplace, including Enhanced Equipment Trust Certificates (EETCs). Although any entity may issue EETCs, to date, U.S. airlines are the primary issuers. An airline EETC is an obligation secured directly by aircraft or aircraft engines as collateral. EETCs tend to be less liquid than corporate bonds. Other asset-backed securities may be collateralized by the fees earned by service providers. The value of asset-backed securities may be substantially dependent on the servicing of the underlying asset pools and are therefore subject to risks associated with the negligence of, or defalcation by, their servicers. In certain circumstances, the mishandling of related documentation may also affect the rights of the security holders in and to the underlying collateral. The insolvency of entities that generate receivables or that utilize the assets may result in added costs and delays in addition to losses associated with a decline in the value of the underlying assets.

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

Variable- and Floating-Rate Securities

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

The Fund also may engage in credit spread trades. A credit spread trade is an investment position relating to a difference in the prices or interest rates of two bonds or other securities, in which the value of the investment position is determined by changes in the difference between the prices or interest rates, as the case may be, of the respective securities.

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When Issued, Delayed Delivery and Forward Commitment Transactions

The Fund may purchase securities that it is eligible to purchase on a when-issued basis, may purchase and sell such securities for delayed delivery and may make contracts to purchase such securities for a fixed price at a future date beyond normal settlement time (forward commitments). When-issued transactions, delayed delivery purchases and forward commitments involve a risk of loss if the value of the securities declines prior to the settlement date. The risk is in addition to the risk that the Fund s other assets will decline in value. Therefore, these transactions may result in a form of leverage and increase the Fund s overall investment exposure. Typically, no income accrues on securities the Fund has committed to purchase prior to the time delivery of the securities is made, although the Fund may earn income on securities it has segregated to cover these positions. When the Fund has sold a security on a when-issued, delayed delivery or forward commitment basis, the Fund does not participate in future gains or losses with respect to the security. If the other party to a transaction fails to pay for the securities, the Fund could suffer a loss. Additionally, when selling a security on a when-issued, delayed delivery or forward commitment basis without owning the security, the Fund will incur a loss if the security s price appreciates in value such that the security s price is above the agreed-upon price on the settlement date.

Reverse Repurchase Agreements and Dollar Rolls

As described under Use of Leverage, the Fund may use reverse repurchase agreements or dollar rolls to add leverage to its portfolio. Reverse repurchase agreements may be a permanent funding source together with the Preferred Shares. Under a reverse repurchase agreement, the Fund sells securities to a bank or broker dealer and agrees to repurchase the securities at a mutually agreed future date and price. A dollar roll is similar to a reverse repurchase agreement except that the counterparty with which the Fund enters into a dollar roll transaction is not obligated to return the same securities as those originally sold by the Fund, but only securities that are substantially identical. Generally, the effect of a reverse repurchase agreement or dollar roll transaction is that the Fund can recover and reinvest all or most of the cash invested in the portfolio securities involved during the term of the agreement and still be entitled to the returns associated with those portfolio securities, thereby resulting in a transaction similar to a borrowing and giving rise to leverage for the Fund. The Fund will incur interest expense as a cost of utilizing reverse repurchase agreements and dollar rolls. In the event the buyer of securities under a reverse repurchase agreement or dollar roll files for bankruptcy or becomes insolvent, the Fund s use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Fund s obligation to repurchase the securities.

Lending of Portfolio Securities

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

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

Portfolio Turnover

The length of time the Fund has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Fund is known as portfolio turnover. The Fund may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover (*e.g.,* over 100%) generally involves correspondingly greater expenses to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Sales of portfolio securities may also result in

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realization of taxable capital gains, including short-term capital gains (which are generally treated as ordinary income upon distribution in the form of dividends). The trading costs and tax effects associated with portfolio turnover may adversely affect the Fund s performance.

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

USE OF LEVERAGE

The Fund currently utilizes leverage through (i) its outstanding ARPS and (ii) the SSB Facility. As of August 3, 2018, the aggregate dollar amount (*i.e.*, liquidation preference) of the Fund s outstanding ARPS was $223,275,000, which then represented approximately 24.2% of the Fund s total assets (including assets attributable to the Fund s leverage), while the amount outstanding under the SSB Facility was $125,701,500, which then represented approximately 13.7% of the Fund s total assets (including assets attributable to the Fund s leverage). As of August 3, 2018, the Fund s outstanding ARPS and the amount outstanding under the SSB Facility, combined, represented approximately 37.9% of the Fund s total assets (including assets attributable to the Fund s leverage). On July 31, 2018, the Fund completed a tender offer for up to 100% of its outstanding ARPS, immediately prior to which the Fund had ARPS outstanding with an aggregate liquidation preference of $357,000,000 (representing 38.8% of the Fund s total assets, including assets attributable to leverage) and no amount outstanding under the SSB Facility.

The Fund expects to issue Cumulative Preferred Shares and, in the future, may also issue additional Preferred Shares in one or more offerings and in one or more series to further add leverage to its portfolio. Although the Fund currently expects to maintain approximately the same amount of leverage (as a percentage of its total assets) prior to and following any issuance of Cumulative Preferred Shares, it may increase or reduce leverage depending on market conditions and other factors. The Fund utilizes 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 AllianzGI U.S. s assessment of the yield curve environment, interest rate trends, market conditions and other factors.

The Fund may also add leverage to its portfolio by utilizing securities loans, reverse repurchase agreements, dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities. 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, short sales and when-issued, delayed delivery and forward commitment transactions.

The Fund s net assets attributable to its Preferred Shares and the net proceeds the Fund obtains under the SSB Facility or from other forms of leverage utilized, if any, will be invested in accordance with the Fund s investment objective and policies as described in this prospectus. So long as the rate of return, net of applicable Fund expenses, on the debt obligations and other investments purchased by the Fund exceeds the dividend rates payable on the Preferred Shares together with the costs to the Fund of other 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.

The Cumulative Preferred Shares will pay cash dividends at a rate to be determined at the time of issuance. Other key terms of the Cumulative Preferred Shares are described under Description of Capital Structure and/or will be described in a prospectus supplement prior to issuance.

The dividends payable and other terms of the ARPS are summarized in this prospectus. The terms of the ARPS provide that they would ordinarily pay dividends at a rate set at auctions held every seven days, subject to a maximum applicable rate calculated as a function of the ARPS then-current rating and a reference interest rate. However, the weekly auctions for the ARPS, as well as auctions for similar preferred shares of other closed-end funds in the U.S., have failed since February 2008, and the dividend rates on the ARPS since that time have been paid at the maximum applicable rate (i.e. a multiple of a reference rate, which is the applicable AA Financial Composite Commercial Paper Rate (for a dividend period of fewer than 184 days) or the applicable

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Treasury Index Rate (for a dividend period of 184 days or more)). As of the date hereof, the Fund s ARPS have a Moody s rating of Aa3, meaning the multiple used to calculate the maximum applicable rate is 150%, subject to upward adjustment in the event of downgrade. See Description of Capital Structure. The Fund expects that the ARPS will continue to pay dividends at the maximum applicable rate for the foreseeable future and cannot predict whether or when the auction markets for the ARPS may resume normal functioning. See Principal Risks of the Fund Leverage Risk, Principal Risks of the Fund Risks Associated with the ARPS, Description of Capital Structure and the applicable prospectus supplement for more information.

The SSB Facility permits the Fund to borrow up to $265,000,000 on a revolving basis. Key terms of the SSB Facility are described under Description of Capital Structure Additional Information Regarding the SSB Facility. Amounts drawn under the facility are subject to a floating interest rate based on the three-month LIBOR rate plus a spread of 0.55%, subject to upward adjustment during continuations of event of default, if and when interest payments are past due and under certain other conditions. The SSB Facility permits draw-downs to be funded through securities lending and reverse repurchase transactions administered by State Street Bank and Trust Company, which the Fund believes permit State Street Bank and Trust Company to offer the SSB Facility on more favorable economic terms than would apply if the facility did not provide for securities lending and reverse repurchase transactions.

Leveraging is a speculative technique and there are special risks and costs involved. The Fund cannot assure you that its Preferred Shares and use of the SSB Facility or any other forms of leverage (such as the use of bank borrowings, securities loans, reverse repurchase agreements or derivatives strategies), if any, will result in increases to the Fund s net asset value. Dividend, interest and other expenses borne by the Fund in connection with leverage may reduce the Fund s ability to pay dividends to holders of Preferred Shares, including the Cumulative Preferred Shares. See Principal Risks of the Fund Leverage Risk. In addition, because the fees received by the Investment Manager are based on the total managed assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding), the Investment Manager has a financial incentive for the Fund to maintain high levels of leverage, potentially increasing the risk that the Fund may not be able to service its indebtedness, pay dividends to holders of Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and Cumulative Preferred Shares.

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

The 1940 Act also generally prohibits the Fund from engaging in most forms of leverage representing indebtedness (including the use of bank loans, commercial paper or other credit facilities, reverse repurchase agreements, dollar rolls, 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 its Common Shares unless, at the time of such declaration, the 300% asset coverage requirement described above is satisfied, while 200% asset coverage of senior securities representing indebtedness is required for distributions on Preferred Shares. 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, for certain instruments, by entering into offsetting transactions

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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 (assuming such reverse repurchase agreement has a specified repurchase price). To the extent that instruments involving contractual obligations to pay are so covered (either through segregation of liquid assets, or, for certain instruments, entry into an offsetting position), 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. To the extent that reverse repurchase agreements, dollar rolls, derivatives and other instruments involving contractual payment obligations are not covered, they may be deemed to be senior securities under the 1940 Act and would, in that circumstance, be subject to the asset coverage requirements in Section 18 of the 1940 Act. However, reverse repurchase agreements 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 places holders of Cumulative Preferred Shares at greater risk of loss 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 s ability to utilize leverage is also limited by asset coverage requirements and other guidelines imposed by rating agencies that provide ratings for the ARPS (currently Moody s) and for any rating agency rating the Cumulative Preferred Shares at the request of the Fund, which may be more restrictive than the limitations imposed by the 1940 Act noted above. See Description of Capital Structure for more information.

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

SPECIAL RISKS OF THE CUMULATIVE PREFERRED SHARES

Redemption Risk

The Fund may redeem Cumulative Preferred Shares to the extent necessary to meet regulatory asset coverage requirements or requirements imposed by credit rating agencies. For example, if the value of the Fund s investment portfolio declines, thereby reducing the asset coverage for the Cumulative Preferred Shares, the Fund may be obligated under the terms of the Cumulative Preferred Shares and/or the 1940 Act to redeem some or all of the Cumulative Preferred Shares. In addition, after the end of a non-call period, the Fund will be able to call the Cumulative Preferred Shares at the option of the Fund. Investors may not be able to reinvest the proceeds of any redemption in an investment providing the same or a higher dividend rate than that of the Cumulative Preferred Shares. Precipitous declines in the value of the Fund s assets could result in the Fund having insufficient assets to redeem all of the Cumulative Preferred Shares for the full redemption price.

Subordination Risk

The Cumulative Preferred Shares are not a debt obligation of the Fund. The Cumulative Preferred Shares are junior in respect of distributions and liquidation preference to any indebtedness incurred by the Fund, and will have the same priority with respect to payment of dividends and distributions and liquidation preference as the ARPS and any other preferred shares that the Fund may issue. The Cumulative Preferred Shares are subject to greater credit risk than any of the Fund s debt instruments, which would be of higher priority in the Fund s capital structure.

Credit Rating Risk

Each series of Cumulative Preferred Shares is expected to receive a credit rating at the time of issuance. Any credit rating that is so issued could be reduced or withdrawn while an investor holds Cumulative Preferred Shares. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Cumulative Preferred Shares. In addition, a credit rating does not eliminate or mitigate the risks of investing in the Cumulative Preferred Shares.

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Distribution Risk

The Fund may not earn sufficient income from its investments to make distributions on the Cumulative Preferred Shares. However, because income from the Fund s entire investment portfolio is available to pay Preferred Shares dividends (not just the portion of the portfolio associated with proceeds from Preferred Shares offerings), the dividend rates with respect to the Cumulative Preferred Shares and ARPS would have to greatly exceed the Fund s net portfolio income before the Fund s ability to pay Preferred Shares dividends would be jeopardized. Any failure by the Fund to meet certain asset coverage requirements with respect to such indebtedness could prohibit the Fund from making distributions on the Cumulative Preferred Shares. The Cumulative Preferred Shares are also junior to the Fund s indebtedness in right of distributions.

Secondary Market Risk

The market price for the Cumulative Preferred Shares will be influenced by changes in interest rates, the perceived credit quality of the Cumulative Preferred Shares and other factors, and may be higher or lower than the liquidation preference of the Cumulative Preferred Shares. Cumulative Preferred Shares are designed for long-term investors and the Fund should not be treated as a trading vehicle.

The Cumulative Preferred Shares will pay dividends at a fixed rate. Prices of fixed income investments tend to vary inversely with changes in market yields. The market yields on securities comparable to the Cumulative Preferred Shares may increase, which would likely result in a decline in the market value of the Cumulative Preferred Shares. Additionally, if interest rates rise, securities comparable to the Cumulative Preferred Shares may pay higher dividend rates and the market value of Cumulative Preferred Shares may be adversely affected. Market interest rates recently have been significantly below historical average rates, which may increase the risk that these rates will rise in the future.

Interest Rate Risk Related to Cumulative Preferred Shares

Generally, when market interest rates rise, the prices of debt obligations fall, and vice versa. As noted above, because the Cumulative Preferred Shares have a fixed dividend, they may behave similarly to debt instruments in response to changes in market interest rates.

PRINCIPAL RISKS OF THE FUND

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.

The Fund is subject to the risk that geopolitical and other events will disrupt securities markets, adversely affect global economies and markets and thereby decrease the value of the Fund s investments. The wars in Iraq and Afghanistan have had a substantial effect on the economies and securities markets of the U.S. and other countries. Terrorism in the U.S. and around the world has had a similar global impact and has increased geopolitical risk. The terrorist attacks on September 11, 2001 resulted in the closure of some U.S. securities markets for four days, and similar attacks are possible in the future. Securities markets may be susceptible to market manipulation (e.g., the potential manipulation of the London Interbank Offered Rate (LIBOR)) or other fraudulent trade practices, which could disrupt the orderly functioning of these markets or adversely affect the value of investments traded in these markets, including investments of the Fund. While the U.S. government has historically honored its credit obligations, it remains possible that the U.S. could default on its obligations. While

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it is impossible to predict the consequences of such an unprecedented event, it is likely that a default by the U.S. would be highly disruptive to the U.S. and global securities markets and could significantly impair the value of the Fund s investments. Similarly, political events within the U.S. at times have resulted, and may in the future result, in a shutdown of government services, which could negatively affect the U.S. economy, decrease the value of many Fund investments, and increase uncertainty in or impair the operation of the U.S. or other securities markets. The uncertainty surrounding the sovereign debt of a significant number of European Union countries, as well as the status of the Euro, the European Monetary Union and the European Union itself, has disrupted and may continue to disrupt markets in the U.S. and around the world. The risks associated with investments in Europe may be heightened due to the approval by citizens of the United Kingdom, in June 2016, of a referendum to leave the European Union. Significant uncertainty remains in the market regarding the ramifications of that development, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict. If the United Kingdom s exit from the European Union is consummated, or if one or more additional countries leave the European Union, or the European Union partially or completely dissolves, the world s securities markets may be significantly disrupted and adversely affected. Substantial government interventions (e.g., currency controls) also could negatively impact the Fund. War, terrorism, economic uncertainty, and related geopolitical events have led, and in the future may 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, would be highly disruptive to economies and markets, adversely affecting individual companies and industries, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of the Fund s investments. Market disruptions, including sudden government interventions, can also prevent the Fund from implementing its investment programs for a period of time and achieving its investment objectives. For example, a market disruption may adversely affect the orderly functioning of the securities markets and may cause the Fund s derivatives counterparties to discontinue offering derivatives on some underlying commodities, securities, reference rates, or indices, or to offer them on a more limited basis. To the extent the Fund has focused its investments in the securities index of a particular region, adverse geopolitical and other events could have a disproportionate impact on the Fund.

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. These risks can apply to the Cumulative Preferred Shares and to the issuers of securities and other instruments in which the Fund invests.

Convertible Securities Risk

The Fund may invest without limit in convertible securities, which may include, among others, bonds, debentures, notes, preferred stocks or other securities. Convertible securities will ordinarily constitute a principal component of the Fund s investment program. Under normal circumstances, the Fund will invest at least 50% of its total assets in convertible securities. 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

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than its debt obligations. Convertible securities are often rated below investment grade or not rated because they fall below debt obligations and just above common equity in order of preference or priority on the issuer s balance sheet. See Principal Risks of the Fund High Yield Securities Risk.

Synthetic Convertible Securities Risk

The Fund may invest without limit 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.

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.

High Yield Securities 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 AllianzGI U.S. 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 Fund s ability to pay dividends on the Cumulative Preferred Shares. 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 invests in below investment grade debt obligations, AllianzGI U.S. s capabilities in analyzing credit quality and associated risks will be particularly important, and there can be no assurance that AllianzGI U.S. 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

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considered speculative. The debt instruments of many non-U.S. governments, including their agencies, sub-divisions and instrumentalities, are below investment grade, and are therefore considered high yield instruments.

The Fund s credit quality policies, if any, apply only at the time of investment, and the Fund is not required to dispose of a security in the event that a rating agency or AllianzGI U.S. downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell a security that has experienced a change in credit rating, AllianzGI U.S. may consider factors including, but not limited to, AllianzGI U.S. 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. For purposes of applying the Fund s credit-quality policies, in the case of securities with split ratings (*i.e.*, a security receiving two different ratings from two different rating agencies), the Fund will apply the higher of the applicable ratings.

The prices of fixed income securities generally are inversely related to interest rate changes; however, below investment grade securities historically have been somewhat less sensitive to interest rate changes than higher quality securities of comparable maturity because credit quality is also a significant factor in the valuation of lower grade securities. On the other hand, an increased rate environment results in increased borrowing costs generally, which may impair the credit quality of low-grade issuers and thus have a more significant effect on the value of some lower grade 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. AllianzGI U.S. s judgments about the credit quality of a financially distressed issuer and the relative value of its securities may prove to be wrong.

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. 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 interest rate risk. AllianzGI U.S. 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

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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 may have a negative effect on the Fund s ability to pay dividends on the Cumulative Preferred Shares.

When interest rates are low relative to historic levels, the Fund may face elevated exposure to the risks associated with increases in interest rates, including increases triggered by governments or central banking authorities. For example, the Federal Reserve Board concluded its quantitative easing program and, in December 2015, raised interest rates for the first time since 2006, actions that may have placed the Fund at elevated risks associated with rising interest rates. To the extent the Fund s portfolio include longer-duration securities, the Fund may face higher risks associated with rising interest rates than funds whose portfolios include shorter-duration securities. The reduction in dealer market-making capacity in the fixed income markets that has occurred in recent years has the potential to decrease liquidity.

Duration is one measure of the expected life of a fixed income instrument that is used to determine the sensitivity of a security s price to changes in interest rates. Securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Accordingly, funds with longer average portfolio durations will generally be more sensitive to changes in interest rates than funds with shorter average portfolio durations. All other things remaining equal, for each one percentage point increase in interest rates, the value of a portfolio of fixed-income investments would generally be expected to decline by one percent for every year of the portfolio s average duration above zero. For example, the value of a portfolio of fixed-income securities with an average duration of eight years would generally be expected to decline by approximately 8% if interest rates rose by one percentage point.

Equity Securities and Related Market Risk

The Fund will often have substantial exposure to equity securities by virtue of the equity component of the convertible securities in which the Fund invests. The Fund may also hold equity securities in its portfolio upon conversion of a convertible security or through direct investments in preferred stocks. 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 Securities 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

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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. The Fund may invest in convertible preferred securities, which are subject to the same risks as convertible securities generally. See Principal Risks of the Fund Convertible Securities Risk. In addition, convertible preferred securities may generate lower rates of income than other preferred securities, and the conversion option of a convertible preferred security may cause it to trade more like an equity security than a typical debt instrument.

Some preferred securities allow holders to convert the preferred securities into common stock of the issuer causing their market price to be sensitive to changes in the value of the issuer s common stock and, therefore, declining common stock values may also cause the value of the Fund s investments to decline. Preferred securities often have call features which allow the issuer to redeem the security at its discretion. Certain preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. Government securities.

Leverage Risk

The Fund s use of leverage (as described above under Use of Leverage) creates special risks. To the extent used, there is no assurance that the Fund s Preferred Shares or any other leverage strategies will be successful. Leverage is a speculative technique that may expose the Fund to greater risk and increased costs. The Fund s assets attributable to Cumulative Preferred Shares, its outstanding ARPS, any future Preferred Shares that are issued or the net proceeds the Fund obtains from its use of securities loans, reverse repurchase agreements, dollar rolls and/or borrowings, if any, will be invested in accordance with the Fund s investment objective and policies as described in this prospectus. Dividends payable with respect to the ARPS and interest expense payable by the Fund with respect to any reverse repurchase agreements, dollar rolls and borrowings 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 dividend rates on the Preferred Shares and the interest expenses and other costs to the Fund of such other leverage, the investment of the proceeds thereof will generate more income than will be needed to pay the costs of the leverage. If, however, the dividends, interest and/or other costs to the Fund of leverage (including the dividend rates on the Preferred Shares and interest expenses on any reverse repurchase agreements, dollar rolls and borrowings) exceed the rate of return on the debt obligations and other investments held by the Fund, the Fund s net asset value will be adversely affected. Therefore, there can be no assurance that the Fund s use of leverage will result in a higher net asset value than if the Fund did not use leverage. In addition, the Preferred Shares pay cumulative dividends, which may tend to increase leverage risk. All other things being equal, extensive use of leverage by the Fund tends to increase the risk that the Fund may not be able to service its indebtedness, pay dividends to holders of Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and the Cumulative Preferred Shares.

In addition, bank borrowings and similar forms of indebtedness generally have priority of payment over the Preferred Shares.

The use by the Fund of securities loans, reverse repurchase agreements and dollar rolls, if any, 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 the Preferred Shares, securities loans, 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, credit default swaps, total return

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swaps and other derivative transactions, 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, net asset value and ability to pay dividends on its Preferred Shares. 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 Use of Leverage.

Among other negative consequences, any decline in the net asset value of the Fund s investments could result in the Fund being in danger of failing to meet its asset coverage requirements or of the Cumulative Preferred Shares being downgraded. In an extreme case, the Fund s current investment income might not be sufficient to meet the dividend requirements on the Cumulative Preferred Shares. In order to address these types of events, the Fund might need to liquidate investments in order to fund a redemption of some or all of the Cumulative Preferred Shares. Liquidation at times of adverse economic conditions may result in a loss to the Fund.

Because the fees received by the Investment Manager are based on the total managed assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding), the Investment Manager has a financial incentive for the Fund to use certain forms of leverage (*e.g.*, preferred shares, securities loans, reverse repurchase agreements and other borrowings), potentially increasing the risk that the Fund may not be able to service its indebtedness, pay dividends to holders of Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and the Cumulative Preferred Shares.

Risks Associated with the ARPS

Although the Fund s ARPS ordinarily would pay dividends at rates set at periodic auctions, the weekly auctions for the ARPS (and auctions for similar preferred shares issued by closed-end funds in the U.S.) have failed since February 2008. The dividend rates on the ARPS since that time have been paid, and the Fund expects that they will continue to be paid for the foreseeable future, at the maximum applicable rate under the Fund s Bylaws (*i.e.*, a multiple of a reference rate, which is the applicable AA Financial Composite Commercial Paper Rate (for a dividend period of fewer than 184 days) or the applicable Treasury Index Rate (for a dividend period of 184 days or more)). An increase in market interest rates generally, therefore, could increase substantially the dividend rate required to be paid by the Fund to the holders of ARPS, which would increase the expenses associated with the Fund s leverage and increase the risk that the Fund would be unable to pay dividends on its Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and the Cumulative Preferred Shares.

In addition, the multiple used to calculate the maximum applicable rate is based in part on the credit rating assigned to the ARPS by the applicable rating agency (currently, Moody s), with the multiple generally increasing as the rating declines. As of the date hereof, the Fund s ARPS have a Moody s rating of Aa3, meaning the multiple used to calculate the maximum applicable rate is 150%, subject to upward adjustment in the event of downgrade. See Use of Leverage and Description of Capital Structure. The ARPS could be subject to ratings downgrades in the future, possibly resulting in further increases to the maximum applicable rate.

Therefore, it is possible that a substantial rise in market interest rates and/or ratings downgrades of the ARPS could make the Fund s continued use of Preferred Shares for leverage purposes less attractive than such use is currently considered to be. In such case, the Fund may elect to redeem some or all of the Preferred Shares outstanding, which may require it to dispose of investments at inopportune times and to incur losses on such dispositions. Such dispositions may adversely affect the Fund s investment performance generally.

The Fund is also subject to certain asset coverage tests associated with the rating agency that rates the ARPS currently Moody s. Failure by the Fund to maintain the asset coverages (or to cure such failure in a timely manner) may require the Fund to redeem ARPS. See Description of Capital Structure. Failure to satisfy ratings agency asset coverage tests or other guidelines could also result in the applicable ratings agency

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downgrading its then-current ratings on the ARPS, as described above. Moreover, the rating agency guidelines impose restrictions or limitations on the Fund s use of certain financial instruments or investment techniques that the Fund might otherwise utilize in order to achieve its investment objective, which may adversely affect the Fund s investment performance. Rating agency guidelines may be modified by the rating agencies in the future and, if adopted by the Fund, such modifications may make such guidelines substantially more restrictive, which could further negatively affect the Fund s investment performance.

Liquidity Risk

The Fund may invest up to 5% of its total assets in securities which are illiquid at the time of investment (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Illiquid securities may be subject to legal or contractual restrictions on disposition or may lack an established secondary trading market. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. 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. In addition, certain derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets the Fund may not be able to close out a position without incurring a loss.

Foreign (Non-U.S.) Investment Risk

The Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers based in developed countries. 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. As a result, foreign securities may have less liquidity than U.S. securities. Emerging and developing market countries may have different clearance and settlement procedures than in the U.S., and in certain markets there may be times when settlements fail to keep pace with the volume of securities transactions, potentially adversely affecting the Fund. 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. It may be difficult for the Fund to obtain or enforce a court judgment in a non-U.S. jurisdiction. 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 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. Foreign countries may impose taxes on income from or transactions in foreign securities, thereby reducing the Fund s return on such securities. The increased expense of investing in foreign markets reduces the amount the Fund can earn on its investments and typically results in a higher operating expense ratio for the Fund than for investment companies invested only in the United States.

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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.

Derivatives Risk

The Fund may utilize various derivative strategies (both long and short positions) for investment or risk management purposes, as well as to leverage its portfolio. These may include derivatives used as a component of a synthetic convertible security or to gain exposure to high yield securities and other securities in which the Fund may invest (*e.g.*, pending investment of the proceeds of an offering). 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, 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.

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.

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

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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 managers believe the current holdings are overvalued or for other investment-related reasons.

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. The value of investments in the real estate sector also may be affected by macroeconomic developments, and social and economic trends. 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.

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. Generally, rising interest rates tend to extend the duration of fixed-rate mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, the Fund may exhibit additional volatility. This is known as extension risk. In addition, adjustable and fixed-rate mortgage-related securities may involve special risks relating to unanticipated rates of prepayment on the mortgages underlying the securities. This is known as prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns of the Fund because the Fund may have to reinvest that money at the lower prevailing interest rates. 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 the nature of the assets and the servicing of those assets.

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.

Management Risk

The Fund is subject to management risk because it is an actively managed portfolio. AllianzGI U.S. and the portfolio managers 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.

Loan Participations and Assignments Risk

The Fund may invest in fixed and floating rate loans arranged through private negotiations between an issuer and one or more financial institutions, which 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

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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. Some loans may not be considered securities for certain purposes under the federal securities laws, and purchasers, such as the Fund, therefore may not be entitled to rely on the anti-fraud protections of the federal securities laws. Loans and other debt instruments that are not in the form of securities may offer less legal protection to the Fund in the event of fraud or misrepresentation.

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.

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 Objective 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.

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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.

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 objective and policies and permissible under the 1940 Act. As a shareholder in an investment company, the Fund will bear its ratable share of that investment company s expenses, and would remain subject to payment of the Fund s investment management fees with respect to the assets so invested. 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, and a liquid secondary market may never develop. 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.

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.

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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 Trustees 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.

Confidential Information Access Risk

In managing the Fund, AllianzGI U.S. 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 AllianzGI U.S. with financial information and related documentation regarding the bank issuer that is not publicly available. Pursuant to applicable policies and procedures, AllianzGI U.S. 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 AllianzGI U.S. 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, AllianzGI U.S. 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. AllianzGI U.S. may also determine to receive such Confidential Information in certain circumstances under its applicable policies and procedures. If AllianzGI U.S. 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.

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 the Investment Manager and the portfolio managers in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment objective. The SEC has also proposed a new rule related to certain aspects of derivatives use. As of the date for this prospectus, whether, when and in what form this proposed rule will be adopted and its potential effects on the Fund are unclear.

Regulatory Risk Commodity Pool Operator

The CFTC has adopted certain regulatory changes that subject registered investment companies and their investment advisers to regulation by the CFTC if the registered investment company invests more than a prescribed level of its liquidation value in commodity futures, options on commodities or commodity futures, swaps, or other financial instruments (commodity interests) regulated under the CEA, or if the fund markets itself as providing investment exposure to such instruments. In connection with these regulatory changes, the Investment Manager has registered with the National Futures Association as a CPO under the CEA with respect to certain funds it manages and has also registered as a CTA. The Investment Manager has claimed an exclusion from CPO registration pursuant to CFTC Rule 4.5 with respect to the Fund. To remain eligible for this exclusion, the Fund must comply with certain limitations, including limits on its ability to use any commodity interests and

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limits on the manner in which the Fund holds out its use of such commodity interests. These limitations may restrict the Fund s ability to pursue its investment objective and strategies, increase the costs of implementing its strategies, result in higher expenses for the Fund, and/or adversely affect the Fund s investment returns. Further, in the event the Investment Manager becomes unable to rely on the exclusion in Rule 4.5 with respect to the Fund, the Fund will be subject to additional regulation and its expenses may increase.

Risk of Adverse Economic Conditions

The debt and equity capital markets in the United States and in foreign countries in the recent past were 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 led to worsening general economic conditions, which materially and adversely affected the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial firms in particular. These developments may have increased the volatility of the value of securities owned by the Fund, and also may have made it more difficult for the Fund to accurately value securities or to sell securities on a timely basis. These developments adversely affected the broader global economy, and, if repeated, would 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. In turn, this could make it more difficult for the Fund to make dividend payments with respect to the Cumulative Preferred Shares.

The instability in the financial markets discussed above 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. Governments or their agencies have and may in the future acquire distressed assets from financial institutions and acquire ownership interests in those institutions.

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 objective. See Principal Risks of the Fund Risk of Regulatory Changes.

Potential Conflicts of Interest Risk Allocation of Investment Opportunities

The Investment Manager is 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 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 intends 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 and/or other accounts achieve profits on their trading for proprietary or other accounts.

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, along with instability in Pakistan, Egypt, Libya, Syria, Russia,

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Ukraine, Yemen and the Middle East, possible terrorist attacks in the United States and around the world, social and political discord in the United States, the European debt crisis, the response of the international community through economic sanctions and otherwise to Russia s annexation of the Crimea region of Ukraine and posture vis-a-vis Ukraine, downgrade of U.S. Government securities, the outbreak of infectious diseases such as Ebola and other similar events may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. 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 uncertainty surrounding the sovereign debt of a significant number of European Union countries, as well as the status of the Euro, the European Monetary Union and the European Union itself, has disrupted and may continue to disrupt markets in the U.S. and around the world. The risks associated with investments in Europe may be heightened due to the approval by citizens of the United Kingdom, in June 2016, of a referendum to leave the European Union. Significant uncertainty remains in the market regarding the ramifications of that development, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict. If the United Kingdom s exit from the European Union is consummated, or if one or more additional countries leave the European Union, or the European Union partially or completely dissolves, the world s securities markets may be significantly disrupted and adversely affected. Substantial government interventions (*e.g.*, currency controls) also could negatively impact the Fund. War, terrorism, economic uncertainty, and related geopolitical events have led, and in the future may 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, adversely affecting individual companies and industries, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of the Fund s investments. Market disruptions, including sudden government interventions, can also prevent the Fund from implementing its investment program for a period of time and achieving its investment objectives. For example, a market disruption may adversely affect the orderly functioning of the securities markets and may cause the Fund s derivatives counterparties to discontinue offering derivatives on some underlying commodities, securities, reference rates, or indices, or to offer them on a more limited basis. 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.

Certain Affiliations

Certain broker-dealers may be considered to be affiliated persons of the Fund or the Investment Manager due to their possible affiliations with Allianz SE, the ultimate parent of the Investment Manager. 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 Declaration includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. Preferred Shareholders will have voting rights in addition to and separate from the voting rights of the Common Shareholders in certain situations. Preferred Shareholders, on the one hand, and Common Shareholders, on the other, may have interests that conflict in these situations. See Anti-Takeover Provisions in the Declaration of Trust.

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Additional Information

The Board of Trustees of the Fund oversees generally the operations of the Fund. The Fund enters into contractual arrangements with various parties, including among others the Fund s investment adviser, custodian, transfer agent and accountants, who provide services to the Fund. Shareholders are not parties to any such contractual arrangements or intended beneficiaries of those contractual arrangements, and those contractual arrangements are not intended to create in any shareholder any right to enforce them directly against the service providers or to seek any remedy under them directly against the service providers.

This prospectus provides information concerning the Fund that you should consider in determining whether to purchase shares of the Fund. Neither this prospectus, nor the related Statement of Additional Information, is intended, or should be read, to be or to give rise to an agreement or contract between the Fund and any investor, or to give rise to any rights in any shareholder or other person. The foregoing is not intended to constitute a waiver of any rights a shareholder would have under federal or state securities law.

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HOW THE FUND MANAGES RISK

Investment Limitations

The Fund has adopted certain investment limitations designed to limit investment risk and maintain portfolio diversification. These limitations (two of which are listed below) are fundamental and may not be changed without the approval of the holders of a majority of the outstanding Common Shares and Preferred Shares voting together as a single class, and the approval of the holders of a majority of the Preferred Shares voting as a separate class. The Fund may not:

- Concentrate its investments in a particular industry, as that term is used in the 1940 Act, and as interpreted, modified or otherwise permitted by regulatory authority having jurisdiction, from time to time; and

- With respect to 75% of the Fund s total assets, purchase the securities of any issuer, except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities or securities of other investment companies, if, as a result, (i) more than 5% of the Fund s total assets would be invested in the securities of that issuer or (ii) the Fund would hold more than 10% of the outstanding voting securities of that issuer.

The Fund would be deemed to concentrate its investments in a particular industry if it invested 25% or more of its total assets in that industry. The Fund s industry concentration policy does not preclude it from focusing investments in issuers in a group of related industrial sectors.

The Fund is subject to asset coverage and other guidelines which are more limiting than the investment restrictions set forth above and other restrictions set forth in the Statement of Additional Information in order to obtain and maintain a rating or ratings from Moody s on the ARPS, and may be subject to such restrictions imposed by a rating agency rating the Cumulative Preferred Shares. See Description of Capital Structure. See also Investment Objective and Policies and Investment Restrictions in the Statement of Additional Information for a complete list of the fundamental investment policies of the Fund.

Hedging and Related Strategies

The Fund may (but is not required to) purchase credit default swaps for the purpose of hedging the Fund s credit exposure to certain issuers and, thereby, seek to decrease its exposure to credit risk, and it may invest in 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 and, thereby, seek to decrease the Fund s exposure to interest rate risk. See Portfolio Contents Credit Default Swaps in this prospectus. The Fund may also use other derivative strategies (both long and short positions) involving the purchase or sale of futures and forward contracts, call and put options, total return swaps, basis swaps and other swap agreements and other derivative instruments in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. Income earned by the Fund from its hedging and related transactions may be subject to one or more special U.S. federal income tax rules that can affect the amount, timing and/or character of distributions. There is no assurance that these hedging strategies will be available at any time or that AllianzGI U.S. will determine to use them for the Fund or, if used, that the strategies will be successful. AllianzGI U.S. may determine not to engage in hedging strategies or to do so only in unusual circumstances or market conditions. In addition, the Fund may be subject to certain restrictions on its use of hedging strategies imposed by guidelines of one or more ratings agencies that may issue ratings on any Preferred Shares issued by the Fund.

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MANAGEMENT OF THE FUND

Trustees and Officers

The Board is responsible for the management of the Fund, including supervision of the duties performed by the Investment Manager. The Fund s Board of Trustees consists of eleven Trustees, eight of whom are not interested persons (within the meaning of Section 2(a)(19) of the 1940 Act) of the Fund or of the Investment Manager (the Independent Trustees), which represents over 72% of Board members that are Independent Trustees. One additional Trustee who will not be treated as an Independent Trustee during any offering of the Cumulative Preferred Shares due to his ownership of shares issued by or other relationship with members of the underwriting syndicate is expected to qualify as a fully Independent Trustee following completion of such offering, with the result that over 81% of Board members are expected to be Independent Trustees. The names and business addresses of the Trustees and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under Management of the Fund in the Statement of Additional Information.

Investment Manager

AllianzGI U.S. serves as the investment manager of the Fund. Organized as a Delaware limited liability company in 2000, the Investment Manager is registered as an investment adviser with the SEC. Subject to the supervision of the Board of Trustees, 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 is a wholly-owned indirect subsidiary of Allianz Asset Management of America L.P. (AAMA) and of Allianz SE, a publicly-traded European insurance and financial services company. As of June 30, 2018, the Investment Manager had approximately $115.7 billion in assets under management. The Investment Manager is located at 1633 Broadway, New York, New York 10019 and also has offices at 600 West Broadway, San Diego, CA 92101, 2100 Ross Avenue, Suite 700, Dallas, TX 75201 and 555 Mission Street, Suite 1700, San Francisco, CA 94105. The portfolio management team for the Fund is based in AllianzGI U.S. s San Diego office.

The Investment Manager provides investment management and advisory services to open-end mutual funds and closed-end funds. The Investment Manager provides investment management services across a broad class of assets including equity, fixed income, futures and options, convertibles and other securities and derivative instruments. AllianzGI US provides discretionary advisory services to institutional clients through its separate account management services. In addition, the Investment Manager provides discretionary investment advisory services to a variety of commingled funds (including SEC registered open-end investment companies, SEC registered closed-end investment companies and other commingled funds that are not registered with the SEC), which may be sponsored or established by the Investment Manager, its affiliates or by unaffiliated third parties. The Investment Manager also participates as a non-discretionary investment adviser providing investment models to unaffiliated third parties.

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The individuals at AllianzGI U.S. listed below are jointly and primarily responsible for the day-to-day management of the Fund.

Portfolio Manager	Since	Title	Recent Professional Experience
Douglas Forsyth, CFA	2003 (Inception)	Managing Director and Portfolio Manager at AllianzGI U.S.	Mr. Forsyth, CFA, is a portfolio manager, a managing director and CIO US Income & Growth Strategies with Allianz Global Investors, which he joined in 1994. He is the head of the Income and Growth Strategies team. Mr. Forsyth has portfolio management, trading and research responsibilities, and oversees all aspects of the Income and Growth platform s business, including product development and implementation. He has 26 years of investment-industry experience. Mr. Forsyth was previously an analyst at AEGON USA. He has a B.B.A. from The University of Iowa.
Justin Kass, CFA	2003 (Inception)	Managing Director and Portfolio Manager at AllianzGI U.S.	Mr. Kass, CFA, is a portfolio manager and managing director with Allianz Global Investors, which he joined in 2000. He has portfolio management and research responsibilities for the Income and Growth Strategies team. Mr. Kass has 20 years of investment-industry experience. He has a B.S. from the University of California, Davis, and an M.B.A. from the UCLA Anderson School of Management.

The Statement of Additional Information provides additional information about the portfolio managers compensation, other accounts managed by the portfolio managers and the portfolio managers ownership of securities in the Fund.

Investment Management Agreement

Pursuant to an investment management agreement between the Investment Manager and the Fund (the Investment Management Agreement), the Fund has agreed to pay the Investment Manager an annual fee, payable monthly, in an amount equal to 0.70% of the Fund s average daily total managed assets, for its services rendered, for the facilities furnished and for certain expenses borne by the Investment Manager pursuant to the Investment Management Agreement. Total managed assets means the total assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding) minus accrued liabilities (other than liabilities representing leverage). For purposes of calculating total managed assets, the liquidation preference of any Preferred Shares outstanding is not considered a liability. By way of clarification, with respect to any reverse repurchase agreement, dollar roll or similar transaction, total managed assets include any proceeds from the sale of an asset of the Fund to a counterparty in such a transaction, in addition to the value of the underlying asset as of the relevant measuring date.

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In addition to the fees of the Investment Manager, the Fund pays all other costs and expenses of its operations, including compensation of its trustees (other than those affiliated with the Investment Manager), custodial expenses, shareholder servicing expenses, transfer agency, sub-transfer agency and dividend disbursing expenses, legal fees, expenses of independent auditors, expenses of preparing, printing and distributing prospectuses, shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any.

Because the fees received by the Investment Manager are based on the total managed assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding), the Investment Manager and AllianzGI U.S. have a financial incentive for the Fund to utilize reverse repurchase agreements, dollar rolls and borrowings or to issue preferred shares. All other things being equal, extensive use of leverage by the Fund tends to increase the risk that the Fund may not be able to service its indebtedness, pay dividends to holders of Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and the Cumulative Preferred Shares.

A discussion regarding the considerations of the Fund s Board for approving the Investment Management Agreement was included in the Fund s semi-annual report to shareholders for the fiscal period ended August 31, 2017.

NET ASSET VALUE

The net asset value per share (NAV) of the Fund is equal to the total value of the Fund s portfolio investments and other assets, less any liabilities. The NAV is determined as of a particular time (the Valuation Time) on each day (Business Day) that the NYSE is open for trading. The Valuation Time is ordinarily at the close of regular trading on the NYSE (normally 4:00 p.m., Eastern time) (the NYSE Close). In unusual circumstances, the Board of Trustees may determine that the Valuation Time shall be as of 4:00 p.m., Eastern time, notwithstanding an earlier, unscheduled close or halt of trading on the NYSE.

For purposes of calculating NAV, the Fund s investments for which market quotations are readily available are valued at market value. Market values for various types of securities and other instruments are determined on the basis of closing prices or last sales prices on an exchange or other market, or based on quotes or other market information obtained from quotation reporting systems, established market makers or pricing services. Short-term investments having a remaining maturity of 60 days or less will be valued at amortized cost unless the Fund s Board or its Valuation Committee determines that particular circumstances dictate otherwise.

If market quotations are not readily available (including in cases where available market quotations are deemed to be unreliable), the Fund s investments will be valued as determined in good faith pursuant to policies and procedures approved by the Fund s Board (so-called fair value pricing). Fair value pricing may require subjective determinations about the value of a security or other asset, and fair values used to determine the Fund s NAV may differ from quoted or published prices, or from prices that are used by others, for the same investments. Also, the use of fair value pricing may not always result in adjustments to the prices of securities or other assets held by the Fund.

The Fund may determine that market quotations are not readily available due to events relating to a single issuer (*e.g.*, corporate actions or announcements) or events relating to multiple issuers (*e.g.*, governmental actions or natural disasters). The Fund may determine the fair value of investments based on information provided by pricing services and other third-party vendors, which may recommend fair value prices or adjustments with reference to other securities, indices or assets. In considering whether fair value pricing is required and in determining fair values, the Fund may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the Valuation Time. The Fund may use modeling tools provided by third-party vendors to determine fair values of certain non-U.S. securities where appropriate.

For purposes of calculating NAV, the Fund normally uses pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. Domestic fixed income and non-U.S. securities are normally priced using

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data reflecting the earlier closing of the principal markets for those securities, subject to possible fair value adjustments. Information that becomes known to the Fund or its agents after NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or NAV determined earlier that day.

Investments initially valued in currencies other than the U.S. dollar are converted to U.S. dollars using exchange rates obtained from pricing services. As a result, the Fund s NAV may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of investments traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed. The calculation of the Fund s NAV may not take place contemporaneously with the determination of the prices of non-U.S. securities used in NAV calculations.

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DESCRIPTION OF CAPITAL STRUCTURE

The following is a brief description of the capital structure of the Fund. This description does not purport to be complete and is subject to and qualified in its entirety by reference to the Fund s Declaration and Bylaws. The Declaration and Bylaws are each exhibits to the registration statement of which this prospectus is a part.

The Fund is an unincorporated voluntary association with transferable shares of beneficial interest (commonly referred to as a Massachusetts business trust) established under the laws of the Commonwealth of Massachusetts by the Declaration. The Declaration provides that the Trustees of the Fund may authorize separate classes of shares of beneficial interest. Preferred shares (such as the Cumulative Preferred Shares) may be issued in one or more series, with such par value and with such rights as determined by the Board, by action of the Board without the approval of the Common Shareholders. See the applicable prospectus supplement for additional information regarding the terms of the series of Cumulative Preferred Shares being issued. The following table shows, for each class of authorized securities of the Fund, the amount of (i) shares authorized and (ii) shares outstanding, each as of August 3, 2018.

Title of Class	Amount Authorized	Amount Outstanding
Common Shares	Unlimited	89,185,329
ARPS		
Series A	4,200	1,894
Series B	4,200	1,779
Series C	4,200	1,909
Series D	4,200	1,842
Series E	4,200	1,507
Cumulative Preferred Shares	*	0

* The Fund s Declaration authorizes an unlimited number of Preferred Shares. The Board or a committee thereof has the authority to establish series of Cumulative Preferred Shares and to approve issuances of such series of the Cumulative Preferred Shares in specific quantities.

Common Shareholders are entitled to share equally in dividends declared by the Board to Common Shareholders and in the net assets of the Fund available for distribution to Common Shareholders after payment of the preferential amounts payable to holders of Preferred Shares and any other outstanding preferred shares of beneficial interest. All Common Shares of the Fund have equal rights to the payment of dividends and the distribution of assets upon liquidation. Common Shares of the Fund are fully paid and, subject to matters discussed in Anti-Takeover Provisions in the Declaration of Trust, non-assessable, and have no pre-emptive or conversion rights or rights to cumulative voting, and have no right to cause the Fund to redeem their shares. Upon liquidation of the Fund, after paying or adequately providing for the payment of all liabilities of the Fund and the liquidation preference with respect to the holders of any outstanding preferred shares, and upon receipt of such releases, indemnities and refunding agreements as they deem necessary for their protection, the Trustees may distribute the remaining assets of the Fund among the Fund s Common Shareholders.

Common Shareholders and Preferred Shareholders are entitled to one vote for each share held, except that when holders of Preferred Shares vote separately from the Common Shares as a class, or one or more series of Preferred Shares vote separately, each Preferred Shareholder is entitled to one vote per $25.00 of liquidation preference held. As a result, for matters that are voted on by Preferred Shareholders as a separate class, voting authority is allocated among Preferred Shareholders in proportion to the liquidation preference of their holdings, as opposed to the number of their Preferred Shares. Common Shareholders will vote with the holders of any outstanding Preferred Shares or other preferred shares as a single class on each matter submitted to a vote of holders of Common Shares, except as otherwise provided by the Declaration, the Bylaws or applicable law. Except as otherwise provided by the Declaration, the Bylaws or applicable law, holders of Preferred Shares, voting as a separate class, are entitled to elect two of the Fund s Trustees. The remaining Trustees will be elected by Common Shareholders and holders of Preferred Shares, voting together as a single class. In the unlikely event that two full years of accrued dividends and distributions are unpaid on the Preferred Shares, the holders of all

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outstanding Preferred Shares, voting as a separate class, will be entitled to elect a majority of the Fund s Trustees until all dividends and distributions in arrears have been paid or declared and set apart for payment.

The Fund will send unaudited reports at least semiannually and audited financial statements annually to all of its shareholders.

Preferred Shares

The Declaration provides that the Board may, without shareholder approval, authorize one or more classes of shares of beneficial interest (which classes may be divided into multiple series), each such class or series having such par value and such preferences, voting powers, terms of redemption, if any, and special or relative rights or privileges (including conversion rights, if any) as the Trustees may determine, subject to various conditions. The number of shares of beneficial interest of each class or series of shares of beneficial interest of the Fund is unlimited under the Declaration. The Fund currently has outstanding five series of ARPS and intends to issue, in one or more series, Cumulative Preferred Shares. All Preferred Shares of the Fund are or will be senior to the Common Shares with respect to the payment of dividends and the distributions of the assets of the fund upon dissolution, liquidation or winding up. All Preferred Shares of the Fund are or will be pari passu with one another and will be junior to the Fund s senior securities representing indebtedness. Holders of Common Shares do not have and will not have preemptive rights to purchase any Preferred Shares of the Fund. The Preferred Shares will, upon issuance, be fully paid and, subject to matters discussed in Anti-Takeover Provisions in the Declaration of Trust, nonassessable, and will have no preemptive, exchange or conversion rights.

Except as otherwise stated in this prospectus, specified in the Fund s governing documents or resolved by the Board or as otherwise required by applicable law, holders of Preferred Shares are and shall be entitled to one vote per share held on each matter submitted to a vote of the shareholders of the Fund generally and will vote together with holders of Common Shares and of any other Preferred Shares then outstanding as a single class. Holders of the Preferred Shares are entitled, as a separate class, to the exclusion of the holders of other outstanding shares of beneficial interest of the Fund, to elect two of the Fund s Trustees at all times. Consistent with Section 18 of the 1940 Act, the holders of the Preferred Shares also shall have the right to elect a majority of the Board if at any time dividends or distributions on the Preferred Shares are unpaid in an amount equal to two full years dividends. Holders of the Preferred Shares also have certain additional voting rights as specified in the Funds governing documents, including the ability to vote as a separate class on any plan of reorganization or action requiring a vote of security holders under Section 13(a) of the 1940 Act adversely affecting the Preferred Shares. When holders of Preferred Shares vote separately from the Common Shares as a class, or one or more series of Preferred Shares votes separately, each Preferred Shareholder is entitled to one vote per $25.00 of liquidation preference held. As a result, for matters that are voted on by Preferred Shareholders as a separate class, voting authority is allocated among Preferred Shareholders in proportion to the liquidation preference of their holdings, as opposed to the number of their Preferred Shares.

The Cumulative Preferred Shares are expected to be governed by a Statement Establishing and Fixing the Rights and Preferences of Cumulative Preferred Shares (the Statement of Preferences), which, once effective, will be incorporated into and made part of the Fund s Bylaws.

In addition to the Cumulative Preferred Shares and the ARPS, the Fund will consider from time to time whether to offer additional Preferred Shares or securities representing indebtedness and may issue such additional securities if the Board concludes that such an offering would be consistent with the Fund s governing documents and applicable law, and in the best interest of existing Common Shareholders.

Additional Information Regarding the Cumulative Preferred Shares

Dividends

Holders of Cumulative Preferred Shares will be entitled to receive, out of funds legally available therefore, cumulative cash distributions, at an annual rate set forth in the Statement of Preferences and/or prospectus

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supplement, payable with such frequency as set forth in the Statement of Preferences and/or prospectus supplement. Such distributions will accumulate from the date on which such shares are issued.

Non-Call Period; Optional Redemption

The Cumulative Preferred Shares are expected to be subject to a non-call period, the timing of which will be set forth in the Statement of Preferences and applicable prospectus supplement. Thereafter, the Cumulative Preferred Shares are expected to be redeemable by the Fund at any time without premium or penalty at the liquidation preference per share, plus an amount equal to all unpaid dividends and distributions accumulated to and including the date fixed for such distribution or payment (whether or not earned or declared by the Fund, but excluding interest thereon). The Fund may also tender for or purchase Cumulative Preferred Shares.

Rating Agency Guidelines

Upon issuance, it is expected that any new series of Cumulative Preferred Shares will be rated by a rating agency. To the extent that the Cumulative Preferred Shares maintain such a rating, the Fund expects that it would be required under the applicable rating agency guidelines to maintain asset coverage at certain levels (Rating Agency Asset Coverage), to be assessed at certain times. An agency rating the Cumulative Preferred Shares may also impose diversification, industry concentration and/or other constraint on the Fund to the extend that the Cumulative Preferred Shares maintain a rating. Insofar as a rating agency rating the Cumulative Preferred Shares were to modify its ratings criteria after initially rating the Cumulative Preferred Shares, the Fund expects that it would be permitted, but not required, to adopt any such modifications to the rating agency guidelines into the Statement of Preferences. Failure to adopt any such modifications could result in a change in the relevant rating agency s ratings or a withdrawal of such ratings altogether. A rating agency providing a rating for the Cumulative Preferred Shares could, at any time, change or withdraw any such rating. The Statement of Preferences is expected to require maintenance of Rating Agency Asset Coverage as of the last business day of each month, as long as a rating agency is rating the Cumulative Preferred Shares at the request of the Fund.

The Board, without further action by shareholders, expects to retain the ability to amend, alter, add to or repeal any provision of the Statement of Preferences adopted pursuant to rating agency guidelines or add covenants and other obligations to the Statement of Preferences if the applicable rating agency confirms that such amendments or modifications are necessary to prevent a reduction in, or the withdrawal of, a rating of any series of Cumulative Preferred Shares and such amendments and modifications do not adversely affect the rights and preferences of the holders of Cumulative Preferred Shares. Additionally, the Board, without further action by the shareholders, expects to retain the authority to amend, alter, add to or repeal any provision of the Statement of Preferences if such amendments or modifications will not in the aggregate adversely affect the rights and preferences of the holders of any series of Cumulative Preferred Shares, provided that the Fund has received confirmation from each applicable rating agency that such amendment or modification would not adversely affect such rating agency s then-current rating of such series of Cumulative Preferred Shares.

The rating agency guidelines will apply to the Cumulative Preferred Shares only so long as such rating agency is rating such shares at the request of the Fund. The Fund expects to pay fees to such rating agency in connection with its rating of the Cumulative Preferred Shares.

Asset Maintenance Requirements

The Fund expects that it will be required under the Statement of Preferences to determine whether it has asset coverage, as determined in accordance with Section 18(h) of the 1940 Act, of at least 200% with respect to all outstanding senior securities constituting stock, including Cumulative Preferred Shares, ARPS and any other Preferred Shares. This test would be applied quarterly.

Mandatory Redemption

The Fund expects that the Statement of Preferences will require redemption of Cumulative Preferred Shares or other Preferred Shares if the Fund fails to maintain Rating Agency Asset Coverage or 1940 Act asset coverage

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as of the date such test is applied, and if such failure is not cured within a cure period to be set forth in the Statement of Preferences. The redemption price for Cumulative Preferred Shares subject to mandatory redemption will generally be the liquidation preference, as stated in the Statement of Preferences, plus an amount equal to any accumulated but unpaid dividends and distributions (whether or not earned or declared) to the date fixed for redemption. Preferred Shares with an aggregate liquidation preference will be redeemed in the case of a mandatory redemption to equal the minimum aggregate liquidation preference such that, if such redemption had occurred immediately prior to the opening of business on the applicable cure date, the relevant asset coverage requirement would have been met or, if the required asset coverage cannot be so restored, all of the Preferred Shares. In the event that preferred shares are redeemed due to a failure to satisfy the 1940 Act asset coverage requirements, the Fund may, but is not required to, redeem a sufficient number of preferred shares so that the Fund s assets exceed the asset coverage requirements under the 1940 Act after the redemption by 10% (that is, 220% asset coverage) or some other amount specified in the Statement of Preferences. In the event that preferred shares are redeemed due to a failure to maintain Rating Agency Asset Coverage, the Fund may, but is not required to, redeem a sufficient number of preferred shares so that the Fund s has assets after such redemption as great as 110% of the minimum amount necessary for Rating Agency Asset Coverage (giving effect to applicable discount factors and any other applicable criteria).

If the Fund does not have funds legally available for the redemption of, or is otherwise unable to redeem, all the Preferred Shares to be redeemed on any redemption date, the Fund will redeem on such redemption date that number of shares for which it has legally available funds, or is otherwise able to redeem, from the holders whose shares are to be redeemed ratably on the basis of the redemption price of such shares, and the remainder of those shares to be redeemed will be redeemed on the earliest practicable date on which the Fund will have funds legally available for the redemption of, or is otherwise able to redeem, such shares upon written notice of redemption.

At any time ARPS are outstanding, if the Fund is required to mandatorily redeem Preferred Shares due to an uncured 1940 Act asset coverage breach, such redemption shall be allocated in accordance with the following: (i) the portion of the redemption allocated to the outstanding series of ARPS, in aggregate, shall be proportionate to the aggregate liquidation preference of the outstanding ARPS relative to the aggregate liquidation preference of the outstanding Preferred Shares, while the portion of the redemption allocated to the outstanding series of Cumulative Preferred Shares, in aggregate, shall be proportionate to the aggregate liquidation preference of the outstanding Cumulative Preferred Shares relative to the aggregate liquidation preference of the outstanding Preferred Shares, (ii) the redemption proceeds applied to the ARPS pursuant to the foregoing shall be allocated among the series of outstanding ARPS pro rata based on the proportion that the aggregate liquidation preference of each series of outstanding ARPS represents of the aggregate liquidation preference of all outstanding ARPS and (iii) the redemption proceeds applied to the Cumulative Preferred Shares pursuant to the foregoing shall be allocated among the series of outstanding Cumulative Preferred Shares in any proportion in the discretion of the Fund. If no ARPS are outstanding and the Fund is required to mandatorily redeem Preferred Shares for a failure to maintain 1940 Act asset coverage, such redemption shall be allocated among the outstanding series of Cumulative Preferred Shares and series of other outstanding Preferred Shares in any proportion at the discretion of the Fund. Other types of redemptions likewise are allocated at the discretion of the Fund.

Restrictions on Dividends and Other Distributions

The Statement of Preferences is expected to provide that so long as any Cumulative Preferred Shares are outstanding, the Fund may not pay any dividend or distribution (other than a dividend or distribution paid in Common Shares or in options, warrants or rights to subscribe for or purchase Common Shares) in respect of the Common Shares or call for redemption, redeem, purchase or otherwise acquire for consideration any Common Shares (except by conversion into or exchange for shares of the Fund ranking junior to the Preferred Shares as to the payment of dividends or distributions and the distribution of assets upon liquidation), unless: (i) immediately thereafter, the Fund shall have Rating Agency Asset Coverage, if a rating agency is then rating the Cumulative Preferred Shares at the Fund s request, and the Fund shall have 1940 Act asset coverage, (ii) all cumulative dividends and distributions on all Cumulative Preferred Shares due on or prior to the date of the transaction have been declared and paid (or shall have been declared and sufficient funds for the payment thereof deposited with the applicable dividend disbursing agent) and (iii) the Fund has redeemed the full number of Cumulative Preferred Shares to be redeemed mandatorily pursuant to any provision contained herein for mandatory redemption.

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No complete distribution due for a particular dividend period will be declared or made on any series of Preferred Shares for any dividend period, or part thereof, unless full cumulative distributions due through the most recent dividend payment dates therefore for all outstanding series of Preferred Shares of the Fund ranking on a parity with such series as to distributions have been or contemporaneously are declared and made. If full cumulative distributions due have not been made on all outstanding Preferred Shares of the Fund ranking on a parity with such series of Preferred Shares as to the payment of distributions, any distributions being paid on the Preferred Shares will be paid as nearly pro rata as possible in proportion to the respective amounts of distributions accumulated but unmade on each such series of Preferred Shares on the relevant dividend payment date. The Fund s obligation to make distributions on the Preferred Shares will be subordinate to its obligations to pay interest and principal, when due, on any senior securities representing indebtedness.

Additional Information Regarding the ARPS

The Fund initially issued ARPS in five series (Series A, Series B, Series C, Series D and Series E) in May 2003, in the amount of 4,200 shares per series. The ARPS have a par value of $0.00001 and liquidation value of $25,000 per share. The ARPS have various rights determined by action of the Board without the approval of Common Shareholders, most of which are specified in Article 11 of the Bylaws. The Fund redeemed a total of 1,344 shares of each series of its outstanding ARPS in October, November and December 2008. On July 31, 2018, the Fund completed a tender offer for up to 100% of its outstanding ARPS. As of August 3, 2018 the Fund had a total of 8,931 ARPS outstanding (1,894 Series A shares, 1,779 Series B shares, 1,909 Series C shares, 1,842 Series D shares, and 1,507 Series E shares), with a total liquidation value of $223,275,000.

Under the 1940 Act, the Fund is permitted to have outstanding more than one series of preferred shares of beneficial interest as long as no single series has priority over another series as to the distribution of assets of the Fund or the payment of dividends. Neither Common Shareholders nor holders of ARPS have preemptive rights to purchase any other preferred shares that might be issued by the Fund.

For so long as any ARPS are outstanding, the Fund generally may not declare, pay or set apart for payment any dividend or other distribution (other than a dividend or distribution paid in shares of additional Common Shares or rights to purchase Common Shares or other shares ranking junior to the Preferred Shares as to dividends or upon liquidation) in respect of Common Shares or any other shares of the Fund ranking junior to or on a parity with the ARPS as to dividends or upon liquidation, or call for redemption, redeem, purchase or otherwise acquire for consideration any Common Shares or any other such junior shares (except by conversion into or exchange for shares of beneficial interest of the Fund ranking junior to Preferred Shares as to dividends and upon liquidation) or any such parity shares (except by conversion into or exchange for shares of beneficial interest of the Fund ranking junior to or on a parity with ARPS as to dividends and upon liquidation), unless and only if: (i) immediately after such transaction, the Fund would satisfy Moody s Ratings Agency ARPS Asset Coverage and 1940 Act Asset Coverage would be satisfied (each as defined and described under Rating Agency Guidelines and Asset Coverage); (ii) full cumulative dividends on the ARPS due on or prior to the date of the transaction have been declared and paid or shall have been declared and sufficient funds for the payment thereof deposited with the auction agent for the ARPS; and (iii) the Fund has redeemed the full number of ARPS required to be redeemed by any provision for mandatory redemption contained in the Bylaws. See ARPS Redemption. The Fund expects that similar restrictions would apply to any other classes of preferred shares that the Fund might choose to issue in the future. In addition, if the Fund has outstanding any senior security representing indebtedness, the 1940 Act prohibits the Fund from declaring any dividend or distribution on the Fund s Common Shares (other than a dividend or distribution paid in shares of additional Common Shares) unless such senior securities representing indebtedness have, at the time of the declaration, asset coverage of at least 300% after deducting the amount of such dividend or distribution. See Use of Leverage.

ARPS Dividends

The ARPS have complete priority over the Common Shares as to distribution of assets. The terms of the ARPS provide that they would ordinarily pay dividends at a rate set at auctions held every seven days, normally payable on the first business day following the end of the rate period, subject to a maximum applicable rate

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calculated as a function of the ARPS then-current ratings and a reference interest rate as described below. However, the weekly auctions for the ARPS, as well as auctions for similar preferred shares issued by closed-end funds in the U.S., have failed since February 2008, and the dividend rates on the ARPS since that time have been paid at the maximum applicable rate under the Bylaws. As of the date hereof, the Fund s ARPS have a Moody s rating of Aa3, meaning the multiple used to calculate the maximum applicable rate is 150%, subject to upward adjustment in the event of downgrade. The Fund expects that the ARPS will continue to pay dividends at the maximum applicable rate for the foreseeable future and cannot predict whether or when the auction markets for the ARPS may resume normal functioning.

As noted, the maximum applicable rate for each series of ARPS depends on the credit ratings assigned to such shares (currently by Moody s) and on the duration of the rate period. The maximum applicable rate for any regular rate period (*i.e.*, any rate period other than a non-payment period) will be the applicable percentage of the reference rate. The reference rate is the applicable AA Financial Composite Commercial Paper Rate (for a Dividend Period of fewer than 184 days) or the applicable Treasury Index Rate (for a Dividend Period of 184 days or more)). The applicable percentage for any regular rate period will generally be determined based on the credit ratings assigned to the ARPS by Moody s on the auction date for such period (as set forth in the table below).

Moody s Credit Rating	Applicable Percentage
Aa3 or above	150%
A3 to A1	200%
Baa3 to Baa1	225%
Below Baa3	275%

ARPS Rating Agency Guidelines and Asset Coverage

The Fund is required to satisfy various asset maintenance requirements with respect to its ARPS under the terms of the Bylaws, which are summarized below.

1940 Act Asset Coverage

The Fund is required under the Bylaws to maintain, with respect to the ARPS, as of the last business day of each month in which any ARPS are outstanding, 1940 Act Asset Coverage (as defined below) of at least 200% with respect to senior securities that are equity securities, including the ARPS. If the Fund fails to maintain 1940 Act Asset Coverage and such failure is not cured as of the last business day of the following month (the 1940 Act Cure Date), the Fund will be required under certain circumstances to redeem certain of the ARPS. See ARPS Redemption.

The 1940 Act Asset Coverage with respect to the Fund s currently outstanding ARPS is equal to the following ratio, which as of August 3, 2018 was as follows:

$$\frac{\text{Value of the Fund s total assets less all liabilities and indebtedness not represented by senior securities}}{\text{Senior securities representing indebtedness plus liquidation value of the Preferred Shares}} = 263.7\%$$

Ratings Agency ARPS Asset Coverage

The Fund is required under the Bylaws to satisfy separate asset coverage tests specific to each rating agency (the Ratings Agency ARPS Asset Coverage).

Moody s Ratings Agency ARPS Asset Coverage

Satisfaction of Moody s Ratings Agency ARPS Asset Coverage generally requires the Fund to have eligible assets having in the aggregate a discounted value equal to or in excess of a ARPS Basic Maintenance Amount. Generally, the ARPS Basic Maintenance Amount includes the sum of (a) the aggregate liquidation preference of the Fund s preferred shares then outstanding and (b) certain accrued and projected payment obligations of the Fund, including without limitation any accrued and projected dividends on its preferred shares then outstanding.

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Article 11 of the Bylaws includes Moody s-specific guidelines for calculating discounted value for purposes of determining whether the Moody s Ratings Agency ARPS Asset Coverage test is satisfied. These guidelines specify discount factors that the Fund must apply to various types of securities in its portfolio for purposes of calculating whether the discounted value of the Fund s eligible assets is at least equal to the ARPS Basic Maintenance Amount (with the level of discount generally becoming greater as the credit quality of a security becomes lower). In addition, under the Moody s guidelines, certain types of securities (including securities in which the Fund may otherwise invest) are not eligible for inclusion in the calculation of the discounted value of the Fund s portfolio. Such ineligible securities may include, for example, certain privately placed debt securities (other than Rule 144A securities) and debt securities of certain non-U.S. issuers. The Moody s guidelines for calculating discounted value do not impose any limitations on the percentage of the Fund s assets that may be invested in ineligible assets, and the amount of ineligible assets included in the Fund s portfolio at any time may vary depending upon the rating, diversification and other characteristics of the Moody s eligible assets included in the portfolio.

In the event the Fund does not timely cure a failure to maintain (a) Moody s Ratings Agency ARPS Asset Coverage or (b) 1940 Act Asset Coverage, in each case in accordance with the requirements of the rating agency or agencies then rating the Preferred Shares, the Fund will be required to redeem Preferred Shares as described under ARPS Redemption Mandatory Redemption.

In addition to the requirements described above, the rating agency guidelines impose restrictions or limitations on the Fund s use of certain financial instruments or investment techniques that the Fund might otherwise utilize in order to obtain and maintain a rating from Moody s on the ARPS. It is not currently anticipated that these guidelines will materially impede AllianzGI U.S. from managing the Fund s portfolio in accordance with the Fund s investment objective and policies.

The Fund may, but is not required to, adopt any modifications to the guidelines that may be established by Moody s with respect to their ratings of the ARPS. Failure to adopt any such modifications, however, may result in a reduction in the rating described above or a withdrawal of rating altogether. In addition, any rating agency providing a rating for the ARPS may, at any time, change or withdraw any such rating. The Board may, without shareholder approval, amend, alter or repeal various definitions and related provisions that have been adopted by the Fund pursuant to the rating agency guidelines in the event the Fund receives written confirmation from Moody s (or any substitute rating agency) that any such amendment, alteration or repeal would not impair the rating then assigned by the rating agency to the ARPS.

The ratings of the ARPS are based on current information furnished to Moody s by the Fund and/or the Investment Manager or information obtained from other sources. The ratings may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information. The Common Shares have not been rated by a nationally recognized statistical rating organization. A rating agency s guidelines will apply to the ARPS only so long as the rating agency is rating the shares. The Fund pays certain fees to Moody s for rating the ARPS.

The foregoing description of the rating agency guidelines and asset coverage requirements applicable to the ARPS is intended only as a summary and is qualified in its entirety by reference to the actual terms of Article 11 and other relevant provisions of the Bylaws and Exhibit 1 thereto.

ARPS Liquidation Preference

Subject to the rights of holders of any series or class or classes of shares ranking on a parity with the ARPS with respect to the distribution of assets upon liquidation of the Fund, upon a liquidation of the Fund (whether voluntary or involuntary), the holders of the ARPS then outstanding would be entitled to receive and to be paid, out of the assets of the Fund available for distribution to its shareholders, before any payment or distribution would be made on the Fund s Common Shares or any other class of shares of the Fund ranking junior in right of payment upon liquidation to the ARPS, an amount equal to the liquidation preference with respect to such ARPS ($25,000 per share), plus an amount equal to all dividends thereon (whether or not earned or declared by the Fund, but excluding the interest thereon) accumulated but unpaid to (but not including) the date of final

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distribution in same-day funds in connection with the liquidation of the Fund. If such assets of the Fund are insufficient to make the full liquidation payment on outstanding ARPS and liquidation payments on any other outstanding class or series of preferred shares of the Fund ranking on parity with the ARPS as to payment upon liquidation, then such assets will be distributed among the holders of ARPS and the holders of shares of such other class or series ratably in proportion to the respective preferential amounts to which they are entitled. After the payment to the holders of ARPS of the full preferential amounts provided for as described herein, the holders of ARPS as such would have no right or claim to any of the remaining assets of the Fund. For these purposes, a liquidation of the Fund does not include the sale of all or any portion of the assets of the Fund or the merger, consolidation or statutory share exchange of the Fund into or with any trust or other entity.

As used in this prospectus, unless otherwise noted, the Fund s net assets include assets of the Fund attributable to any outstanding ARPS, with no deduction for the liquidation preference of the ARPS. Solely for financial reporting purposes, however, the Fund is required to exclude the liquidation preference of ARPS from net assets, so long as the ARPS have redemption features that are not solely within the control of the Fund. For all regulatory and tax purposes, the Fund s ARPS will be treated as stock (rather than indebtedness).

ARPS Redemption

Mandatory Redemption

As noted above, the Fund is required under the Bylaws to maintain (a) Moody s Ratings Agency ARPS Asset Coverage and (b) 1940 Act Asset Coverage. Eligible portfolio securities for the purposes of (a) above will be determined from time to time by the rating agency then rating the then outstanding ARPS. If the Fund fails to maintain such asset coverage amounts and does not timely cure such failure in accordance with the Bylaws, the Fund would be required to redeem all or a portion of the ARPS. This mandatory redemption would take place on a date that the Board specifies out of legally available funds in accordance with the Declaration, the Bylaws and applicable law, at the redemption price of $25,000 per share, plus accumulated but unpaid dividends (whether or not earned or declared) to (but not including) the date fixed for redemption. In determining the number of ARPS required to be redeemed in accordance with the foregoing, the Fund would redeem the lesser of (a) the minimum number of ARPS necessary to satisfy the Ratings Agency ARPS Asset Coverage or 1940 Act Asset Coverage, as the case may be, and (b) the maximum number of ARPS and any other preferred shares of the Fund subject to redemption or retirement that can be redeemed out of funds expected to be legally available therefor at the time of redemption, and in any case will redeem such ARPS pro rata among the Preferred Shares and any other preferred shares of the Fund subject to redemption or retirement based upon the proportion that the aggregate liquidation preference of the outstanding Preferred Shares of any series bears to the aggregate liquidation preference of all outstanding series of Preferred Shares. The mandatory redemption will be limited to the number of ARPS and any other preferred shares necessary to restore the required Ratings Agency ARPS Asset Coverage or 1940 Act Asset Coverage, as the case may be.

Optional Redemption

To the extent permitted under the 1940 Act and under Massachusetts law, upon giving notice of redemption, as provided below, the Fund, at its option, may redeem ARPS, in whole or in part, out of funds legally available therefore, at the Optional Redemption Price (as defined below) per share on any dividend payment date, provided that no ARPS may be redeemed at the option of the Fund during (a) the initial rate period with respect to the ARPS or (b) a non-call period to which such shares are subject. Optional Redemption Price means $25,000 per Preferred Share plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared) to (but not including) the date fixed for redemption plus the applicable redemption premium, if any. The Fund has the authority to redeem ARPS for any reason and may redeem all or part of the outstanding ARPS if it anticipates that the Fund s leveraged capital structure will result, for a significant period of time, in a lower rate of return to Common Shareholders than that obtainable if the Common Shares were not so leveraged.

Although the ARPS are subject to redemption under certain circumstances as described above, unlike the shares of an open-end mutual fund, the ARPS may not be redeemed at a shareholder s option at NAV or otherwise.

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Additional Information Regarding the SSB Facility

The SSB Facility permits the Fund to borrow up to $265,000,000 on a revolving basis, with outstanding amounts secured by an all-assets lien. Amounts outstanding under the facility are subject to a floating interest rate based on the three-month LIBOR rate plus a spread of 0.55%, subject to upward adjustment during the continuation of any event of default, if and when interest payments are past due and under certain other conditions. Interest is payable monthly. The Fund also must pay a monthly non-usage fee equal to 0.15% of the amount equal to 85% of the total commitment amount less the Fund s borrowings during such period, averaged daily (with such fee reduced to zero if the Fund maintains borrowings equal to 85% of the total commitment amount or more during the period). The SSB Facility permits draw-downs to be funded through securities lending and reverse repurchase transactions, which the Fund believes permit State Street Bank and Trust Company to offer the SSB Facility on more favorable economic terms than would apply if the facility did not provide for securities lending and reverse repurchase transactions. The SSB Facility is terminable by State Street Bank and Trust Company upon 360 days prior written notice and by the Fund upon 60 days prior written notice, subject to earlier termination following any event of default. The SSB Facility includes asset coverage covenants that are generally aligned with the asset coverage requirements under the 1940 Act and includes additional customary covenants, representations and restrictions.

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ANTI-TAKEOVER PROVISIONS IN THE DECLARATION OF TRUST

The Declaration and the Bylaws 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. The Fund s Trustees are divided into three classes. At each annual meeting of shareholders, the term of one class will expire and each Trustee elected to that class will hold office until the third annual meeting thereafter. The classification of the Board of Trustees in this manner could delay for an additional year the replacement of a majority of the Board of Trustees. In addition, the Declaration provides that a Trustee may be removed only for cause and only (i) by action of at least seventy-five percent (75%) of the outstanding shares of the classes or series of shares entitled to vote for the election of such Trustee, or (ii) by written instrument, signed by at least seventy-five percent (75%) of the remaining Trustees, specifying the date when such removal shall become effective. Cause for these purposes shall require willful misconduct, dishonesty or fraud on the part of the Trustee in the conduct of his office or such Trustee being convicted of a felony.

As described below, the Declaration grants special approval rights with respect to certain matters to members of the Board who qualify as Continuing Trustees, which term means a Trustee who either (i) has been a member of the Board for a period of at least thirty-six months (or since the commencement of the Fund s operations, if less than thirty-six months) or (ii) was nominated to serve as a member of the Board of Trustees by a majority of the Continuing Trustees then members of the Board.

The Declaration requires the affirmative vote or consent of at least seventy-five percent (75%) of the Board of Trustees and holders of at least seventy-five percent (75%) of the Fund s shares (including Common and Preferred Shares) to authorize certain Fund transactions not in the ordinary course of business, including a merger or consolidation or share exchange, issuance or transfer by the Fund of the Fund s shares having an aggregate fair market value of $1,000,000 or more (except as may be made pursuant to a public offering, the Fund s dividend reinvestment plan or upon exercise of any stock subscription rights), a sale, lease, exchange, mortgage, pledge, transfer or other disposition of Fund assets, having an aggregated fair market value of $1,000,000 or more, or any shareholder proposal regarding specific investment decisions, unless the transaction is authorized by both a majority of the Trustees and seventy-five percent (75%) of the Continuing Trustees (in which case no shareholder authorization would be required by the Declaration, but may be required in certain cases under the 1940 Act). The Declaration also requires the affirmative vote or consent of holders of at least seventy-five percent (75%) of the Fund s shares entitled to vote on the matter to authorize a conversion of the Fund from a closed-end to an open-end investment company, unless the conversion is authorized by both a majority of the Trustees and seventy-five percent (75%) of the Continuing Trustees (in which case shareholders would have only the minimum voting rights required by the 1940 Act with respect to the conversion). Also, the Declaration provides that the Fund may be terminated at any time by vote or consent of at least seventy-five percent (75%) of the Fund s shares or, alternatively, by vote or consent of both a majority of the Trustees and seventy-five percent (75%) of the Continuing Trustees. See Anti-Takeover and Other Provisions in the Declaration of Trust in the Statement of Additional Information for a more detailed summary of these provisions.

The Trustees may from time to time grant other voting rights to shareholders with respect to these and other matters in the Bylaws, certain of which are required by the 1940 Act. For example, the Amended Bylaws grant holders of the Cumulative Preferred Shares and any other Preferred Shares special voting rights with respect to certain matters described in the preceding paragraph. See Prospectus Summary Voting Rights above.

The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control of the Fund by a third party. These provisions also provide, however, the advantage of potentially requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund s investment objective and policies. The provisions of the Declaration and Bylaws described above could have the effect of discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The Board of Trustees of the Fund has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund and its shareholders.

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The foregoing is intended only as a summary and is qualified in its entirety by reference to the full text of the Declaration and the Bylaws, both of which are on file with the SEC.

Under Massachusetts law, shareholders could, in certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration contains an express disclaimer of shareholder liability for debts or obligations of the Fund and requires that notice of such limited liability be given in each agreement, obligation or instrument entered into or executed by the Fund or the Trustees. The Declaration further provides for indemnification out of the assets and property of the Fund for all loss and expense of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund would be unable to meet its obligations. The Fund believes that the likelihood of such circumstances is remote.

Each of the voting thresholds described in this section is higher than that required under state or federal securities law (to the extent required by state or federal securities law).

REPURCHASE OF COMMON SHARES; CONVERSION TO OPEN-END FUND

The Fund is a closed-end investment company and as such its shareholders will not have the right to cause the Fund to redeem their shares. Shares of a closed-end investment company may frequently trade at prices lower than net asset value. The Fund s Board regularly monitors the relationship between the market price and net asset value of the Common Shares. If the Common Shares were to trade at a substantial discount to net asset value for an extended period of time, the Fund s Board may consider the repurchase of its Common Shares on the open market or in private transactions, the making of a tender offer for such shares or the conversion of the Fund to an open-end investment company. The Fund cannot assure you that its Board of Trustees will decide to take or propose any of these actions, or that share repurchases or tender offers will actually reduce any market discount.

If the Fund were to convert to an open-end company, it would be required to repurchase all Preferred Shares (including the Cumulative Preferred Shares) then outstanding (requiring in turn that it liquidate a portion of its investment portfolio), and the Common Shares likely would no longer be listed on the NYSE. In contrast to a closed-end investment company, shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their net asset value, less any redemption charge that is in effect at the time of redemption.

Before deciding whether to take any action to convert the Fund to an open-end investment company, the Fund s Board would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund s portfolio, the impact of any action that might be taken on the Fund or its shareholders, and market considerations. Based on these considerations, even if the Fund s shares should trade at a discount, the Board of Trustees may determine that, in the interest of the Fund and its shareholders, no action should be taken. See the Statement of Additional Information under Repurchase of Common Shares; Conversion to Open-End Fund for a further discussion of possible action to reduce or eliminate any such discount to net asset value.

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TAX MATTERS

U.S. Federal Income Tax Matters

The following is a summary discussion of certain U.S. federal income tax consequences that may be relevant to a Cumulative Preferred Shareholder that acquires, holds and/or disposes of Cumulative Preferred Shares of the Fund, and reflects provisions of the Code, existing Treasury regulations, rulings published by the IRS, and other applicable authority, as of the date of this prospectus. These authorities are subject to change by legislative or administrative action, possibly with retroactive effect. The following discussion is only a summary of some of the important tax considerations generally applicable to investments in the Fund. For more detailed information regarding tax considerations, see the Statement of Additional Information. There may be other and different tax considerations applicable to particular investors, such as insurance companies, financial institutions, broker-dealers, tax-advantaged retirement plans and non-U.S. shareholders (as defined below). In addition, income earned through an investment in the Fund may be subject to state, local and foreign taxes. Cumulative Preferred Shareholders should consult their own tax advisers regarding their particular situation and the possible application of U.S. federal, state, local, foreign or other tax laws.

Taxation of the Fund

The Fund has elected to be treated as a RIC under Subchapter M of the Code and intends each year to qualify and be eligible to be treated as such. In order for the Fund to qualify as a RIC, it must meet an income and asset diversification test each year. To satisfy the income test, the Fund must derive at least 90% of its gross income in each taxable year from dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including, but not limited to, gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies and net income derived from interests in qualified publicly traded partnerships (as defined in the Code). To satisfy the asset diversification test, the Fund must diversify its holdings so that at the end of each quarter of the Fund s taxable year, (a) at least 50% of the value of its total assets consists of cash and cash items (including receivables), U.S. Government securities, securities of other RICs, and other securities limited, with respect to any one issuer, to no more than 5% of the value of the Fund s total assets and 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of the Fund s total assets is invested, including through corporations in which the Fund owns a 20% or more voting stock interest, in the securities (other than those of the U.S. Government or other RICs) of any one issuer or of two or more issuers which the Fund controls and which are engaged in the same, similar or related trades or businesses, or in the securities of one or more qualified publicly traded partnerships (as defined in the Code). If the Fund qualifies as a RIC and satisfies certain distribution requirements, the Fund will not be subject to U.S. federal income tax to the extent it distributes its investment company taxable income (as that term is defined in the Code, without regard to the deduction for dividends paid), its net tax-exempt income, if any, and its net capital gains (the excess of net long-term capital gains over net short-term capital loss, determined in each case with reference to any capital loss carryforwards) in a timely manner to its shareholders in the form of dividends or capital gain distributions. The Fund intends to distribute substantially all of such income and gains each year.

If the Fund does retain any investment company taxable income, it will be subject to tax at regular corporate rates on the amount retained. If the Fund retains any net capital gain, it also will be subject to tax at regular corporate rates on the amount retained. If the Fund retains any net capital gain and pays tax on such amount, it may designate the retained amount as undistributed capital gain in a notice to its shareholders who would then (i) be required to include in income for U.S. federal income tax purposes, as long-term capital gain, their shares of such undistributed amount, and (ii) be entitled to credit their proportionate shares of the tax paid by the Fund on such undistributed amount against their U.S. federal income tax liabilities, if any, and to claim such refunds on a properly filed U.S. tax return to the extent the credit exceeds such liabilities. If the Fund makes this designation, for U.S. federal income tax purposes, the tax basis of Cumulative Preferred Shares of the Fund (and any other shares of the Fund) owned by a shareholder will be increased by an amount equal under current law to the difference between the amount of undistributed capital gains included in the shareholder s gross income under clause (i) of the preceding sentence and the tax deemed paid by the shareholder under clause (ii) of the

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preceding sentence. The Fund is not required to, and there can be no assurance that the Fund will, make this designation if it retains all or a portion of its net capital gain in a taxable year.

A nondeductible excise tax at the rate of 4% will be imposed on the excess, if any, of the Fund s required distribution over its actual distributions in any calendar year. Generally, the required distribution is 98% of the Fund s ordinary income for the calendar year plus 98.2% of its capital gain net income recognized during the one-year period ending on October 31 (or a later date if the Fund is permitted to elect and so elects), plus undistributed amounts from prior years. For purposes of the required excise tax distribution, a RIC s ordinary gains and losses from the sale, exchange, or other taxable disposition of property that would otherwise be taken into account after October 31 (or such later date, if the Fund makes the election referred to immediately above) are generally treated as arising on January 1 of the following calendar year. Also, for purposes of the excise tax, the Fund will be treated as having distributed any amount for which it is subject to corporate income tax for the taxable year ending within the calendar year. The Fund intends to make distributions sufficient to avoid imposition of the excise tax, although there can be no assurance that it will be able to do so. The Fund may determine to pay the excise tax in a year to the extent it is deemed to be in the best interest of the Fund (*e.g.*, if the excise tax is de minimis).

The Fund s intention to qualify for treatment as a RIC may negatively affect the Fund s return to Shareholders by limiting the Fund s ability to acquire or continue to hold positions that would otherwise be consistent with its investment strategy or by requiring it to engage in transactions it would otherwise not engage in, resulting in additional transaction costs. If the Fund were to fail to meet the income, diversification, or distribution test, the Fund could in some cases cure such failure, including by paying a fund-level tax, paying interest, making additional distributions, or disposing of certain assets. If the Fund were ineligible to or otherwise did not cure such failure for any taxable year, or if the Fund were otherwise to fail to qualify as a RIC accorded special tax treatment for such year, the Fund would be subject to tax on its taxable income at corporate rates, and all distributions from earnings and profits, including any distributions of net long-term capital gains, would be taxable to Cumulative Preferred Shareholders as dividend income. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before re-qualifying as a RIC that is accorded special tax treatment.

As described under Use of Leverage above, if at any time when Preferred Shares are outstanding the Fund does not meet applicable asset coverage requirements, it will be required to suspend distributions to Common Shareholders until the requisite asset coverage is restored. Any such suspension may cause the Fund to pay a U.S. federal income and excise tax on undistributed income or gains and may, in certain circumstances, prevent the Fund from qualifying for treatment as a RIC. The Fund may repurchase or otherwise retire Preferred Shares in an effort to comply with the distribution requirement applicable to RICs.

Distributions

For U.S. federal income tax purposes, distributions of net investment income are generally taxable as ordinary income. Taxes on distributions of capital gains are determined by how long the Fund owned (or is deemed to have owned) the investments that generated them, rather than how long a shareholder has owned his or her Cumulative Preferred Shares. In general, the Fund will recognize long-term capital gain or loss on investments it has owned (or is deemed to have owned) for more than one year, and short-term capital gain or loss on investments it has owned (or is deemed to have owned) for one year or less. Distributions of net capital gain (that is, the excess of net long-term capital gain over net short-term capital loss, determined in each case with reference to any loss carryforwards) that are properly reported by the Fund as capital gain dividends (Capital Gain Dividends) will be taxable to shareholders as long-term capital gains includible in net capital gain and taxed to individuals at reduced rates.

Distributions of net short-term capital gain (as reduced by any net long-term capital loss for the taxable year) will be taxable to shareholders as ordinary income. The Fund may report certain dividends as derived from qualified dividend income, which, when received by a non-corporate shareholder, will be taxed at the rates applicable to net capital gain, provided holding period and other requirements are met at both the shareholder and Fund levels.

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Subject to any future regulatory guidance to the contrary, any distribution of income attributable to dividends from the Fund s investment in a REIT will ostensibly not qualify for the 20% pass-through deduction that would generally be available to a non-corporate shareholder were the shareholder to own such REIT directly.

In general, dividends of net investment income received by corporate shareholders of the Fund may qualify for the dividends-received deduction generally available to corporations to the extent of the amount of eligible dividends received by the Fund from domestic corporations for the taxable year, provided the shareholder meets certain holding period and other requirements in respect of the Fund s shares.

If, in and with respect to any taxable year, the Fund makes a distribution in excess of its current and accumulated earnings and profits, the excess distribution will be treated as a return of capital to the extent of a shareholder s tax basis in his or her shares of the Fund, and thereafter as capital gain. A return of capital is not taxable, but it reduces a shareholder s basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by the shareholder of such shares. Where one or more such distributions occur in and with respect to any taxable year of the Fund, the available earnings and profits will be allocated first to the distributions made to the holders of Preferred Shares, including the Cumulative Preferred Shares, and only thereafter to distributions made to holders of Common Shares. As a result, the holders of Preferred Shares will receive a disproportionate share of the distributions treated as dividends, and the holders of Common Shares will receive a disproportionate share of the distributions treated as a return of capital.

The IRS currently requires a RIC that the IRS recognizes as having two or more classes of stock for U.S. federal income tax purposes to allocate to each such class proportionate amounts of each type of the RIC s income (such as ordinary income and capital gains) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the Fund intends each tax year to allocate Capital Gain Dividends between and among its Common Shares and each series of its Preferred Shares, including the Cumulative Preferred Shares, in proportion to the total dividends paid to each class with respect to such tax year. Dividends qualifying and not qualifying for the dividends received deduction or as qualified dividend income will similarly be allocated between and among Common Shares and each series of Preferred Shares.

The determination of the character for U.S. federal income tax purposes of any distribution from the Fund (*i.e.*, ordinary income dividends, Capital Gain Dividends, qualified dividends, or return of capital distributions) will be made as of the end of the Fund s taxable year. Generally, the Fund will provide shareholders with a written statement reporting the amount of any capital gain distributions or other distributions.

Dividends and distributions on the Fund s Cumulative Preferred Shares are generally subject to federal income tax as described herein to the extent they do not exceed the Fund s realized income and gains, even though such dividends and distributions may economically represent a return of a particular shareholder s investment. Such distributions are likely to occur in respect of the Fund s Cumulative Preferred Shares purchased at a time when the Fund s net asset value reflects unrealized gains or income or gains that are realized but not yet distributed. Such realized income and gains may be required to be distributed even when the Fund s net asset value also reflects unrealized losses.

A distribution by the Fund will be treated as paid on December 31 of any calendar year if it is declared by the Fund in October, November or December with a record date in such a month and paid by the Fund during January of the following calendar year. Such distributions will be taxable to shareholders in the calendar year in which the distributions are declared, rather than the calendar year in which the distributions are received.

Sale or Exchange of Cumulative Preferred Shares

Cumulative Preferred Shareholders who sell or exchange their Cumulative Preferred Shares of the Fund will generally recognize gain or loss in an amount equal to the difference between the amount received and the Cumulative Preferred Shareholder s adjusted tax basis in the Cumulative Preferred Shares sold or exchanged. If the Cumulative Preferred Shares of the Fund are held as a capital asset, any gain or loss realized upon a taxable disposition of the Cumulative Preferred Shares will be treated as long-term capital gain or loss if the shares have

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been held for more than 12 months. Otherwise, the gain or loss on the taxable disposition of Cumulative Preferred Shares of the Fund will be treated as short-term capital gain or loss. However, any loss realized upon a taxable disposition of Cumulative Preferred Shares of the Fund held by a shareholder for six months or less will be treated as long-term, rather than short-term, to the extent of Capital Gain Dividends received (or deemed received) by the shareholder with respect to the shares. For purposes of determining whether Cumulative Preferred Shares of the Fund have been held for six months or less, the holding period is suspended for any periods during which the Cumulative Preferred Shareholder s risk of loss is diminished as a result of holding one or more other positions in substantially similar or related property, or through certain options or short sales. Any loss realized on a sale or exchange of Cumulative Preferred Shares of the Fund will be disallowed to the extent those Cumulative Preferred Shares are replaced by other substantially identical shares within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition of the Cumulative Preferred Shares (including through the reinvestment of distributions, which could occur, for example, if the Cumulative Preferred Shareholder is a participant in the Plan). In that event, the basis of the replacement shares will be adjusted to reflect the disallowed loss.

Redemption of Cumulative Preferred Shares

In certain circumstances, the Fund may redeem Cumulative Preferred Shares. Shareholders who redeem all Cumulative Preferred Shares held, or considered to be held, by them and do not hold (directly or by attribution) any other Fund shares will be treated as having sold their shares (pursuant to Section 302(b) of the Code) and generally will realize a capital gain or loss. If a shareholder redeems fewer than all its Cumulative Preferred Shares or continues to hold (directly or by attribution) other Fund shares, in certain circumstances such shareholder may be treated as having received a distribution under Section 301 of the Code (Section 301 distribution) unless the redemption is treated under Section 302(b) of the Code as being either (i) substantially disproportionate with respect to such shareholder or (ii) otherwise not essentially equivalent to a dividend under the relevant rules of the Code (each of (i) or (ii) being a redemption subject to Section 302(b) of the Code). A section 301 distribution is not treated as a sale or exchange giving rise to capital gain or loss, but rather is treated as a dividend to the extent supported by the Fund s current and accumulated earnings and profits, with the excess treated as a return of capital reducing the shareholder s tax basis in its Fund shares, and thereafter as capital gain.

Medicare Tax

A 3.8% Medicare contribution tax will be imposed on the net investment income of individuals, estates and trusts whose income exceeds certain threshold amounts. Net investment income generally includes for this purpose dividends, including any Capital Gain Dividends paid by the Fund, and net gains recognized on the sale, exchange, or redemption of Cumulative Preferred Shares of the Fund.

Foreign Taxes

Income, proceeds and gains received by the Fund from sources within foreign countries may be subject to withholding and other taxes imposed by such countries. Tax treaties between certain countries and the U.S. may reduce or eliminate such taxes.

The Fund does not expect to be eligible to elect to pass through such foreign taxes and therefore does not expect that Common Shareholders will be entitled to a credit or deduction in respect of such taxes.

Certain Fund Investments

From time to time, a substantial portion of the Fund s investments in debt obligations could be treated as having original issue discount (OID) and/or market discount for U.S. federal income tax purposes, which, in some cases, could be significant and could cause the Fund to recognize income in respect of these investments before or without receiving cash representing such income. If so, the Fund could be required to pay out as an income distribution each year an amount which is greater than the total amount of cash interest the Fund actually received. As a result, the Fund could be required at times to liquidate investments (including at potentially

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disadvantageous times or prices) in order to satisfy its distribution requirements or to avoid incurring Fund-level U.S. federal income or excise taxes. If the Fund liquidates portfolio securities to raise cash, the Fund may realize gain or loss on such liquidations; in the event the Fund realizes net long-term or short-term capital gains from such liquidation transactions, its shareholders may receive larger capital gain or ordinary dividends, respectively, than they would in the absence of such transactions.

Investments in debt obligations that are at risk of or in default present special tax issues for the Fund. Tax rules are not entirely clear about issues such as whether or to what extent the Fund should recognize market discount on a debt obligation; when the Fund may cease to accrue interest, OID or market discount; when and to what extent the Fund may take deductions for bad debts or worthless securities; and how the Fund should allocate payments received on obligations in default between principal and income. These and other related issues will be addressed by the Fund when, as, and if it invests in such securities in order to seek to ensure that it distributes sufficient income to preserve its status as a RIC and avoid becoming subject to U.S. federal income or excise tax.

A portion of the interest paid or accrued on certain high yield discount obligations owned by the Fund may not, and interest paid on debt obligations, if any, that are considered for tax purposes to be payable in the equity of the issuer or a related party will not be deductible to the issuer. This may affect the cash flow of the issuer. If a portion of the interest paid or accrued on certain high yield discount obligations is not deductible, that portion will be treated as a dividend paid by the issuer for purposes of the corporate dividends received deduction. In such cases, if the issuer of the high yield discount obligations is a domestic corporation, dividend payments by the Fund may be eligible for the dividends-received deduction to the extent of the deemed dividend portion of such interest.

The Fund s transactions in derivative instruments (e.g., options, futures, forward contracts, structured notes and swap agreements), as well as any of its other hedging, short sale, securities loan or similar transactions, may be subject to uncertainty with respect to their tax treatment, and to one or more special tax rules (e.g., notional principal contract, straddle, constructive sale, wash sale, and short sale rules). The aforementioned rules may affect whether gains and losses recognized by the Fund are treated as ordinary or capital or as short-term or long-term, accelerate the recognition of income or gains to the Fund, defer losses to the Fund, and cause adjustments in the holding periods of the Fund s securities. These rules could therefore affect the amount, timing and/or character of distributions to Cumulative Preferred Shareholders. Because the tax treatment and the tax rules applicable to these types of transactions are in some cases uncertain under current law, an adverse determination or future guidance by the IRS with respect to these rules or treatment (which determination or guidance could be retroactive) may affect whether the Fund has made sufficient distributions, and otherwise satisfied the relevant requirements, to maintain its qualification as a RIC and avoid a Fund-level tax.

It is possible that the Fund s use of derivatives and hedging activities will produce a difference between its book income and its taxable income. If such a difference arises, and the Fund s book income is less than its taxable income, the Fund could be required to make distributions exceeding book income to qualify as a RIC that is accorded special tax treatment and to eliminate Fund-level tax. In the alternative, if the Fund s book income exceeds its taxable income (including realized capital gains), the distribution (if any) of such excess generally will be treated as (i) a dividend to the extent of the Fund s remaining earnings and profits, (ii) thereafter, as a return of capital to the extent of the recipient s basis in its shares, and (iii) thereafter as gain from the sale or exchange of a capital asset. As described above, available earnings and profits will be allocated first to the distributions made to the holders of Preferred Shares, including the Cumulative Preferred Shares.

Any investment by the Fund in equity securities of REITs may result in the Fund s receipt of cash in excess of the REIT s earnings; if the Fund distributes these amounts, these distributions could constitute a return of capital to Fund shareholders for U.S. federal income tax purposes. Dividends received by the Fund from a REIT will not qualify for the corporate dividends-received deduction and generally will not constitute qualified dividend income.

The Fund may invest directly or indirectly in residual interests in REMICs (including by investing in residual interests in CMOs with respect to which an election to be treated as a REMIC is in effect) or equity

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interests in taxable mortgage pools (TMPs). Under a notice issued by the IRS in October 2006 and Treasury regulations that have yet to be issued but may apply retroactively, a portion of the Fund s income (including income allocated to the Fund from a REIT or other pass-through entity) that is attributable to a residual interest in a REMIC or an equity interest in a TMP (referred to in the Code as an excess inclusion) will generally be subject to U.S. federal income tax. This notice also provides, and the regulations are expected to provide, that excess inclusion income of a RIC will be allocated to shareholders of the RIC in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related interest directly. As a result, the Fund may not be a suitable investment for certain tax-exempt investors.

In general, excess inclusion income allocated to Cumulative Preferred Shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income (UBTI) to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on UBTI, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a tax return, to file a tax return and pay tax on such income; and (iii) in the case of a foreign shareholder, will not qualify for any reduction in U.S. federal withholding tax. A shareholder will be subject to U.S. federal income tax on such inclusions notwithstanding any exemption from such income tax otherwise available under the Code. Charitable remainder trusts and other tax-exempt shareholders are urged to consult their tax advisers concerning the consequences of investing in the Fund.

Backup Withholding

Backup withholding is generally required with respect to taxable distributions or the gross proceeds of a sale of Cumulative Preferred Shares of the Fund paid to any non-corporate shareholder who fails to properly furnish a correct taxpayer identification number, who has under-reported dividend or interest income, or who fails to certify that he or she is not subject to such withholding. Amounts withheld as a result of backup withholding are remitted to the U.S. Treasury but do not constitute an additional tax imposed on the shareholder; such amounts may be claimed as a credit on the shareholder s U.S. federal income tax return, provided the appropriate information is furnished to the IRS.

Other Reporting and Withholding Requirements

Sections 1471-1474 of the Code and U.S. Treasury Regulations and IRS guidance issued hereunder (collectively, FATCA) generally requires the Fund to obtain information sufficient to identify the status of each of its shareholders under FATCA or under an applicable intergovernmental agreement (an IGA) between the United States and a foreign government. If a shareholder fails to provide this information or otherwise fails to comply with FATCA or an IGA, the Fund may be required to withhold under FATCA at a rate of 30% with respect to that shareholder on ordinary dividends it pays, and, on or after January 1, 2019, 30% of the gross proceeds on share redemptions or exchanges and certain Capital Gain Dividends. If a payment by the Fund is subject to FATCA withholding, the Fund is required to withhold even if such payment would otherwise be exempt from withholding under the rules applicable to foreign shareholders described above (e.g., Capital Gain Dividends and short-term capital gain and interest-related dividends). Each prospective investor is urged to consult its tax advisor regarding the applicability of FATCA and any other reporting requirements with respect to the prospective investor s own situation, including investments through an intermediary.

Shares Purchased Through Tax-Qualified Plans

Special tax rules apply to investments though defined contribution plans and other tax-qualified plans. Cumulative Preferred Shareholders should consult their tax advisors to determine the suitability of the Fund s Cumulative Preferred Shares as an investment through such plans and the precise effect of an investment on their particular tax situation.

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General

The foregoing discussion relates solely to U.S. federal income tax laws. Dividends, distributions, and gains on the sale, redemption, or other disposition of Cumulative Preferred Shares, also may be subject to state and local taxes. Cumulative Preferred Shareholders are urged to consult their tax advisors regarding specific questions as to federal, state, local, and, where applicable, foreign taxes. Foreign investors should consult their tax advisors concerning the tax consequences of ownership of Cumulative Preferred Shares of the Fund.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and related regulations currently in effect. For the complete provisions, reference should be made to the pertinent Code sections and regulations. The Code and regulations are subject to change by legislative or administrative actions.

Please see Tax matters in the Statement of Additional Information for additional information regarding the tax aspects of investing in Cumulative Preferred Shares of the Fund.

SHAREHOLDER SERVICING AGENT, CUSTODIAN AND TRANSFER AGENT

The Investment Manager (and not the Fund) has agreed to pay from its own assets to UBS Securities LLC a shareholder servicing fee (the Shareholder Servicing Fee) at an annual rate of 0.10% of the average daily total managed assets (including net assets attributable to Preferred Shares, including Cumulative Preferred Shares, and other forms of leverage) of the Fund pursuant to a shareholder servicing agreement between the Investment Manager and UBS Securities LLC (the Shareholder Servicing Agreement). Pursuant to the Shareholder Servicing Agreement, UBS Securities LLC: (i) undertakes to make public information pertaining to the Fund on an ongoing basis and to communicate to investors and prospective investors the Fund s features and benefits (including periodic seminars or conference calls, responses to questions from current or prospective shareholders and specific shareholder contact where appropriate); (ii) makes available to investors and prospective investors market price, net asset value, yield and other information regarding the Fund, if reasonably obtainable, for the purpose of maintaining the visibility of the Fund in the investor community; (iii) at the request of the Investment Manager, provides certain economic research and statistical information and reports, if reasonably obtainable, on behalf of the Investment Manager or the Fund, and consult with representatives and Trustees of the Fund in connection therewith; and (iv) at the request of the Investment Manager, provides information to and consults with the Board of Trustees with respect to applicable modifications to dividend policies or capital structure, repositioning or restructuring of the Fund, conversion of the Fund to an open-end investment company or a Fund liquidation or merger. UBS Securities LLC serves as a Shareholder Servicing agent for the Fund.

The custodian of the assets of the Fund is State Street Bank & Trust Co., 801 Pennsylvania Avenue, Kansas City, Missouri 64105. The custodian performs custodial and fund accounting services as well as sub-administrative and compliance services on behalf of the Fund.

American Stock Transfer & Trust Company, LLC serves as transfer agent and dividend disbursing agent for the Cumulative Preferred Shares.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP serves as independent registered public accounting firm for the Fund. PricewaterhouseCoopers LLP provides audit services, tax and other audit related services to the Fund.

PLAN OF DISTRIBUTION

Cumulative Preferred Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents, underwriters or dealers involved in the sale of Cumulative Preferred Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund s underwriters, or the basis upon which such amount may be calculated. The Fund may not sell any Cumulative Preferred Shares through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the particular offering of the

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Cumulative Preferred Shares. In connection with the sale of our securities, underwriters or agents may receive compensation from us in the form of discounts, concessions or commissions. To facilitate an offering of securities in an underwritten transaction and in accordance with industry practice, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the market price of the securities. Those transactions may include overallotment, entering stabilizing bids, effecting syndicate covering transactions, and reclaiming selling concessions allowed to an underwriter or a dealer.

LEGAL MATTERS

Certain legal matters will be passed on for the Fund by Ropes & Gray LLP, Boston, Massachusetts.

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APPENDIX A

DESCRIPTION OF SECURITIES RATINGS

Certain of the Funds make use of average portfolio credit quality standards to assist institutional investors whose own investment guidelines limit their investments accordingly. In determining a Fund s overall dollar-weighted average quality, unrated securities are treated as if rated, based on the Adviser s view of their comparability to rated securities. A Fund s use of average quality criteria is intended to be a guide for those investors whose investment guidelines require that assets be invested according to comparable criteria. Reference to an overall average quality rating for a Fund does not mean that all securities held by the Fund will be rated in that category or higher. A Fund s investments may range in quality from securities rated in the lowest category in which the Fund is permitted to invest to securities rated in the highest category (as rated by Moody s, S&P, Fitch, Kroll Bond Rating Agency or DBRS, or, if unrated, determined by the Adviser to be of comparable quality). The percentage of a Fund s assets invested in securities in a particular rating category will vary. Following is a description of Moody s, S&P s, Fitch s, Kroll s and DBRS s ratings applicable to fixed income securities.

MOODY S GLOBAL RATING SCALES

Global long-term rating scale

Ratings assigned on Moody s global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.

Global long-term rating scale

Aaa: Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

Aa: Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A: Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.

Baa: Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Ba: Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.

B: Obligations rated B are considered speculative and are subject to high credit risk.

Caa: Obligations rated Caa are judged to be speculative, of poor standing and are subject to very high credit risk.

Ca: Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C: Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody s appends numerical modifiers, 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a (hyb) indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.[(1)]

(1)

By their terms, hybrid securities allow for the omission of scheduled dividends, interest, or principal payments, which can potentially result in impairment if such an omission occurs. Hybrid securities may also be subject to contractually allowable write-downs of principal that could result in impairment. Together with the hybrid indicator, the long-term obligation rating assigned to a hybrid security is an expression of the relative credit risk associated with that security.

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Global short-term rating scale

Ratings assigned on Moody s global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.

P-1: Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

P-2: Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

P-3: Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.

NP: Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

S&P GLOBAL RATINGS SERVICES

Issue credit rating definitions

An S&P Global Ratings issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion reflects S&P Global Ratings view of the obligor s capacity and willingness to meet its financial commitments as they come due, and this opinion may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

Issue credit ratings can be either long-term or short-term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. Medium-term notes are assigned long-term ratings.

Issue credit ratings are based, in varying degrees, on S&P Global Ratings analysis of the following considerations: the likelihood of payment the capacity and willingness of the obligor to meet its financial commitments on an obligation in accordance with the terms of the obligation; the nature and provisions of the financial obligation, and the promise we impute; and the protection afforded by, and relative position of, the financial obligation in the event of a bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

Long-term issue credit ratings[(2)]

AAA: An obligation rated AAA has the highest rating assigned by S&P Global Ratings. The obligor s capacity to meet its financial commitments on the obligation is extremely strong.

(2) *The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.*

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AA: An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor s capacity to meet its financial commitments on the obligation is very strong.

A: An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor s capacity to meet its financial commitments on the obligation is still strong.

BBB: An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor s capacity to meet its financial commitments on the obligation.

Obligations rated BB , B , CCC , CC , and C are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and C the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.

BB: An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor s inadequate capacity to meet its financial commitments on the obligation.

B: An obligation rated B is more vulnerable to nonpayment than obligations rated BB , but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor s capacity or willingness to meet its financial commitments on the obligation.

CCC: An obligation rated CCC is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitments on the obligation.

CC: An obligation rated CC is currently highly vulnerable to nonpayment. The CC rating is used when a default has not yet occurred, but S&P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.

C: An obligation rated C is currently highly vulnerable to nonpayment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared with obligations that are rated higher.

D: An obligation rated D is in default or in breach of an imputed promise. For non-hybrid capital instruments, the D rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The D rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation s rating is lowered to D if it is subject to a distressed exchange offer.

NR: This indicates that no rating has been requested, or that there is insufficient information on which to base a rating, or that S&P Global Ratings does not rate a particular obligation as a matter of policy.

Active qualifiers

S&P Global Ratings uses the following qualifiers that limit the scope of a rating. The structure of the transaction can require the use of a qualifier such as a p qualifier, which indicates the rating addresses the principal portion of the obligation only. A qualifier appears as a suffix and is part of the rating.

Federal deposit insurance limit: L qualifier

Ratings qualified with L apply only to amounts invested up to federal deposit insurance limits.

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Principal: p qualifier

This suffix is used for issues in which the credit factors, the terms, or both, that determine the likelihood of receipt of payment of principal are different from the credit factors, terms or both that determine the likelihood of receipt of interest on the obligation. The p suffix indicates that the rating addresses the principal portion of the obligation only and that the interest is not rated.

Preliminary ratings: prelim qualifier

Preliminary ratings, with the prelim suffix, may be assigned to obligors or obligations, including financial programs, in the circumstances described below. Assignment of a final rating is conditional on the receipt by S&P Global Ratings of appropriate documentation. S&P Global Ratings reserves the right not to issue a final rating. Moreover, if a final rating is issued, it may differ from the preliminary rating.

Preliminary ratings may be assigned to obligations, most commonly structured and project finance issues, pending receipt of final documentation and legal opinions.

Preliminary ratings may be assigned to obligations that will likely be issued upon the obligor s emergence from bankruptcy or similar reorganization, based on late-stage reorganization plans, documentation and discussions with the obligor. Preliminary ratings may also be assigned to the obligors. These ratings consider the anticipated general credit quality of the reorganized or post-bankruptcy issuer as well as attributes of the anticipated obligation(s).

Preliminary ratings may be assigned to entities that are being formed or that are in the process of being independently established when, in S&P Global Ratings opinion, documentation is close to final. Preliminary ratings may also be assigned to the obligations of these entities.

Preliminary ratings may be assigned when a previously unrated entity is undergoing a well-formulated restructuring, recapitalization, significant financing or other transformative event, generally at the point that investor or lender commitments are invited. The preliminary rating may be assigned to the entity and to its proposed obligation(s). These preliminary ratings consider the anticipated general credit quality of the obligor, as well as attributes of the anticipated obligation(s), assuming successful completion of the transformative event. Should the transformative event not occur, S&P Global Ratings would likely withdraw these preliminary ratings.

A preliminary recovery rating may be assigned to an obligation that has a preliminary issue credit rating.

Termination structures: t qualifier

This symbol indicates termination structures that are designed to honor their contracts to full maturity or, should certain events occur, to terminate and cash settle all their contracts before their final maturity date.

Counterparty Instrument Rating: cir qualifier

This symbol indicates a Counterparty Instrument Rating (CIR), which is a forward-looking opinion about the creditworthiness of an issuer in a securitization structure with respect to a specific financial obligation to a counterparty (including interest rate swaps, currency swaps, and liquidity facilities). The CIR is determined on an ultimate payment basis; these opinions do not take into account timeliness of payment.

Active identifiers

S&P Global Ratings currently uses seven other identifiers. These words or symbols provide additional information but do not change the definition of a rating or our opinion about the issue s or issuer s creditworthiness. The identifiers are often required by regulation.

Unsolicited: unsolicited and u identifier

The u identifier and unsolicited designation are assigned to credit ratings initiated by parties other than the issuer or its agents, including those initiated by S&P Global Ratings.

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Structured finance: sf identifier

The sf identifier shall be assigned to ratings on structured finance instruments when required to comply with applicable law or regulatory requirement or when S&P Global Ratings believes it appropriate. The addition of the sf identifier to a rating does not change that rating s definition or our opinion about the issue s creditworthiness. For detailed information on the instruments assigned the sf identifier, please see S&P Announces Changes To The List of Instruments Carrying The Structured Finance Identifier in Section VIII, under Related Research.

Japan: JR identifier

The JR identifier is assigned to all issue and issuer ratings assigned by either S&P Global Ratings Japan Inc. or S&P Global SF Japan Inc., each of which is a registered credit rating agency in Japan, as ratings registered under Japanese regulation. The addition of the identifier does not change the definition of that rating or our opinion about the issue s or issuer s creditworthiness.

European Union: EU identifier

S&P Global Ratings assigns the EU identifier to global scale ratings assigned by S&P Global Ratings rating entities (or branches thereof) regulated in the European Union. The addition of the EU identifier to a rating does not change that rating s definition or our opinion about the issue s or issuer s creditworthiness.

European Endorsed: EE identifier

S&P Global Ratings assigns the EE identifier to global scale ratings assigned by S&P Global Ratings entities established outside the European Union which are endorsed by an S&P Global Ratings entity regulated in the European Union. The addition of the EE identifier to a rating does not change that rating s definition or our opinion about the issue s or issuer s creditworthiness.

Nippon KK: XN identifier

S&P Global SF Japan Inc. assigns the XN identifier to credit ratings assigned by S&P Global SF Japan Inc. S&P Global SF Japan Inc. is not a Nationally Recognized Statistical Rating Organization. The addition of the XN identifier to a rating does not change that rating s definition or our opinion about the issue s or issuer s creditworthiness.

Under criteria observation UCO identifier

The UCO identifier may (or shall, if an EU regulatory requirement) be assigned to credit ratings under review as a result of a criteria revision. The addition of the UCO identifier to a rating does not change that rating s definition or our opinion about the issue s or issuer s creditworthiness.

Short-term issue credit ratings

A-1: A short-term obligation rated A-1 is rated in the highest category by S&P Global Ratings. The obligor s capacity to meet its financial commitments on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor s capacity to meet its financial commitments on these obligations is extremely strong.

A-2: A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor s capacity to meet its financial commitments on the obligation is satisfactory.

A-3: A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken an obligor s capacity to meet its financial commitments on the obligation.

B: A short-term obligation rated B is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties that could lead to the obligor s inadequate capacity to meet its financial commitments.

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C: A short-term obligation rated C is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation.

D: A short-term obligation rated D is in default or in breach of an imputed promise. For non-hybrid capital instruments, the D rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation s rating is lowered to D if it is subject to a distressed exchange offer.

Dual Ratings: Dual ratings may be assigned to debt issues that have a put option or demand feature. The first component of the rating addresses the likelihood of repayment of principal and interest as due, and the second component of the rating addresses only the demand feature. The first component of the rating can relate to either a short-term or long-term transaction and accordingly use either short-term or long-term rating symbols. The second component of the rating relates to the put option and is assigned a short-term rating symbol (for example, AAA/A-1+ or A-1+/A-1). With U.S. municipal short-term demand debt, the U.S. municipal short-term note rating symbols are used for the first component of the rating (for example, SP-1+/A-1+).

The analyses, including ratings, of S&P Global Ratings and its affiliates (together, S&P Global Ratings) are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or make any investment decisions. S&P Global Ratings assumes no obligation to update any information following publication. Users of ratings or other analyses should not rely on them in making any investment decision. S&P Global Ratings opinions and analyses do not address the suitability of any security. S&P Global Ratings does not act as a fiduciary or an investment advisor except where registered as such. While S&P Global Ratings has obtained information from sources it believes to be reliable, it does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Ratings and other opinions may be changed, suspended, or withdrawn at any time.

FITCH, INC.

Issuer default ratings

Rated entities in a number of sectors, including financial and non-financial corporations, sovereigns, insurance companies and certain sectors within public finance, are generally assigned Issuer Default Ratings (IDRs). IDRs are also assigned to certain entities in global infrastructure and project finance. IDRs opine on an entity s relative vulnerability to default on financial obligations. The threshold default risk addressed by the IDR is generally that of the financial obligations whose non-payment would best reflect the uncured failure of that entity. As such, IDRs also address relative vulnerability to bankruptcy, administrative receivership or similar concepts.

In aggregate, IDRs provide an ordinal ranking of issuers based on the agency s view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default.

AAA: Highest credit quality. AAA ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality. AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High credit quality. A ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB: Good credit quality. BBB ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

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BB: Speculative. BB ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.

B: Highly speculative. B ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC: Substantial credit risk. Default is a real possibility.

CC: Very high levels of credit risk. Default of some kind appears probable.

C: A default or default-like process has begun, or the issuer is in standstill, or for a closed funding vehicle, payment capacity is irrevocably impaired. Conditions that are indicative of a C category rating for an issuer include:

(a) the issuer has entered into a grace or cure period following non-payment of a material financial obligation;

(b) the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or

(c) the formal announcement by the issuer or their agent of a distressed debt exchange;

(d) a closed financing vehicle where payment capacity is irrevocably impaired such that it is not expected to pay interest and/or principal in full during the life of the transaction, but where no payment default is imminent.

RD: Restricted default. RD ratings indicate an issuer that, in Fitch s opinion, has experienced: (a) an uncured payment default on a bond, loan or other material financial obligation, but (b) has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure and (c) has not otherwise ceased operating. This would include:

i. the selective payment default on a specific class or currency of debt;

ii. the uncured expiry of any applicable grace period, cure period or default forbearance period following a payment default on a bank loan, capital markets security or other material financial obligation; or

iii. the extension of multiple waivers or forbearance periods upon a payment default on one or more material financial obligations, either in series or in parallel; ordinary execution of a distressed debt exchange on one or more material financial obligations.

D: Default. D ratings indicate an issuer that in Fitch s opinion has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or that has otherwise ceased business.

Default ratings are not assigned prospectively to entities or their obligations; within this context, non-payment on an instrument that contains a deferral feature or grace period will generally not be considered a default until after the expiration of the deferral or grace period, unless a default is otherwise driven by bankruptcy or other similar circumstance, or by a distressed debt exchange.

Imminent default, categorized under C , typically refers to the occasion where a payment default has been intimated by the issuer and is all but inevitable. This may, for example, be where an issuer has missed a scheduled payment, but (as is typical) has a grace period during which it may cure the payment default. Another alternative would be where an issuer has formally announced a distressed debt exchange, but the date of the exchange still lies several days or weeks in the immediate future.

In all cases, the assignment of a default rating reflects the agency s opinion as to the most appropriate rating category consistent with the rest of its universe of ratings, and may differ from the definition of default under the terms of an issuer s financial obligations or local commercial practice.

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Within rating categories, Fitch may use modifiers. The modifiers + or - may be appended to a rating to denote relative status within major rating categories. For example, the rating category AA has three notch-specific rating levels (AA+ ; AA ; AA- ; each a rating level). Such suffixes are not added to AAA ratings. For corporate finance obligation ratings, they are not appended to rating categories below the CCC . For all other sectors/obligations, they are not assigned to rating categories below the B .

Corporate finance obligations

Ratings of individual securities or financial obligations of a corporate issuer address relative vulnerability to default on an ordinal scale. In addition, for financial obligations in corporate finance, a measure of recovery given default on that liability is also included in the rating assessment. This notably applies to covered bonds ratings, which incorporate both an indication of the probability of default and of the recovery given a default of this debt instrument.

The relationship between the issuer scale and obligation scale assumes a generic historical average recovery. Individual obligations can be assigned ratings higher, lower, or the same as that entity s issuer rating or IDR, based on their relative ranking or based on explicit Recovery Ratings. As a result, individual obligations of entities, such as corporations, are assigned ratings higher, lower, or the same as that entity s issuer rating or IDR. At the lower end of the ratings scale, Fitch publishes explicit Recovery Ratings in many cases to complement issuer and obligation ratings.

AAA: Highest credit quality. AAA ratings denote the lowest expectation of credit risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality. AA ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High credit quality. A ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB: Good credit quality. BBB ratings indicate that expectations of credit risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

BB: Speculative. BB ratings indicate an elevated vulnerability to credit risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial alternatives may be available to allow financial commitments to be met.

B: Highly speculative. B ratings indicate that material credit risk is present.

CCC: Substantial credit risk. CCC ratings indicate that substantial credit risk is present.

CC: Very high levels of credit risk. CC ratings indicate very high levels of credit risk.

C: Exceptionally high levels of credit risk. C indicates exceptionally high levels of credit risk.

Defaulted obligations typically are not assigned RD or D ratings but are instead rated in the B to C rating categories, depending on their recove prospects and other relevant characteristics. This approach better aligns obligations that have comparable overall expected loss but varying vulnerability to default and loss.

The subscript emr is appended to a rating to denote embedded market risk that is beyond the scope of the rating. The designation is intended to make clear that the rating solely addresses the counterparty risk of the issuing bank. It is not meant to indicate any limitation in the analysis of the counterparty risk, which in all other respects follows published Fitch criteria for analyzing the issuing financial institution. Fitch does not rate these instruments where the principal is to any degree subject to market risk.

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Structured finance

Ratings of structured finance obligations on the long-term scale consider the obligations relative vulnerability to default. These ratings are typically assigned to an individual security or tranche in a transaction and not to an issuer.

AAA: Highest Credit Quality. AAA ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very High Credit Quality. AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High Credit Quality. A ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB: Good Credit Quality. BBB ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

BB: Speculative. BB ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.

B: Highly Speculative. B ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC: Substantial Credit Risk. Default is a real possibility.

CC: Very High Levels of Credit Risk. Default of some kind appears probable.

C: Exceptionally High Levels of Credit Risk. Default appears imminent or inevitable.

D: Default. Indicates a default. Default generally is defined as one of the following:

(a) Failure to make payment of principal and/or interest under the contractual terms of the rated obligation;

(b) Bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of the business of an issuer/obligor; or

(c) Distressed exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation to avoid a probable payment default.

Structured Finance Defaults. Imminent default, categorized under C , typically refers to the occasion where a payment default has been intimated by the issuer and is all but inevitable. This may, for example, be where an issuer has missed a scheduled payment, but (as is typical) has a grace period during which it may cure the payment default. Another alternative would be where an issuer has formally announced a distressed debt exchange, but the date of the exchange still lies several days or weeks in the immediate future.

Additionally, in structured finance transactions, where analysis indicates that an instrument is irrevocably impaired such that it is not expected to pay interest and/or principal in full in accordance with the terms of the obligation s documentation during the life of the transaction, but where no payment default in accordance with the terms of the documentation is imminent, the obligation will typically be rated in the C category.

Structured Finance Write-downs. Where an instrument has experienced an involuntary and, in the agency s opinion, irreversible write-down of principal (*i.e.*, other than through amortization, and resulting in a loss to the investor), a credit rating of D will be assigned to the instrument. Where the agency believes the write-down may prove to be temporary (and the loss may be written up again in future if and when performance improves), then a credit rating of C will typically be assigned. Should the write-down then later be reversed, the credit rating will be raised to an appropriate level for that instrument. Should the write-down later be deemed as irreversible, the credit rating will be lowered to D .

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Notes:

In the case of structured finance, while the ratings do not address the loss severity given default of the rated liability, loss severity assumptions on the underlying assets are nonetheless typically included as part of the analysis. Loss severity assumptions are used to derive pool cash flows available to service the rated liability.

The suffix sf denotes an issue that is a structured finance transaction.

Enhanced Equipment Trust Certificates (EETCs) are corporate-structured hybrid debt securities that airlines typically use to finance aircraft equipment. Due to the hybrid characteristics of these bonds, Fitch s rating approach incorporates elements of both the structured finance and corporate rating methodologies. Although rated as asset-backed securities, unlike other structured finance ratings, EETC ratings involve a measure of recovery given default akin to ratings of financial obligations in corporate finance, as described above.

Recovery Ratings

Recovery Ratings are assigned to selected individual securities and obligations, most frequently for individual obligations of corporate finance issuers with IDRs in speculative grade categories.

Among the factors that affect recovery rates for securities are the collateral, the seniority relative to other obligations in the capital structure (where appropriate), and the expected value of the company or underlying collateral in distress.

The Recovery Rating scale is based on the expected relative recovery characteristics of an obligation upon the curing of a default, emergence from insolvency or following the liquidation or termination of the obligor or its associated collateral.

Recovery Ratings are an ordinal scale and do not attempt to precisely predict a given level of recovery. As a guideline in developing the rating assessments, the agency employs broad theoretical recovery bands in its ratings approach based on historical averages and analytical judgement, but actual recoveries for a given security may deviate materially from historical averages.

RR1: Outstanding Recovery Prospects Given Default.

RR2: Superior Recovery Prospects Given Default.

RR3: Good Recovery Prospects Given Default.

RR4: Average Recovery Prospects Given Default.

RR5: Below Average Recovery Prospects Given Default.

RR6: Poor Recovery Prospects Given Default.

RR1 rated securities have characteristics consistent with securities historically recovering 91%-100% of current principal and related interest.

RR2 rated securities have characteristics consistent with securities historically recovering 71%-90% of current principal and related interest.

RR3 rated securities have characteristics consistent with securities historically recovering 51%-70% of current principal and related interest.

RR4 rated securities have characteristics consistent with securities historically recovering 31%-50% of current principal and related interest.

RR5 rated securities have characteristics consistent with securities historically recovering 11%-30% of current principal and related interest.

RR6 rated securities have characteristics consistent with securities historically recovering 0%-10% of current principal and related interest.

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Up To $338,000,000

Liquidation Preference $25.00 Per Share

ALLIANZGI CONVERTIBLE & INCOME FUND

Cumulative Preferred Shares

PROSPECTUS

August 17, 2018

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Shares

ALLIANZGI CONVERTIBLE & INCOME FUND

% Series A Cumulative Preferred Shares

PROSPECTUS SUPPLEMENT

, 2018

Wells Fargo Securities

UBS Investment Bank

Morgan Stanley

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ALLIANZGI CONVERTIBLE & INCOME FUND

Statement of Additional Information

August 17, 2018

AllianzGI Convertible & Income Fund (the Fund) is a diversified, closed-end management investment company.

This Statement of Additional Information relating to Cumulative Preferred Shares, par value $0.00001 per share (the Cumulative Preferred Shares) is not a prospectus, and should be read in conjunction with the Fund s prospectus relating thereto dated August 17, 2018 (the Prospectus). This Statement of Additional Information does not include all information that a prospective investor should consider before purchasing Cumulative Preferred Shares, and investors should obtain and read the Prospectus prior to purchasing such shares. A copy of the Prospectus may be obtained without charge by calling (800) 254-5197. You may also obtain a copy of the Prospectus on the website of the Securities and Exchange Commission (the SEC) at http://www.sec.gov. Capitalized terms used but not defined in this Statement of Additional Information have the meanings ascribed to them in the Prospectus.

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THE FUND

The Fund commenced operations on March 31, 2003, following the initial public offering of its common shares. The Fund was organized as a Massachusetts business trust on January 17, 2003. Prior to commencing operations on March 31, 2003, the Fund had no operations other than matters relating to its organization and registration as a diversified, closed-end management company registered under the Investment Company Act of 1940, as amended (the 1940 Act).

INVESTMENT OBJECTIVE AND POLICIES

The investment objective and general investment policies of the Fund are described in the Prospectus. Additional information concerning the characteristics of certain of the Fund s investments is set forth below.

Convertible Securities and Synthetic Convertible Securities

The Fund may invest without limit in convertible securities, and these securities will ordinarily constitute a principal component of the Fund s investment program. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted or exchanged at either a stated price or stated rate into underlying shares of common stock. Convertible securities have general characteristics similar to both debt securities and equity securities. Although to a lesser extent than with debt obligations, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stocks and, therefore, also will react to variations in the general market for equity securities.

A convertible security generally entitles the holder to receive interest paid or accrued until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to non-convertible debt or preferred securities, as applicable. Convertible securities rank senior to common stock in a corporation s capital structure and, therefore, generally entail less risk than the corporation s common stock, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a fixed income security. Convertible securities are subordinate in rank to any senior debt obligations of the issuer, and, therefore, an issuer s convertible securities entail more risk than its debt obligations. Convertible securities generally offer lower interest or dividend yields than non-convertible debt securities of similar credit quality because of the potential for capital appreciation. The common stock underlying convertible securities may be issued by a different entity than the issuer of the convertible securities. Moreover, convertible securities are often rated below investment grade or not rated because they fall below debt obligations and just above common equity in order of preference or priority on an issuer s balance sheet. See High Yield Securities below.

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Because of the conversion feature, the price of the convertible security will normally fluctuate in some proportion to changes in the price of the underlying asset, and as such is subject to risks relating to the activities of the issuer and/or general market and economic conditions. The income component of a convertible security may tend to cushion the security against declines in the price of the underlying asset. However, the income component of convertible securities causes fluctuations based upon changes in interest rates and the credit quality of the issuer.

If the convertible security s conversion value, which is the market value of the underlying common stock that would be obtained upon the conversion of the convertible security, is substantially below the investment value, which is the value of a convertible security viewed without regard to its conversion feature (*i.e.*, strictly on the basis of its yield), the price of the convertible security is governed principally by its investment value. The investment value of the convertible security typically will fluctuate based on the credit quality of the issuer and will fluctuate inversely with changes in prevailing interest rates. However, at the same time, the convertible security will be influenced by its conversion value, which is the market value of the underlying common stock that would be obtained if the convertible security were converted. Conversion value fluctuates directly with the price of the underlying common stock, and will therefore be subject to risks relating to the activities of the issuer and/or general market and economic conditions. If the conversion value of a convertible security increases to a point that approximates or exceeds its investment value, the value of the security will be principally influenced by its conversion value. A convertible security will sell at a premium over its conversion value to the extent investors place value on the right to acquire the underlying common stock while holding an income-producing security.

A convertible security may be subject to redemption at the option of the issuer at a predetermined price. If a convertible security held by the Fund is called for redemption, the Fund would be required to permit the issuer to redeem the security and convert it to underlying common stock, or would sell the convertible security to a third party, which may have an adverse effect on the Fund s ability to achieve its investment objectives.

A third party or Allianz Global Investors U.S. LLC (AllianzGI U.S. or the Investment Manager) also may create a synthetic convertible security. The Fund may invest without limit in such synthetic convertible securities, which will be selected based on the similarity of their economic characteristics to those of a traditional convertible security due to the 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, which may be represented by derivative instruments. The convertible component is achieved by investing in securities or instruments such as warrants or options to buy common stock at a certain exercise price, or options on a stock index. The Fund may also purchase synthetic securities created by other parties, typically investment banks, including convertible structured notes. The income-producing and convertible components of a synthetic convertible security may be issued separately by different issuers and at different times. Unlike a traditional convertible security, which is a single security having a single market value, a synthetic convertible comprises two or more separate securities, each with its own market value. Synthetic convertible securities are also subject to the risks associated with derivatives.

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Therefore, the market value of a synthetic convertible security is the sum of the values of its income-producing component and its convertible component. For this reason, the values of a synthetic convertible security and a traditional convertible security may respond differently to market fluctuations.

More flexibility is possible in the assembly of a synthetic convertible security than in the purchase of a convertible security. Although synthetic convertible securities may be selected where the two components are issued by a single issuer, thus making the synthetic convertible security similar to the traditional convertible security, the character of a synthetic convertible security allows the combination of components representing distinct issuers, when AllianzGI U.S. believes that such a combination may better achieve the Fund s investment objectives. A synthetic convertible security also is a more flexible investment in that its two components may be purchased separately. For example, the Fund may purchase a warrant for inclusion in a synthetic convertible security but temporarily hold short-term investments while postponing the purchase of a corresponding bond pending development of more favorable market conditions.

A holder of a synthetic convertible security faces the risk of a decline in the price of the security or the level of the index involved in the convertible component, causing a decline in the value of the security or instrument, such as a call option or warrant, purchased to create the synthetic convertible security. Should the price of the stock fall below the exercise price and remain there throughout the exercise period, the entire amount paid for the call option or warrant would be lost.

Because a synthetic convertible security includes the income-producing component as well, the holder of a synthetic convertible security also faces the risk that interest rates will rise, causing a decline in the value of the income-producing instrument.

The Fund also may purchase synthetic convertible securities created by other parties, including convertible structured notes. Convertible structured notes are income-producing debentures linked to equity, and are typically issued by investment banks. Convertible structured notes have the attributes of a convertible security; however, the investment bank that issues the convertible note, rather than the issuer of the underlying common stock into which the note is convertible, assumes credit risk associated with the underlying investment, and the Fund in turn assumes credit risk associated with the convertible note.

The Fund s holdings of synthetic convertible securities are considered convertible securities for purposes of the Fund s policy to normally invest at least 50% of its total assets in convertible securities and 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities.

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High Yield Securities (Junk Bonds)

The Fund may invest without limit in convertible securities and non-convertible income producing securities that are, at the time of investment, rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s), below BBB- by either S&P Global Rating Services (S&P), or Fitch Ratings, Inc. (Fitch)), or that are unrated but determined by AllianzGI U.S. to be of comparable quality. Below investment grade securities are commonly referred to as high yield securities or junk bonds.

Investments in high yield securities generally provide greater income and increased opportunity for capital appreciation than investments in higher quality securities, but they also typically entail greater potential price volatility and principal and income risk, including the possibility of issuer default and bankruptcy. High yield securities may be regarded as predominantly speculative with respect to the issuer s continuing ability to make timely interest payments and repay principal. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain rating agencies with respect to the issuer s continuing ability to make timely principal and interest payments. In addition, analysis of the creditworthiness of issuers of high yield securities may be more complex than for issuers of higher quality securities.

High yield securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than investment grade securities. A projection of an economic downturn or of a period of rising interest rates, for example, could cause a decline in high yield security prices because the advent of a recession could lessen the ability of an issuer to make principal and interest payments on its debt obligations. If an issuer of high yield securities defaults, in addition to risking non-payment of all or a portion of interest and principal, the Fund may incur additional expenses to seek recovery. The market prices of high yield securities structured as zero-coupon, step-up or payment-in-kind securities will normally be affected to a greater extent by interest rate changes, and therefore tend to be more volatile than the prices of securities that pay interest currently and in cash.

The secondary market on which high yield securities are traded may be less liquid than the market for investment grade securities. Less liquidity in the secondary trading market could adversely affect the price at which the Fund could sell a high yield security, and could adversely affect the net asset value of the shares. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of high yield securities, especially in a thinly-traded market. When secondary markets for high yield securities are less liquid than the market for investment grade securities, it may be more difficult to value the lower rated securities because such valuation may require more research, and elements of judgment may play a greater role in the valuation because there is less reliable, objective data available. During periods of thin trading in these markets, the spread between bid and asked prices is likely to increase significantly and the Fund may have greater difficulty selling its portfolio securities. The Fund will be more dependent on AllianzGI U.S. s research and analysis when investing in high yield securities.

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The Fund s credit quality policies apply only at the time of investment, and the Fund is not required to dispose of a security in the event that a rating agency or AllianzGI U.S. changes its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell a security that has experienced a change in credit rating, AllianzGI U.S. may consider factors including, but not limited to, AllianzGI U.S. 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.

The prices of fixed income securities generally are inversely related to interest rate changes; however, below investment grade securities historically have been somewhat less sensitive to interest rate changes than higher quality securities of comparable maturity because credit quality is also a significant factor in the valuation of lower grade securities. On the other hand, an increased rate environment results in increased borrowing costs generally, which may impair the credit quality of low-grade issuers and thus have a more significant effect on the value of some lower grade securities. Low interest rate environments may tend to expand the universe of buyers of lower grade securities as traditional investment grade oriented investors seek more risk in order to maintain income. In a rising rate environment, such recent entrants to the low-grade securities market may exit the market and reduce demand for lower grade securities, potentially resulting in greater price volatility.

A general description of the ratings of securities by Moody s, S&P and Fitch is set forth in Appendix A to the Prospectus. The ratings of Moody s, S&P, and Fitch represent their opinions as to the quality of the securities they rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. Consequently, debt obligations with the same maturity, coupon and rating may have different yields while obligations with the same maturity and coupon with different ratings may have the same yield. For these reasons, the use of credit ratings as the sole method of evaluating high yield securities can involve certain risks. For example, credit ratings evaluate the safety of principal and interest payments, not the market value risk of high yield securities. Also, credit rating agencies may fail to change credit ratings in a timely fashion to reflect events since the security was last rated. AllianzGI U.S. 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.

Distressed Securities

Securities in which the Fund invests may be subject to significant risk of an issuer s inability to meet principal and interest payments on the obligations and also may be subject to price volatility due to such factors as market perception of the creditworthiness of an issuer and general market liquidity. If AllianzGI U.S. s evaluation of the anticipated outcome of an investment situation should prove incorrect, such Fund investments could experience a loss.

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Non-U.S. Securities

The Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers based in developed countries. For this purpose, foreign securities include, but are not limited to, foreign convertible securities and non-convertible income-producing securities, foreign equity securities (including preferred securities of foreign issuers), foreign bank obligations, and obligations of foreign governments or their subdivisions, agencies and instrumentalities, international agencies and supranational entities. For this purpose, foreign securities do not include American Depository Receipts (ADRs) or securities guaranteed by a United States person (*i.e.*, the Fund does not count these securities for purposes of the 20% limitation noted above), but may include foreign securities in the form of Global Depository Receipts (GDRs) or other securities representing underlying shares of foreign issuers.

The foreign securities in which the Fund may invest include without limitation Eurodollar obligations and Yankee Dollar obligations. Eurodollar obligations are U.S. dollar-denominated certificates of deposit and time deposits issued outside the U.S. capital markets by non-U.S. branches of U.S. banks and by non-U.S. banks. Yankee Dollar obligations are U.S. dollar-denominated obligations issued in the U.S. capital markets by non-U.S. banks. Eurodollar and Yankee Dollar obligations are generally subject to the same risks that apply to domestic debt issues, notably credit risk, interest rate risk, market risk and liquidity risk. Additionally, Eurodollar (and to a limited extent, Yankee Dollar) obligations are subject to certain sovereign risks. One such risk is the possibility that a sovereign country might prevent capital, in the form of U.S. dollars, from flowing across its borders. Other risks include adverse political and economic developments; the extent and quality of government regulation of financial markets and institutions; the imposition of foreign withholding or other taxes; and the expropriation or nationalization of foreign issuers.

The Fund may invest in ADRs or GDRs. ADRs are U.S. dollar-denominated receipts issued generally by domestic banks and represent the deposit with the bank of a security of a non-U.S. issuer. GDRs may be offered privately in the United States and also trade in public or private markets in other countries. ADRs and GDRs may be issued as sponsored or unsponsored programs. In sponsored programs, an issuer has made arrangements to have its securities trade in the form of ADRs or GDRs. In unsponsored programs, the issuer may not be directly involved in the creation of the program. Although regulatory requirements with respect to sponsored and unsponsored programs are generally similar, in some cases it may be easier to obtain financial information from an issuer that has participated in the creation of a sponsored program. For this reason, there may be an increased possibility that the Fund would not become aware of and be able to respond to in a timely manner corporate actions such as stock splits or rights offerings involving the foreign issuer of the security underlying an ADR or GDR. While readily exchangeable with stock in local markets, the depository receipts in an unsponsored program may be less liquid than those in a sponsored program.

The Fund may invest in Brady Bonds. Brady Bonds are securities created through the exchange of existing commercial bank loans to sovereign entities for new obligations in connection with debt restructurings under a debt restructuring plan introduced by former U.S. Secretary of the Treasury, Nicholas F. Brady (the Brady Plan). Brady Plan debt restructurings have been implemented in a number of countries, including: Albania, Argentina, Bolivia, Brazil, Bulgaria, Columbia, Costa Rica, the Dominican Republic, Ecuador, Ivory Coast, Jordan, Mexico, Morocco, Niger, Nigeria, Panama, Peru, the Philippines, Poland, Uruguay, Venezuela and Vietnam.

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Brady Bonds may be collateralized or uncollateralized, are issued in various currencies (primarily the U.S. dollar) and are actively traded in the over-the-counter (OTC) secondary market. Brady Bonds are not considered to be U.S. Government securities. U.S. dollar-denominated, collateralized Brady Bonds, which may be fixed rate par bonds or floating rate discount bonds, are generally collateralized in full as to principal by U.S. Treasury zero-coupon bonds having the same maturity as the Brady Bonds. Interest payments on these Brady Bonds generally are collateralized on a one-year or longer rolling-forward basis by cash or securities in an amount that, in the case of fixed rate bonds, is equal to at least one year of interest payments or, in the case of floating rate bonds, initially is equal to at least one year s interest payments based on the applicable interest rate at that time and is adjusted at regular intervals thereafter. Certain Brady Bonds are entitled to value recovery payments in certain circumstances, which in effect constitute supplemental interest payments but generally are not collateralized. Brady Bonds are often viewed as having three or four valuation components: (i) the collateralized repayment of principal at final maturity; (ii) the collateralized interest payments; (iii) the uncollateralized interest payments; and (iv) any uncollateralized repayment of principal at maturity (the uncollateralized amounts constitute the residual risk).

Brady Bonds involve various risk factors including residual risk and the history of defaults with respect to commercial bank loans by public and private entities of countries issuing Brady Bonds. There can be no assurance that Brady Bonds in which the Fund may invest will not be subject to restructuring arrangements or to requests for new credit, which may cause the Fund to suffer a loss of interest or principal on any of its holdings.

Investing in the securities of non-U.S. issuers involves special risks and considerations not typically associated with investing in U.S. companies. These include: differences in accounting; auditing and financial reporting standards; generally higher commission rates on non-U.S. portfolio transactions; the possibility of expropriation or confiscatory taxation; adverse changes in investment or exchange control regulations (which may include suspension of the ability to transfer currency from a country); political instability which can affect U.S. investments in non-U.S. countries; and potential restrictions on the flow of international capital. In addition, non-U.S. securities and dividends and interest payable on those securities may be subject to non-U.S. taxes, including taxes withheld from payments on those securities, which reduce the Fund s yield on those securities. Non-U.S. securities often trade with less frequency and volume than domestic securities and therefore may exhibit greater price volatility.

Member States of the European Union recently put in place new laws and regulations to implement the second Markets in Financial Instruments Directive (MiFID II) and the related Markets in Financial Instruments Regulation (MiFIR). These impose new regulatory obligations and costs, among other things with respect to the processes and conditions under which global asset managers such as Allianz Global Investors acquire investment research. Notably, investment managers subject to MiFID II may not receive investment research from brokers unless the investment manager pays for such research directly from its own resources, or from a separate, dedicated account paid for with client funds with client permission (or a

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combination of these methods). Although the Investment Manager and the Fund are both organized in the U.S., they may be affected by MiFID II in several potential scenarios, including, without limitation, where: the Investment Manager seeks to aggregate trades on behalf of the Fund with those of vehicles that are directly subject to MiFID II; the Investment Manager seeks to use brokers based in the European Union; and/or the Investment Manager or the Fund make use of advisory personnel who are subject to European Union regulation.

Sovereign Debt. The Fund may invest in sovereign debt issued by non-U.S. developed and emerging market governments and their respective sub-divisions, agencies or instrumentalities, government sponsored enterprises and supranational government entities. Supranational entities include international organizations that are organized or supported by one or more government entities to promote economic reconstruction or development and by international banking institutions and related governmental agencies. Investment in sovereign debt can involve a high degree of risk. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of the 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 toward the International Monetary Fund, and the political constraints to which a governmental entity may be subject. Governmental entities also may depend on expected disbursements from non-U.S. governments, multilateral agencies and others 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 a governmental entity s 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 governmental entity, which may further impair such debtor s ability or willingness to service its debts in a timely manner. Consequently, governmental entities may default on their sovereign debt. Holders of sovereign debt (including the Fund) may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. There is no bankruptcy proceeding by which sovereign debt on which governmental entities have defaulted may be collected in whole or in part.

Corporate Debt Securities

The Fund may invest in a variety of bonds and related debt obligations of varying maturities issued by U.S. and non-U.S. corporations, banks and other business entities. Bonds include bills, notes, debentures, money market instruments and similar instruments and securities, and are generally used by corporations and other issuers to borrow money from investors for such purposes as working capital or capital expenditures. The issuer pays the investor a variable or fixed rate of interest and normally must repay the amount borrowed on or before maturity. Certain bonds are perpetual in that they have no maturity date.

The Fund s investments in bonds are often subject to a number of risks described in the Prospectus and/or elaborated upon elsewhere in this section of the Statement of Additional

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Information, including credit risk, high yield risk, interest rate risk, issuer risk, foreign (non-U.S.) investment risk, inflation/deflation risk, liquidity risk, smaller company risk and management risk.

Corporate income-producing securities include fixed-, variable- and floating-rate bonds, debentures, notes and other similar types of corporate debt instruments, such as Preferred Shares, convertible securities, bank loans and loan participations and assignments, payment-in-kind securities, zero-coupon bonds, bank certificates of deposit, fixed time deposits and bankers acceptances, stressed debt securities, structured notes and other hybrid instruments. Certain corporate income-producing securities, such as convertible bonds, also may include the right to participate in equity appreciation, and AllianzGI U.S. will generally evaluate those instruments based primarily on their debt characteristics. To the extent that a Fund effectively has short positions with respect to fixed income instruments, the values of such short positions would generally be expected to rise when nominal interest rates rise and to decline when nominal 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 of similar credit quality.

Commercial Paper

Commercial paper represents short-term unsecured promissory notes issued in bearer form by corporations such as banks or bank holding companies and finance companies. The Fund may invest in commercial paper of any credit quality consistent with the Fund s investment objectives and policies, including unrated commercial paper for which AllianzGI U.S. has made a credit quality assessment. See Appendix A to the Prospectus for a description of the ratings assigned by Moody s, S&P and Fitch to commercial paper. The rate of return on commercial paper may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

Preferred Stock

Preferred stock represents an equity interest in a company that generally entitles the holder to receive, in preference to the holders of other stocks such as common stocks, dividends and a fixed share of the proceeds resulting from a liquidation of the company. Some preferred stocks also entitle their holders to receive additional liquidation proceeds on the same basis as holders of a company s common stock, and thus also represent an ownership interest in that company. The Fund may invest in preferred stocks that pay fixed or adjustable rates of return. Preferred shares are subject to issuer-specific and market risks applicable generally to equity securities. The value of a company s preferred stock may fall as a result of factors relating directly to that company s products or services. A preferred stock s value may also fall because of factors affecting not just the company, but companies in the same industry or in a number of different industries, such as increases in production costs. The value of preferred stock may also be affected by changes in financial markets that are relatively unrelated to the company or its industry, such as changes in interest rates or currency exchange rates. In addition, a company s preferred stock generally pays dividends only after the company makes required payments to holders of its bonds and other debt. For this reason, the value of the preferred stock will usually

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react more strongly than bonds and other debt to actual or perceived changes in the company s financial condition or prospects. Preferred stocks of smaller companies may be more vulnerable to adverse developments than those of larger companies.

Adjustable Rate and Auction Preferred Stocks. Typically, the dividend rate on an adjustable rate preferred stock is determined prospectively each quarter by applying an adjustment formula established at the time of issuance of the stock. Although adjustment formulas vary among issues, they typically involve a fixed premium or discount relative to rates on specified debt securities issued by the U.S. Treasury. The premium or discount adjustment to be added to or subtracted from this highest U.S. Treasury base rate yield is fixed at the time of issue and cannot be changed without the approval of the holders of the stock. The dividend rate on certain other preferred stocks in which the Fund may invest, commonly known as auction preferred stocks, is adjusted at intervals that may be more frequent than quarterly, such as every 49 days, based on bids submitted by holders and prospective purchasers of such stocks and may be subject to stated maximum and minimum dividend rates. The issues of most adjustable rate and auction preferred stocks currently outstanding are perpetual, but may be redeemable after a specified date at the option of the issuer. Certain issues supported by the credit of a high-rated financial institution provide for mandatory redemption prior to expiration of the credit arrangement. No redemption can occur if full cumulative dividends are not paid. Although the dividend rates on adjustable and auction preferred stocks are generally adjusted or reset frequently, the market values of these preferred stocks may still fluctuate in response to changes in interest rates. Market values of adjustable preferred stocks also may substantially fluctuate if interest rates increase or decrease once the maximum or minimum dividend rate for a particular stock is approached. Auctions for U.S. auction preferred stocks have failed since early 2008, and the dividend rates payable on such preferred shares since that time typically have been paid at their maximum applicable rate (typically a function of a reference rate of interest). The Fund expects that auction preferred stocks will continue to pay dividends at their maximum applicable rate for the foreseeable future and cannot predict whether or when the auction markets for auction preferred stocks may resume normal functioning.

Fixed Rate Preferred Stocks. Some fixed rate preferred stocks in which the Fund may invest, known as perpetual preferred stocks, offer a fixed return with no maturity date. Because they never mature, perpetual preferred stocks act like long-term bonds, can be more volatile than other types of preferred stocks that have a maturity date and may have heightened sensitivity to changes in interest rates. The Fund may also invest in sinking fund preferred stocks. These preferred stocks also offer a fixed return, but have a maturity date and are retired or redeemed on a predetermined schedule. The shorter duration of sinking fund preferred stocks makes them perform somewhat like intermediate-term bonds and they typically have lower yields than perpetual preferred stocks.

Common Stocks

Consistent with its investment objective, the Fund may hold or have exposure to equity securities. The Fund will often have substantial exposure to equity securities by virtue of the equity component of the convertible securities in which the Fund invests. The Fund may also hold equity securities in its portfolio upon conversion of a convertible security or through direct investment in preferred stocks. The Fund may invest in common stocks of pooled vehicles, such as those of other investment companies and in the common stocks of real estate investment trusts (REITs).

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Common stock generally takes the form of shares in a corporation. The value of a company s stock may fall as a result of factors directly relating to that company, such as decisions made by its management, its historical or prospective earnings, the value of its assets or lower demand for the company s products or services. A stock s value also may fall because of factors affecting not just the company, but also companies in the same industry or in a number of different industries, such as increases in production costs. The value of a company s stock also may be affected by changes in financial markets that are relatively unrelated to the company or its industry, such as changes in interest rates or currency exchange rates. In addition, a company s stock generally pays dividends only after the company invests in its own business and makes required payments to holders of its bonds, other debt and preferred stock. For this reason, the value of a company s stock will usually react more strongly than its bonds, other debt and preferred stock to actual or perceived changes in the company s financial condition or prospects. Stocks of smaller companies may be more vulnerable to adverse developments than those of larger companies. Stocks of companies that the portfolio managers believe are fast-growing may trade at a higher multiple of current earnings than other stocks. The value of such stocks may be more sensitive to changes in current or expected earnings than the values of other stocks.

Derivative Instruments

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward contracts, call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements and other derivative instruments for investment purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may also utilize derivative instruments to leverage its portfolio. If other types of financial instruments, including other types of options, futures contracts or futures options are traded in the future, the Fund may also use those instruments, provided that the Trustees determine that their use is consistent with the Fund s investment objective.

Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to individual debt instruments, interest rates, currencies or currency exchange rates, commodities or related indexes. Examples of derivative instruments that the Fund may use include, but are not limited to, options contracts, futures contracts, options on futures contracts, swap agreements (including total return and credit default swaps) and short sales. The Fund also may engage in credit spread trades. A credit spread trade is an investment position relating to a difference in the prices or interest rates of two bonds or other securities, in which the value of the investment position is determined by changes in the difference between the prices or interest rates, as the case may be, of the respective securities. The Fund may also have exposure to derivatives, such as interest rate or credit-default swaps, through investment in credit-linked trust certificates and other securities issued by special purpose or structured vehicles. The Fund may also use derivatives to add leverage to the portfolio. If other types of financial instruments, including other types of options, futures contracts or futures options are traded in the future, the Fund may also use those instruments, provided that their use is consistent with the Fund s investment objectives and policies.

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Like the other investments of the Fund, the ability of the Fund to utilize derivative instruments successfully may depend in part upon the ability of AllianzGI U.S. to assess the issuer s credit characteristics and other macro-economic factors correctly. If AllianzGI U.S. incorrectly forecasts such factors and has taken positions in derivative instruments contrary to prevailing market trends, the Fund could lose money.

The Fund might not employ any of the strategies described below, and no assurance can be given that any strategy used will succeed. If AllianzGI U.S. incorrectly forecasts market values or other economic factors in utilizing a derivatives strategy for the Fund, the Fund might have been in a better position if it had not entered into the transaction at all. Also, suitable derivative transactions may not be available in all circumstances. The use of these strategies involves certain special risks, including a possible imperfect correlation, or even no correlation, between price movements of derivative instruments and price movements of related investments. While some strategies involving derivative instruments can reduce the risk of loss, they can also reduce the opportunity for gain or even result in losses by offsetting favorable price movements in related investments or otherwise, due to the possible inability of the Fund to purchase or sell a portfolio security at a time that otherwise would be favorable or the possible need to sell a portfolio security at a disadvantageous time because the Fund is required to maintain asset coverage or offsetting positions in connection with transactions in derivative instruments, and the possible inability of the Fund to close out or to liquidate its derivatives positions. In addition, the Fund s use of such instruments may cause the Fund to realize higher amounts of short-term capital gains (generally taxed at ordinary income tax rates when distributed to shareholders) than if it had not used such instruments; also, the requirements for qualification as a regulated investment company (RIC) can limit the extent to which the Fund may enter into commodity-linked derivatives, such as commodity futures contracts discussed in more detail below. See Tax Matters below. The Fund may be subject to certain restrictions on its use of derivative strategies imposed by guidelines of one or more rating agencies that may issue ratings for any auction rate preferred shares (ARPS and, together with the Cumulative Preferred Shares and any future preferred shares issued by the Fund, Preferred Shares) or other Preferred Shares issued by the Fund.

Warrants to Purchase Securities. The Fund may purchase warrants on debt securities or equity securities. A warrant to purchase equity securities is a right to purchase common stock at a specific price (usually at a premium above the market value of the underlying common stock at time of issuance) during a specified period of time. Such a warrant may have a life ranging from less than a year to twenty years or longer, but the warrant becomes worthless unless it is exercised or sold before expiration. In addition, if the market price of the common stock does not exceed an equity security warrant s exercise price during the life of the warrant, the warrant will expire worthless. Equity security warrants have no voting rights, pay no dividends and have no rights with respect to the assets of the corporation issuing them. The percentage increase or decrease in the value of an equity security warrant may be greater than the percentage increase or decrease in the value of the underlying common stock.

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Debt obligations with warrants attached to purchase equity securities have many characteristics of convertible securities and their prices may, to some degree, reflect the performance of the underlying stock. Debt obligations also may be issued with warrants attached to purchase additional debt securities at the same coupon rate. A decline in interest rates would permit the Fund to buy additional bonds at the favorable rate or to sell such warrants at a profit.

If interest rates rise, these warrants would generally expire with no value.

Options on Securities and Indexes. The Fund may purchase and sell put and call options on securities or indexes in standardized contracts traded on domestic or other securities exchanges, boards of trade, or similar entities, or quoted on NASDAQ or on an OTC market, and agreements, sometimes called cash puts, which may accompany the purchase of a new issue of debt obligations from a dealer.

An option on a security (or an index) is a contract that gives the holder of the option, in return for a premium, the right to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option (or the cash value of the index) at a specified exercise price at any time during the term of the option. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security. Upon exercise, the writer of an option on an index is obligated to pay the difference between the cash value of the index and the exercise price multiplied by the specified multiplier for the index option. (An index is designed to reflect features of a particular financial or securities market, a specific group of financial instruments or securities, or certain economic indicators.)

The Fund may cover its obligations with respect to written call and put options by segregating liquid assets or, in certain instances, by entering into offsetting positions, in each case to the extent permitted by and in accordance with the 1940 Act and the rules and guidance thereunder.

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If an option written by the Fund expires unexercised, the Fund realizes on the expiration date a capital gain equal to the premium the Fund received at the time the option was written. If an option purchased by the Fund expires unexercised, the Fund realizes a capital loss equal to the premium paid. Prior to the earlier of exercise or expiration, an exchange-traded option may be closed out by an offsetting purchase or sale of an option of the same series (type, exchange, underlying security or index, exercise price and expiration). There can be no assurance, however, that a closing purchase or sale transaction can be effected when the Fund desires.

The Fund may sell put or call options it has previously purchased, which could result in a net gain or loss depending on whether the amount realized on the sale is more or less than the premium and other transaction costs paid on the put or call option which is sold. Prior to exercise or expiration, an option may be closed out by an offsetting purchase or sale of an option of the same series. The Fund will realize a capital gain from a closing purchase transaction if the cost of the closing option is less than the premium received from writing the option, or, if it is more, the Fund will realize a capital loss. If the premium received from a closing sale transaction is more than the premium paid to purchase the option, the Fund will realize a capital gain or, if it is less, the Fund will realize a capital loss. The principal factors affecting the market value of a put or a call option include supply and demand, interest rates, the current market price of the underlying security or index in relation to the exercise price of the option, the volatility of the underlying security or index and the time remaining until the expiration date.

The premium paid for a put or call option purchased by the Fund is an asset of the Fund. The premium received for an option written by the Fund is recorded as a deferred credit. The value of an option purchased or written is marked to market daily and is valued at the closing price on the exchange on which it is traded or, if not traded on an exchange or no closing price is available, at the mean between the last bid and asked prices.

The Fund may write straddles (covered or uncovered) consisting of a combination of a call and a put written on the same underlying security. A straddle will be covered when sufficient assets are deposited to meet the Fund s immediate obligations. The Fund may use the same liquid assets to cover both the call and put options where the exercise price of the call and put are the same, or the exercise price of the call is higher than that of the put. In such cases, the Fund will also segregate liquid assets equivalent to the amount, if any, by which the put is in the money.

Risks Associated with Options on Securities and Indexes. There are several risks associated with transactions in options on securities and on indexes. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve the intended result. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful because of market behavior or unexpected events.

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During the option period, the covered call writer has, in return for the premium on the option, given up the opportunity to profit from a price increase in the underlying security above the exercise price, but, as long as its obligation as a writer continues, has retained the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price. If a put or call option purchased by the Fund is not sold when it has remaining value, and if the market price of the underlying security remains equal to or greater than the exercise price (in the case of a put), or remains less than or equal to the exercise price (in the case of a call), the Fund will lose its entire investment in the option. Also, where a put or call option on a particular security is purchased to hedge against price movements in a related security, the price of the put or call option may move more or less than the price of the related security.

There can be no assurance that a liquid market will exist when the Fund seeks to close out an option position. If the Fund were unable to close out an option that it had purchased on a security or index, it would have to exercise the option in order to realize any profit or the option may expire worthless. If the Fund were unable to close out a call option that it had written on a security held in its portfolio, it would not be able to sell the underlying security unless the option expired without exercise. As the writer of a call option on an individual security held in its portfolio, the Fund forgoes, during the option s life, the opportunity to profit from increases in the market value of the security or index position covering the call option above the sum of the premium and the exercise price of the call.

If trading were suspended in an option purchased by the Fund, the Fund would not be able to close out the option. If restrictions on exercise were imposed, the Fund might be unable to exercise an option it has purchased. Except to the extent that a call option on an index written by the Fund is covered by an option on the same index purchased by the Fund, movements in the index may result in a loss to the Fund; however, such losses may be mitigated by changes in the value of the Fund s securities during the period the option was outstanding.

Foreign Currency Options. The Fund retains the flexibility to hedge against fluctuations in the values of non-U.S. dollar currencies. The Fund may buy or sell put and call options on foreign currencies for investment purposes or as a hedge against changes in the value of the U.S. dollar (or another currency) in relation to a foreign currency to which the Fund may have exposure. The Fund may buy or sell put and call options on foreign currencies either on exchanges or in the OTC market. A put option on a foreign currency gives the purchaser of the option the right to sell a foreign currency at the exercise price on one or more exercise dates. A call option on a foreign currency gives the purchaser of the option the right to purchase the currency at the exercise price on one or more exercise dates. Currency options traded on U.S. or other exchanges may be subject to position limits which may limit the ability of the Fund to reduce foreign currency risk using such options.

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Futures Contracts and Options on Futures Contracts. The Fund may invest in futures contracts and options thereon (futures options), including interest rates, securities indexes, debt obligations (to the extent they are available) and U.S. Government and agency securities, as well as purchase put and call options on such futures contracts.

Generally, a futures contract provides for the future sale by one party and purchase by another party of a specified quantity of the security or other financial instrument at a specified price and time. A futures contract on an index is an agreement pursuant to which two parties agree to take or make delivery of an amount of cash equal to the difference between the value of the index at the close of the last trading day of the contract and the price at which the index contract was originally written. Although the value of an index might be a function of the value of certain specified securities, physical delivery of these securities is not always made. A public market exists in futures contracts covering a number of indexes as well as financial instruments, including, without limitation: U.S. Treasury bonds; U.S. Treasury notes; GNMA Certificates; three-month U.S. Treasury bills; 90-day commercial paper; bank certificates of deposit; Eurodollar certificates of deposit; the Australian dollar; the Canadian dollar; the British pound; the Japanese yen; the Swiss franc; the Mexican peso; and certain multinational currencies, such as the euro. It is expected that other futures contracts will be developed and traded in the future.

The Fund may purchase and write call and put options on futures contracts. Options on futures possess many of the same characteristics as options on securities and indexes (discussed above). An option on a future gives the holder the right, in return for the premium paid, to assume a long position (call) or short position (put) in a futures contract at a specified exercise price on one or more exercise dates. Upon exercise of a call option, the holder acquires a long position in the futures contract and the writer is assigned the opposite short position. In the case of a put option, the opposite is true.

The Fund may enter into futures contracts and options on futures contracts that are standardized and traded on a U.S. or other exchange, board of trade, or similar entity, or quoted on an automated quotation system, and the Fund may also enter into OTC options on futures contracts.

When a purchase or sale of a futures contract is made by the Fund, the Fund is required to deposit with its custodian (or broker, if legally permitted) a specified amount of assets determined to be liquid by AllianzGI U.S. in accordance with procedures established by the Board of Trustees (initial margin). The margin required for a futures contract is set by the exchange on which the contract is traded and may be modified during the term of the contract. Margin requirements on foreign exchanges may be different than on U.S. exchanges. The initial margin is in the nature of a performance bond or good faith deposit on the futures contract that is returned to the Fund upon termination of the contract, assuming all contractual obligations have been satisfied. The Fund expects to earn taxable interest income on its initial margin deposits. A futures contract held by the Fund is valued daily at the official settlement price of the exchange on which it is traded. Each day the Fund pays or receives cash, called variation margin, equal to the daily change in value of the futures contract. This process is known as marking to market. Variation margin does not represent a borrowing or loan by the Fund but is instead a settlement between the Fund and the broker of the amount one would owe the other if the futures

contract expired. In computing daily net asset value, the Fund will mark to market its open futures positions.

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The Fund is also required to deposit and to maintain margin with respect to put and call options on futures contracts written by it. Such margin deposits will vary depending on the nature of the underlying futures contract (and the related initial margin requirements), the current market value of the option, and other futures positions held by the Fund.

Although some futures contracts call for making or taking delivery of the underlying securities, generally these obligations are closed out prior to delivery by offsetting purchases or sales of matching futures contracts (involving the same exchange, underlying security or index, and delivery month). If an offsetting purchase price is less than the original sale price, the Fund realizes a capital gain, or if it is more, the Fund realizes a capital loss. Conversely, if an offsetting sale price is more than the original purchase price, the Fund realizes a capital gain, or if it is less, the Fund realizes a capital loss. The transaction costs must also be included in these calculations.

The Fund may write straddles (covered or uncovered) consisting of a call and a put written on the same underlying futures contract. A straddle will be covered when sufficient assets are deposited to meet the Fund s immediate obligations. The Fund may use the same liquid assets to cover both the call and put options where the exercise price of the call and put are the same, or the exercise price of the call is higher than that of the put. In such cases, the Fund will also segregate liquid assets equivalent to the amount, if any, by which the put is in the money.

The Fund is operated by a person who has claimed an exclusion from the definition of the term commodity pool operator under the Commodity Exchange Act of 1936, as amended (the CEA), with respect to the Fund, and, therefore, such person is not subject to registration or regulation as a pool operator (CPO) under the CEA with respect to the Fund.

Requirements promulgated by the U.S. Commodity Futures Trading Commission (CFTC) subject registered investment companies and their investment advisers to regulation by the CFTC if the registered investment company invests more than a prescribed level of its liquidation value in commodity futures, options on commodities or commodity futures, swaps, or other financial instruments (commodity interests) regulated under the CEA, or if the fund markets itself as providing investment exposure to such instruments. In connection with these regulatory requirements, the Investment Manager has registered with the National Futures Association as a CPO under the CEA with respect to certain funds it manages. The Investment Manager has claimed an exclusion from CPO registration pursuant to CFTC Rule 4.5 with respect to the Fund. For the Investment Manager to remain eligible for this exclusion, the Fund must comply with certain limitations, including limits on its ability to use any commodity interests and limits on the manner in which the Fund holds out its use of such commodity interests. These limitations may restrict the Fund s ability to pursue its investment objective and strategies, increase the costs of implementing its strategies, result in higher expenses for the Fund, and/or adversely affect the Fund s total return. Further, in the event the Investment Manager becomes unable to rely on the exclusion in CFTC Rule 4.5 with respect to the Fund, the Fund will be subject to additional regulation and its expenses may increase.

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Limitations on Use of Futures and Futures Options.

The Fund may cover its obligations with respect to futures contracts and options on futures contracts by segregating liquid assets or, in certain instances, by entering into offsetting positions, in each case to the extent permitted by and in accordance with the 1940 Act and the rules and guidance thereunder.

The requirements for qualification as a RIC also may limit the extent to which the Fund may enter into futures, futures options or forward contracts. See Tax Matters.

The exemption the Investment Manager has claimed from registration as a CPO pursuant to CFTC Rule 4.5 with respect to the Fund, as discussed above, may also limit the Fund s use of futures contracts and options thereon.

Risks Associated with Futures and Futures Options. There are several risks associated with the use of futures contracts and options on futures. A purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. In addition, there is a risk of loss by the Fund of margin deposits in the event of the bankruptcy of the clearing broker that maintains an open position in an option or forward contract on behalf of the Fund. There can be no guarantee that there will be a correlation between price movements in futures used by the Fund for hedging and in the Fund securities being hedged. In addition, there are significant differences between the securities and futures markets that could result in an imperfect correlation between the markets, causing a given hedge not to achieve its objective. The degree of imperfection of correlation depends on circumstances such as variations in speculative market demand for futures and futures options on securities, including technical influences in futures trading and futures options, and differences between the financial instruments being hedged and the instruments underlying the standard contracts available for trading in such respects as interest rate levels, maturities, and creditworthiness of issuers. A decision as to whether, when and how to hedge involves the exercise of skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of market behavior or unexpected interest rate trends.

Futures contracts on U.S. Government securities historically have reacted to an increase or decrease in interest rates in a manner similar to that in which the underlying U.S. Government securities reacted. To the extent, however, that the Fund enters into such futures contracts, the value of such futures may not vary in direct proportion to the value of the Fund s holdings of debt obligations. Thus, the anticipated spread between the price of the futures contract and the hedged security may be distorted due to differences in the nature of the markets. The spread also may be distorted by differences in initial and variation margin requirements, the liquidity of such markets and the participation of speculators in such markets.

Futures exchanges may limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price

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of a futures contract may vary either up or down from the previous day s settlement price at the end of the current trading session. Once the daily limit has been reached in a futures contract subject to the limit, no more trades may be made on that day at a price beyond that limit. The daily limit governs only price movements during a particular trading day and therefore does not limit potential losses because the limit may work to prevent the liquidation of unfavorable positions. For example, futures prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of positions and subjecting some holders of futures contracts to substantial losses.

There can be no assurance that a liquid market will exist at a time when the Fund seeks to close out a futures contract or a futures option position, and the Fund would remain obligated to meet margin requirements until the position is closed. As a result, there can be no assurance that an active secondary market will develop or continue to exist.

Additional Risks of Options on Securities, Futures Contracts, Options on Futures Contracts and Forward Currency Exchange Contracts and Options Thereon. Options on securities or indexes, futures contracts, options on futures contracts and options on currencies may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the United States, may not involve a clearing mechanism and related guarantees, and are subject to the risk of governmental actions affecting trading in, or the prices of, non-U.S. securities. Some foreign exchanges may be principal markets so that no common clearing facility exists and a trader may look only to the broker for performance of the contract. The value of such positions also could be adversely affected by (i) other complex non-U.S. political, legal and economic factors, (ii) lesser availability than in the United States of data on which to make trading decisions, (iii) delays in the Fund s ability to act upon economic events occurring in non-U.S. markets during non-business hours in the United States, (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States and (v) lesser trading volume. The Fund s use of such instruments may cause the Fund to pay higher amounts of distributions that are taxable to shareholders at ordinary income tax rates than if the Fund had not used such instruments.

Swap Agreements and Options on Swap Agreements. The Fund may enter into total return swap agreements, basis swap agreements, credit default swap agreements (see Credit Default Swaps below) and other swap agreements made with respect to interest rates, currencies, indexes of securities and other assets or measures of risk or return. These transactions are entered into in an attempt to obtain a particular return when it is considered desirable to do so, possibly at a lower cost to the Fund than if the Fund had invested directly in an instrument that yielded that desired return.

Swap agreements are two-party contracts entered into for periods ranging from a few weeks to more than one year. Historically, swap agreements have been individually negotiated and structured to include exposure to a variety of types of investments or market factors. In a standard swap transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments, which may be adjusted for an interest factor. The gross returns to be exchanged or swapped between the parties are generally calculated with respect to a notional amount; that is, the return on or

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increase in value of a particular dollar amount invested at a particular interest rate or in a basket of securities representing a particular index. The Fund may enter into basis swap agreements. In a basis swap, the rate of return of each instrument involved in the swap is floating, with each based on a different index. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. A single net payment is usually made by one counterparty at each due date.

Forms of swap agreements include interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or cap ; interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or floor ; and interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels. The Fund may use interest rate caps, floors and collars to a substantial degree in connection with its leveraging strategies. See Certain Interest Rate Transactions below.

The Fund may also enter into options on swap agreements (swaptions). A swaption is a contract that gives a counterparty the right (but not the obligation) to enter into a new swap agreement or to shorten, extend, cancel or otherwise modify an existing swap agreement, at some designated future time on specified terms. The Fund may write (sell) and purchase put and call swaptions.

Depending on the terms of the particular option agreement, the Fund will generally incur a greater degree of risk when it writes a swaption than it will incur when it purchases a swaption. When the Fund purchases a swaption, it risks losing only the amount of the premium it has paid should it decide to let the option expire unexercised. However, when the Fund writes a swaption, upon exercise of the option the Fund will become obligated according to the terms of the underlying swap agreement.

Some types of swap agreements entered into by the Fund calculate the obligations of the parties to the agreements on a net basis. Consequently, the Fund s current obligations (or rights) under such swap agreements will generally be equal only to the net amount to be paid or received under the agreements based on the relative values of the positions held by each party to the agreement (the net amount). The Fund s current obligations under a swap agreement will be accrued daily (offset against any amounts owed to the Fund). The Fund may (but is not required to) cover any accrued but unpaid net amounts owed to a swap counterparty through the segregation or earmarking of liquid assets. Obligations under swap agreements so covered will not be construed to be senior securities for purposes of the Fund s investment restriction concerning senior securities and borrowings.

Whether the Fund s use of swap agreements or swap options will be successful will depend on AllianzGI U.S. s ability to predict correctly whether certain types of investments are likely to produce greater returns than other investments. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. The Fund will enter into swap agreements only with counterparties that meet certain standards of creditworthiness. Certain restrictions imposed on

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the Fund by the Internal Revenue Code of 1986, as amended (the Code), may limit the Fund s ability to use swap agreements. The swaps market has historically been largely unregulated. However, the OTC derivatives markets have recently become subject to comprehensive statutes and regulations. In particular, in the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) requires that certain derivatives with U.S. persons must be executed on a regulated market and a substantial portion of OTC derivatives must be submitted for clearing to regulated clearinghouses. As a result, swap transactions entered into by the Fund may become subject to various requirements applicable to swaps under the Dodd-Frank Act, including clearing, exchange-execution, reporting and recordkeeping requirements, which may make it more difficult and costly for the Fund to enter into swap transactions and may also render certain strategies in which the Fund might otherwise engage impossible or so costly that they will no longer be economical to implement. Furthermore, the number of counterparties that may be willing to enter into swap transactions with the Fund may also be limited if the swap transactions with the Fund are subject to the swap regulation under the Dodd-Frank Act.

Swaps are highly specialized instruments that require investment techniques, risk analyses, and tax planning different from those associated with traditional investments. The use of a swap requires an understanding not only of the referenced asset, reference rate, or index but also of the swap itself, without the benefit of observing the performance of the swap under all possible market conditions. Because they are two party contracts that may be subject to contractual restrictions on transferability and termination, swap agreements may be illiquid. If a swap is not liquid, it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price, which may result in significant losses. Although both OTC and exchange-traded derivatives markets may experience the lack of liquidity, OTC non-standardized derivative transactions are generally less liquid than exchange-traded instruments. The illiquidity of the derivatives markets may be due to various factors, including congestion, disorderly markets, limitations on deliverable supplies, the participation of speculators, government regulation and intervention, and technical and operational or system failures. In addition, daily limits on price fluctuations and speculative position limits on exchanges on which the Fund may conduct its transactions in derivative instruments may prevent prompt liquidation of positions, subjecting the Fund to the potential of greater losses.

Like most other investments, swap agreements are subject to the risk that the market value of the instrument will change in a way detrimental to the Fund s interest. The Fund bears the risk that AllianzGI U.S. will not accurately forecast future market trends or the values of assets, reference rates, indexes, or other economic factors in establishing swap positions for the Fund. If AllianzGI U.S. attempts to use a swap as a hedge against, or as a substitute for, a portfolio investment, the Fund will be exposed to the risk that the swap will have or will develop imperfect or no correlation with the portfolio investment. This could cause substantial losses for the Fund. While hedging strategies involving swap instruments can reduce the risk of loss, they can also reduce the opportunity for gain or even result in losses by offsetting favorable price movements in other Fund investments. Many swaps are complex and often valued subjectively.

Recent legislative and regulatory reforms, including the Dodd-Frank Act, have resulted in new regulation of swap agreements, including clearing, margin, reporting, recordkeeping and

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registration requirements for certain types of swaps contracts and other derivatives, including among others interest rate swaps. Because these requirements are relatively new and evolving, and certain of the rules are not yet final, their ultimate impact remains unclear. New regulations could, among other things, restrict the Fund s ability to engage in swap transactions (for example, by making certain types of swap transactions no longer available to the Fund) and/or increase the costs of such swap transactions (for example, by increasing margin or capital requirements), and the Fund may as a result be unable to execute its investment strategies in a manner the Fund s Investment Manager might otherwise choose. New rules under the Dodd-Frank Act require certain OTC derivatives, including certain interest rate swaps, to be executed on a regulated market and cleared through a central counterparty, which may result in increased margin requirements and costs for the Fund. It is also unclear how the regulatory changes will affect counterparty risk.

Risk of Potential Government Regulation of Derivatives. It is possible that government regulation of various types of derivative instruments, including futures and swap agreements, may limit or prevent the Fund from using such instruments as a part of its investment strategy, and could ultimately prevent the Fund from being able to achieve its investment objectives. It is impossible to fully predict the effects of past, present or future legislation and regulation in this area, but the effects could be substantial and adverse.

The futures markets are subject to comprehensive statutes, regulations, and margin requirements. In addition, the SEC, CFTC and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the implementation or reduction of speculative position limits, the implementation of higher margin requirements, the establishment of daily price limits and the suspension of trading.

The regulation of swaps and futures transactions in the U.S., the European Union and other jurisdictions is a rapidly changing area of law and is subject to modification by government and judicial action. There is a possibility of future regulatory changes altering, perhaps to a material extent, the nature of an investment in the Fund or the ability of the Fund to continue to implement its investment strategies. In particular, the Dodd-Frank Act, which was signed into law in July 2010, sets forth a new legislative framework for OTC derivatives, such as swaps, in which the Fund may invest. Title VII of the Dodd-Frank Act makes broad changes to the OTC derivatives market, grants significant new authority to the SEC and the CFTC to regulate OTC derivatives and market participants, and will require clearing of many OTC derivatives transactions. Additionally, U.S. regulators recently issued final rules pursuant to the Dodd-Frank Act that establish minimum margin and capital requirements for uncleared OTC derivatives transactions that will have a material impact on the Fund s use of uncleared derivatives. These rules impose minimum margin requirements on derivatives transactions between the Fund and its swap counterparties and may increase the amount of margin the Fund is required to provide. They impose regulatory requirements on the timing of transferring margin, which may accelerate the Fund s current margin process. They will also effectively require changes to typical derivatives margin documentation.

In addition, in December 2015, the SEC proposed new regulations applicable to registered investment companies use of derivatives and related instruments. If adopted as proposed, these

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regulations could limit or impact the Fund s ability to invest in derivatives and other instruments, limit the Fund s ability to employ certain strategies that use derivatives and adversely affect the Fund s performance, efficiency in implementing its strategy, liquidity and ability to pursue its investment objectives.

Credit Default Swaps

The Fund may enter into credit default swaps for both investment and risk management purposes, as well as to add leverage to the Fund s portfolio. A credit default swap may have as reference obligations one or more securities that are not currently held by the Fund. The protection buyer in a credit default swap is generally obligated to pay the protection seller an upfront or a periodic stream of payments over the term of the contract provided that no credit event, such as a default, on a reference obligation has occurred. If a credit event occurs, the seller generally must pay the buyer the par value (full notional value) of the swap in exchange for an equal face amount of deliverable obligations of the reference entity described in the swap, or the seller may be required to deliver the related net cash amount, if the swap is cash settled. The Fund may be either the buyer or seller in the transaction. If the Fund is a buyer and no credit event occurs, the Fund may recover nothing if the swap is held through its termination date. However, if a credit event occurs, the buyer generally may elect to receive the full notional value of the swap from the seller, who in turn, generally will recover an amount significantly lower than the equivalent face amount of the obligations of the reference entity, whose value may have significantly decreased through (i) physical delivery of such obligations by the buyer, (ii) cash settlement or (iii) on auction process. As a seller, the Fund generally receives an upfront payment or a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap.

The spread of a credit default swap is the annual amount the protection buyer must pay the protection seller over the length of the contract, expressed as a percentage of the notional amount. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. For credit default swaps on asset-backed securities and credit indices, the quoted market prices and resulting values, as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

Credit default swap agreements involve greater risks than if the Fund had invested in the reference obligation directly since, in addition to general market risks, credit default swaps are subject to illiquidity risk, counterparty risk and credit risk among other risks associated with derivative instruments. The Fund will enter into credit default swap agreements only with counterparties that meet certain standards of creditworthiness. A buyer generally also will lose its investment and recover nothing should no credit event occur and the swap is held to its termination date. If a credit event were to occur, the value of any deliverable obligation received by the seller, coupled with the upfront or periodic payments previously received, may be less

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than the full notional value it pays to the buyer, resulting in a loss of value to the seller. The Fund s obligations under a credit default swap agreement will be accrued daily (offset against any amounts owing to the Fund). In connection with credit default swaps in which the Fund is the buyer or the seller, the Fund may segregate or earmark cash or liquid assets, or enter into certain offsetting positions, with a value at least equal to the Fund s exposure (any accrued but unpaid net amounts owed by the Fund to any counterparty), on a marked-to-market basis (when the Fund is the buyer), or the full notional amount of the swap (minus any amounts owed to the Fund) (when the Fund is the seller). Such segregation or earmarking seeks to ensure that the Fund has assets available to satisfy its obligations with respect to the transaction and could have the effect of limiting any potential leveraging of the Fund s portfolio. Such segregation or earmarking will not limit the Fund s exposure to loss.

Certain Interest Rate Transactions

In order to reduce the interest rate risk inherent in the Fund s underlying investments and capital structure, the Fund may (but is not required to) enter into interest rate swap transactions. Interest rate swaps involve the exchange by the Fund with a counterparty of their respective commitments to pay or receive interest, such as an exchange of fixed rate payments for floating rate payments. These transactions generally involve an agreement with the swap counterparty to pay a fixed or variable rate payment in exchange for the counterparty paying the Fund the other type of payment stream (*i.e.*, variable or fixed). The payment obligation would be based on the notional amount of the swap. Other forms of interest rate swap agreements in which the Fund may invest include without limitation interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or cap; interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or floor; and interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels. The Fund may (but is not required to) use interest rate swap transactions with the intent to reduce or eliminate the risk that an increase in short-term interest rates could pose for the performance of the Fund s Common Shares as a result of leverage, and also may use these instruments for other hedging or investment purposes. Any termination of an interest rate swap transaction could result in a termination payment by or to the Fund.

Bank Obligations

The Fund may invest in bank obligations including certificates of deposit, bankers acceptances and fixed time deposits. Certificates of deposit are negotiable certificates that are issued against funds deposited in a commercial bank for a definite period of time and that earn a specified return. Bankers acceptances are negotiable drafts or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are accepted by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity. Fixed time deposits are bank obligations payable at a stated maturity date and bearing interest at a fixed rate. Fixed time deposits may be withdrawn on demand by the investor, but may be subject to early withdrawal penalties which vary depending upon market conditions and the remaining maturity of the obligation. There are generally no contractual restrictions on the

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right to transfer a beneficial interest in a fixed time deposit to a third party, although there is generally no market for such deposits. The Fund may also hold funds on deposit with its custodian bank in an interest-bearing account for temporary purposes.

The Fund may invest up to 20% of its total assets in U.S. dollar-denominated obligations of foreign banks. Obligations of foreign banks involve certain risks associated with investing in foreign securities described under Foreign (Non-U.S.) Securities above, including the possibilities that their liquidity could be impaired because of future political and economic developments, that their obligations may be less marketable than comparable obligations of U.S. banks, that a foreign jurisdiction might impose withholding taxes on interest income payable on those obligations, that foreign deposits may be seized or nationalized, that foreign governmental restrictions such as exchange controls may be adopted which might adversely affect the payment of principal and interest on those obligations and that the selection of those obligations may be more difficult because there may be less publicly available information concerning foreign banks or the accounting, auditing and financial reporting standards, practices and requirements applicable to foreign banks may differ from those applicable to U.S. banks. Foreign banks are not generally subject to examination by any U.S. Government agency or instrumentality.

Bank Loans

The Fund may invest in bank loans, which include fixed- and floating-rate loans issued by banks (including, among others, interests in senior floating rate loans made to or issued by U.S. or non-U.S. banks or other corporations (Senior Loans), delayed funding loans and revolving credit facilities). Bank loans may also take the form of direct interests acquired during a primary distribution or the form of assignments of, novations of or participations in a bank loan acquired in secondary markets. The Fund may also gain exposure to bank loans and related investments through the use of total return swaps and/or other derivative instruments.

Senior Loans include floating rate loans and institutionally traded floating rate debt obligations issued by asset-backed pools and other issues, and interests therein. Loan interests may be acquired from U.S. or non-U.S. commercial banks, insurance companies, finance companies or other financial institutions who have made loans or are members of a lending syndicate or from other holders of loan interests.

Senior Loans typically pay interest at rates which are re-determined periodically on the basis of a floating base lending rate (such as the London Inter-Bank Offered Rate, LIBOR) plus a premium. Senior Loans are typically of below investment grade quality. Senior Loans generally may hold a senior position in the capital structure of a borrower and are often secured with collateral. A Senior Loan is typically originated, negotiated and structured by a U.S. or non-U.S. commercial bank, insurance company, finance company or other financial institution (the Agent) for a lending syndicate of financial institutions (Lenders). The Agent typically administers and enforces the Senior Loan on behalf of the other Lenders in the syndicate. In addition, an institution, typically but not always the Agent, holds any collateral on behalf of the Lenders.

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The Fund may purchase or gain economic exposure to assignments and participations in commercial loans, as well as debtor-in-possession loans. Such indebtedness may be secured or unsecured. Loan participations typically represent direct participations in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. The Fund may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing or gaining economic exposure to loan participations, the Fund assumes the credit risk associated with the corporate or other borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The participation interests in which the Fund may invest may not be rated by any nationally recognized rating service.

Unless, under the terms of the loan or other indebtedness (such as may be the case in an assignment), the Fund has direct recourse against the borrower, the Fund may have to rely on the Agent or other financial intermediary to apply appropriate credit remedies against a borrower.

A bank loan is typically originated, negotiated and structured by a U.S. or foreign commercial bank, insurance company, finance company or other financial institution, acting as agent, for a lending syndicate of financial institutions. The agent administers the terms of the loan, as specified in the loan agreement. In addition, the agent bank is normally responsible for the collection of principal and interest payments from the corporate borrower and the apportionment of these payments to the credit of all institutions which are parties to the loan agreement. Unless, under the terms of the loan or other indebtedness, the Fund has direct recourse against the corporate borrower, the Fund may have to rely on the agent bank or other financial intermediary to apply appropriate credit remedies against a corporate borrower.

A financial institution s employment as agent bank might be terminated in the event that it fails to observe a requisite standard of care or becomes insolvent. A successor agent bank would generally be appointed to replace the terminated agent bank, and assets held by the agent bank under the loan agreement should remain available to holders of such indebtedness. However, if assets held by the agent bank for the benefit of the Fund were determined to be subject to the claims of the agent bank s general creditors, the Fund might incur certain costs and delays in realizing payment on a loan or loan participation and could suffer a loss of principal and/or interest. In situations involving other interposed financial institutions (e.g., an insurance company or governmental agency) similar risks may arise.

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

The Fund may invest in loan participations with credit quality comparable to that of many issuers of its other debt securities investments. Indebtedness of companies whose creditworthiness is poor involves substantially greater risks, and may be highly speculative.

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Some companies may never pay off their indebtedness, or may pay only a small fraction of the amount owed. Consequently, when investing in indebtedness of companies with poor credit, the Fund bears a substantial risk of losing the entire amount invested.

Loans and other types of direct indebtedness may not be readily marketable and may be subject to restrictions on resale. In some cases, negotiations involved in disposing of indebtedness may require weeks to complete. Consequently, some indebtedness may be difficult or impossible to dispose of readily at what AllianzGI U.S. believes to be a fair price. In addition, valuation of illiquid indebtedness involves a greater degree of judgment in determining the Fund s net asset value than if that value were based on available market quotations. At the same time, many loan interests are actively traded among certain financial institutions and considered to be liquid. AllianzGI U.S. will determine the liquidity of the Fund s investments by reference to market conditions and contractual provisions. Investments in loan participations are considered to be debt obligations for purposes of the Fund s investment restriction relating to the lending of funds or assets.

Investments in loans through a direct assignment of the financial institution s interests with respect to the loan may involve additional risks to the Fund. For example, if a loan is foreclosed, the Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under emerging legal theories of lender liability, the Fund could be held liable as co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities law protections against fraud and misrepresentation.

Economic exposure to loan interests through the use of derivative transactions, including, among others, total return swaps, generally involves greater risks than if the Fund had invested in the loan interest directly during a primary distribution or through assignments of, novations of or participations in a bank loan acquired in secondary markets since, in addition to the risks described above, certain derivative transactions may be subject to greater illiquidity risk and counterparty risk. See Derivative Instruments for more information on these and related risks.

There may be less readily available information about most loans and the underlying borrowers than is the case for many other types of securities, including securities issued in transactions registered under the Securities Act, or registered under the Securities Exchange Act of 1934, as amended (the Exchange Act), and borrowers subject to the periodic reporting requirements of Section 13 of the Exchange Act. Loans may be issued by companies that are not subject to SEC reporting requirements and therefore may not be required to file reports with the SEC or may file reports that are not required to comply with SEC form requirements. In addition, such companies may be subject to a less stringent liability disclosure regime than companies subject to SEC reporting requirements. Because there is limited public information available regarding loan investments, the Fund is particularly dependent on the analytical abilities of the Fund s portfolio managers.

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From time to time, AllianzGI U.S. and its affiliates may borrow money from various banks in connection with their business activities. Such banks may also sell Senior Loans to or acquire them from the Fund or may be intermediate participants with respect to Senior Loans in which the Fund owns interests. Such banks may also act as Agents for Senior Loans held by the Fund.

Lending Fees. In the process of buying, selling and holding Senior Loans, the Fund may receive and/or pay certain fees. These fees are in addition to interest payments received and may include facility fees, commitment fees, commissions and prepayment penalty fees. When the Fund buys a Senior Loan it may receive a facility fee and when it sells a Senior Loan it may pay a facility fee. On an ongoing basis, the Fund may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of the Senior Loan. In certain circumstances, the Fund may receive a prepayment penalty fee upon the prepayment of a Senior Loan by a borrower. Other fees received by the Fund may include covenant waiver fees and covenant modification fees.

Borrower Covenants. A borrower under a Senior Loan typically must comply with various restrictive covenants contained in a loan agreement or note purchase agreement between the borrower and the Lender or lending syndicate (the Loan Agreement). Such covenants, in addition to requiring the scheduled payment of interest and principal, may include restrictions on dividend payments and other distributions to stockholders, provisions requiring the borrower to maintain specific minimum financial ratios and limits on total debt. In addition, the Loan Agreement may contain a covenant requiring the borrower to prepay the Senior Loan with any free cash flow. Free cash flow is generally defined as net cash flow after scheduled debt service payments and permitted capital expenditures, and includes the proceeds from asset dispositions or sales of securities. A breach of a covenant which is not waived by the Agent, or by the lenders directly, as the case may be, is normally an event of acceleration; *i.e.*, the Agent, or the lenders directly, as the case may be, has the right to call the outstanding Senior Loan. The typical practice of an Agent or a Lender in relying exclusively or primarily on reports from the borrower may involve a risk of fraud by the borrower. In the case of a Senior Loan in the form of a participation, the agreement between the buyer and seller may limit the rights of the holder of a Senior Loan to vote on certain changes which may be made to the Loan Agreement, such as waiving a breach of a covenant. However, the holder of the participation will, in almost all cases, have the right to vote on certain fundamental issues such as changes in principal amount, payment dates and interest rate.

Administration of Loans. In a typical Senior Loan, the Agent administers the terms of the Loan Agreement. In such cases, the Agent is normally responsible for the collection of principal and interest payments from the borrower and the apportionment of these payments to the credit of all institutions which are parties to the Loan Agreement. The Fund will generally rely upon the Agent or an intermediate participant to receive and forward to the Fund its portion of the principal and interest payments on the Senior Loan. Furthermore, unless under the terms of a participation agreement the Fund has direct recourse against the borrower, the Fund will rely on the Agent and the other members of the lending syndicate to use appropriate credit remedies against the borrower. The Agent is typically responsible for monitoring compliance with covenants contained in the Loan Agreement based upon reports prepared by the borrower. The seller of the Senior Loan usually does, but is often not obligated to, notify holders of Senior

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Loans of any failures of compliance. The Agent may monitor the value of the collateral, if any, and if the value of such collateral declines, may accelerate the Senior Loan, may give the borrower an opportunity to provide additional collateral or may seek other protection for the benefit of the participants in the Senior Loan. The Agent is compensated by the borrower for providing these services under a Loan Agreement, and such compensation may include special fees paid upon structuring and funding the Senior Loan and other fees paid on a continuing basis. With respect to Senior Loans for which the Agent does not perform such administrative and enforcement functions, AllianzGI U.S. will perform such tasks on behalf of the Fund, although a collateral bank will typically hold any collateral on behalf of the Fund and the other lenders pursuant to the applicable Loan Agreement.

A financial institution s appointment as Agent may usually be terminated in the event that it fails to observe the requisite standard of care or becomes insolvent, enters Federal Deposit Insurance Corporation (FDIC) receivership, or, if not FDIC insured, enters into bankruptcy proceedings. A successor Agent would generally be appointed to replace the terminated Agent, and assets held by the Agent under the Loan Agreement should remain available to holders of Senior Loans. However, if assets held by the Agent for the benefit of the Fund were determined to be subject to the claims of the Agent s general creditors, the Fund might incur certain costs and delays in realizing payment on a Senior Loan, or suffer a loss of principal and/or interest. In situations involving other intermediate participants similar risks may arise.

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

Bridge Financings. The Fund may acquire interests in Senior Loans which are designed to provide temporary or bridge financing to a borrower pending the sale of identified assets or the arrangement of longer-term loans or the issuance and sale of debt obligations. The Fund may also invest in Senior Loans of borrowers who have obtained bridge loans from other parties. A borrower s use of bridge loans involves a risk that the borrower may be unable to locate permanent financing to replace the bridge loan, which may impair the borrower s perceived creditworthiness.

Secured Senior Loans. To the extent that the collateral, if any, securing a Senior Loan consists of the stock of the borrower s subsidiaries or other affiliates, the Fund will be subject to the risk that this stock will decline in value. Such a decline, whether as a result of bankruptcy proceedings or otherwise, could cause the Senior Loan to be undercollateralized or unsecured. In most credit agreements there is no formal requirement to pledge additional collateral. In addition, the Fund may invest in Senior Loans guaranteed by, or fully secured by assets of, shareholders or owners, even if the Senior Loans are not otherwise collateralized by assets of the borrower. There may be

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temporary periods when the principal asset held by a borrower is the stock of a related company, which may not legally be pledged to secure a secured Senior Loan. On occasions when such stock cannot be pledged, the secured Senior Loan will be temporarily unsecured until the stock can be pledged or is exchanged for or replaced by other assets, which will be pledged as security for such Senior Loan. However, the borrower s ability to dispose of such securities, other than in connection with such pledge or replacement, will be strictly limited for the protection of the holders of secured Senior Loans.

If a borrower becomes involved in bankruptcy proceedings, a court may invalidate the Fund s security interest in any loan collateral or subordinate the Fund s rights under a secured Senior Loan to the interests of the borrower s unsecured creditors. Such action by a court could be based, for example, on a fraudulent conveyance claim to the effect that the borrower did not receive fair consideration for granting the security interest in the loan collateral to the Fund. For secured Senior Loans made in connection with a highly leveraged transaction, consideration for granting a security interest may be deemed inadequate if the proceeds of such loan were not received or retained by the borrower, but were instead paid to other persons, such as shareholders of the borrower, in an amount which left the borrower insolvent or without sufficient working capital. There are also other events, such as the failure to perfect a security interest due to faulty documentation or faulty official filings, which could lead to the invalidation of the Fund s security interest in any loan collateral. If the Fund s security interest in loan collateral is invalidated or a secured Senior Loan is subordinated to other debt of a borrower in bankruptcy or other proceedings, it is unlikely that the Fund would be able to recover the full amount of the principal and interest due on the secured Senior Loan.

The Fund may also invest in or gain economic exposure to Senior Loans that are not secured by collateral or otherwise.

Delayed Funding Loans and Revolving Credit Facilities

The Fund may enter into, or acquire participations in, delayed funding loans and revolving credit facilities. Delayed funding loans and revolving credit facilities are borrowing arrangements in which the lender agrees to make loans up to a maximum amount upon demand by the borrower during a specified term. A revolving credit facility differs from a delayed funding loan in that as the borrower repays the loan, an amount equal to the repayment may be borrowed again during the term of the revolving credit facility. Delayed funding loans and revolving credit facilities usually provide for floating or variable rates of interest. These commitments may have the effect of requiring the Fund to increase its investment in a company at a time when it might not otherwise be desirable to do so (including at a time when the company s financial condition makes it unlikely that such amounts will be repaid).

The Fund may invest in delayed funding loans and revolving credit facilities with credit quality comparable to that of issuers of its securities investments. Delayed funding loans and revolving credit facilities may expose the Fund to certain risks not associated with other types of debt investments. Delayed funding loans and revolving credit facilities may be subject to restrictions on transfer, and only limited opportunities may exist to resell such instruments. As a result, the Fund may be unable to sell such investments at an opportune time or may have to

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resell them at less than fair market value. Delayed funding loans and revolving credit facilities are considered to be debt obligations for the purposes of the Fund s investment restriction relating to the lending of funds or assets by the Fund. Delayed funding loans and revolving credit facilities are subject to the risks associated with debt investments generally, including credit, interest rate and liquidity risks, among other risks.

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

Zero-coupon securities are debt obligations that do not entitle the holder to any periodic payments of interest either for the entire life of the obligation or for an initial period after the issuance of the obligations. Like zero-coupon bonds, step-up bonds pay no interest initially but eventually begin to pay a coupon rate prior to maturity, which rate may increase at stated intervals during the life of the security. Payment-in-kind securities (PIKs) are debt obligations that pay interest in the form of other debt obligations instead of cash. Each of these instruments is normally issued and traded at a deep discount from face value. The amount of the discount varies depending on such factors as the time remaining until maturity of the securities, prevailing interest rates, the liquidity of the security and the perceived credit quality of the issuer. The market prices of zero-coupon bonds, step-ups and PIKs generally are more volatile than the market prices of debt instruments that pay interest currently and in cash and are likely to respond to changes in interest rates to a greater degree than do other types of securities having similar maturities and credit quality. PIKs are debt or preferred stock securities that require or permit payment of interest in the form of additional securities. PIKs allow the issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater risk than securities that pay interest currently or in cash.

In order to satisfy a requirement for qualification as a regulated investment company under the Code, an investment company, such as the Fund, must distribute each year at least 90% of its net investment income, including the original issue discount accrued on zero-coupon bonds, step-ups and PIKs. Because the Fund will not, on a current basis, receive cash payments from the issuer of these securities in respect of any accrued original issue discount, in some years, the Fund may have to sell other portfolio holdings in order to obtain cash to satisfy the distribution requirements under the Code even though investment considerations might otherwise make it undesirable for the Fund to sell securities at such time. Under many market conditions, investments in zero-coupon bonds, step-ups and PIKs may be illiquid, making it difficult for the Fund to dispose of them or determine their current value.

Real Estate Securities and Related Derivatives

The Fund may gain exposure to the real estate sector by investing in real estate-linked derivatives, REITs and common, preferred and convertible securities of issuers in real estate-related industries. Each of these types of investments is subject to risks similar to those associated with direct ownership of real estate, including loss to casualty or condemnation, increases in property taxes and operating expenses, zoning law amendments, changes in interest rates, overbuilding and increased competition, variations in market value and possible environmental liabilities. Real estate-related investments may entail leverage and may be highly volatile.

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REITs are pooled investment vehicles that own, and typically operate, income-producing real estate. If a REIT meets certain requirements, including distributing to shareholders annually substantially all of its taxable income (other than net capital gains), then it is not taxed on the income distributed to shareholders. REITs are subject to management fees and other expenses, and so the Fund would bear its proportionate share of the costs of the REITs operations.

There are three general categories of REITs: equity REITs, mortgage REITs and hybrid REITs. Equity REITs invest primarily in direct fee ownership or leasehold ownership of real property; they derive most of their income from rents. Mortgage REITs invest mostly in mortgages on real estate, which may secure construction, development or long-term loans, and the main source of their income is mortgage interest payments. Hybrid REITs hold both ownership and mortgage interests in real estate.

Along with the risks common to different types of real estate-related securities, REITs, no matter the type, involve additional risk factors. These include poor performance by the REIT s manager, changes to the tax laws, and failure by the REIT to qualify for tax-free distribution of income or exemption under the Investment Company Act of 1940, as amended (the 1940 Act). Furthermore, REITs are not diversified and are heavily dependent on cash flow.

Mortgage-Related and Other Asset-Backed Securities

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.

Mortgage-related securities are interests in pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related and private organizations. The value of some mortgage-related or asset-backed securities in which the Fund invests may be particularly sensitive to changes in prevailing interest rates, and, like other debt securities, the ability of the Fund to successfully utilize these instruments may depend in part upon the ability of AllianzGI U.S. to forecast certain macro-economic factors correctly. See Mortgage Pass-Through Securities below. Certain debt obligations are also secured with collateral consisting of mortgage-related securities. See Collateralized Mortgage Obligations (CMOs) below.

The mortgage-related securities in which the Fund may invest may pay variable or fixed rates of interest.

Through investments in mortgage-related securities, including those that are issued by private issuers, the Fund may have some exposure to subprime loans as well as to the mortgage and credit markets generally. Private issuers include commercial banks, savings associations, mortgage companies, investment banking firms, finance companies and special purpose finance entities (called special purpose vehicles or SPVs) and other entities that acquire and package mortgage loans for resale as mortgage-related securities.

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In addition, mortgage-related securities that are issued by private issuers are not subject to the underwriting requirements for the underlying mortgages that are applicable to those mortgage-related securities that have a government or government-sponsored entity guarantee. As a result, the mortgage loans underlying private mortgage-related securities may, and frequently do, have less favorable collateral, credit risk or other underwriting characteristics than government or government-sponsored mortgage-related securities and have wider variances in a number of terms including interest rate, term, size, purpose and borrower characteristics. Privately issued pools more frequently include second mortgages, high loan-to-value mortgages and manufactured housing loans. The coupon rates and maturities of the underlying mortgage loans in a private-label mortgage-related securities pool may vary to a greater extent than those included in a government guaranteed pool, and the pool may include subprime mortgage loans. Subprime loans refer to loans made to borrowers with weakened credit histories or with a lower capacity to make timely payments on their loans. For these reasons, the loans underlying these securities have had in many cases higher default rates than those loans that meet government underwriting requirements.

The risk of non-payment is greater for mortgage-related securities that are backed by mortgage pools that contain subprime loans, but a level of risk exists for all loans. Market factors adversely affecting mortgage loan repayments may include a general economic turndown, high unemployment, a general slowdown in the real estate market, a drop in the market prices of real estate, or an increase in interest rates resulting in higher mortgage payments by holders of adjustable rate mortgages.

The recent financial downturn particularly the increase in delinquencies and defaults on residential mortgages, falling home prices, and unemployment has adversely affected the market for mortgage-related securities. In addition, various market and governmental actions may impair the ability to foreclose on or exercise other remedies against underlying mortgage holders, or may reduce the amount received upon foreclosure. These factors have caused certain mortgage-related securities to experience lower valuations and reduced liquidity. There is also no assurance that the U.S. Government will take further action to support the mortgage-related securities industry, as it has in the past, should the economic downturn continue or the economy experience another downturn. Further, recent legislative action and any future government actions may significantly alter the manner in which the mortgage-related securities market functions. Each of these factors could ultimately increase the risk that a Fund could realize losses on mortgage-related securities.

Mortgage Pass-Through Securities. Mortgage pass-through securities are securities representing interests in pools of mortgage loans secured by residential or commercial real property. Interests in pools of mortgage-related securities differ from other forms of debt securities, which normally provide for periodic payment of interest in fixed or variable amounts with principal payments at maturity or specified call dates. Instead, these securities provide a monthly payment which consists of both interest and principal payments. In effect, these payments are a pass-through of the monthly payments made by the individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs that may be incurred. Some

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mortgage-related securities (such as securities issued by the Government National Mortgage Association (GNMA)) are described as modified pass-through. These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment.

The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. Early repayment of principal on some mortgage-related securities (arising from prepayments of principal due to the sale of the underlying property, refinancing, or foreclosure, net of fees and costs which may be incurred) may expose the Fund to a lower rate of return upon reinvestment of principal. Also, if a security subject to prepayment has been purchased at a premium, the value of the premium would be lost in the event of prepayment. Like other fixed-rate debt obligations, when interest rates rise, the value of a fixed-rate mortgage-related security generally will decline; however, when interest rates are declining, the value of fixed-rate mortgage-related securities with prepayment features may not increase as much as other debt obligations. Adjustable rate mortgage-related and other asset-backed securities are also subject to some interest rate risk. For example, because interest rates on most adjustable rate mortgage- and other asset-backed securities only reset periodically (*e.g.*, monthly or quarterly), changes in prevailing interest rates (and particularly sudden and significant changes) can be expected to cause some fluctuations in the market value of these securities, including declines in value as interest rates rise. In addition, to the extent that unanticipated rates of prepayment on underlying mortgages increase the effective duration of a mortgage-related security, the volatility of such security can be expected to increase.

The residential mortgage market in the United States recently has experienced difficulties that may adversely affect the performance and market value of certain of the Fund s mortgage-related investments. Delinquencies and losses on residential mortgage loans (especially subprime and second-lien mortgage loans) generally have increased recently and may continue to increase, and a decline in or flattening of housing values (as has recently been experienced and may continue to be experienced in many housing markets) may exacerbate such delinquencies and losses. Borrowers with adjustable rate mortgage loans are more sensitive to changes in interest rates, which affect their monthly mortgage payments, and may be unable to secure replacement mortgages at comparably low interest rates. Also, a number of residential mortgage loan originators have experienced serious financial difficulties or bankruptcy. 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.

Agency Mortgage-Related Securities. Payment of principal and interest on some mortgage pass-through securities (but not the market value of the securities themselves) may be guaranteed by the full faith and credit of the U.S. Government (in the case of securities guaranteed by GNMA) or guaranteed by agencies or instrumentalities of the U.S. Government (in the case of securities

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guaranteed by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)). The principal governmental guarantor of mortgage-related securities is GNMA. GNMA is a wholly-owned U.S. Government corporation within the Department of Housing and Urban Development. GNMA is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA (such as savings and loan institutions, commercial banks and mortgage bankers) and backed by pools of mortgages insured by the Federal Housing Administration (the FHA), or guaranteed by the Department of Veterans Affairs (the VA).

Government-related guarantors (*i.e.*, not backed by the full faith and credit of the U.S. Government) include the FNMA and the FHLMC. FNMA was, until recently, a government-sponsored corporation owned entirely by private stockholders and subject to general regulation by the Department of Housing and Urban Development and the Office of Federal Housing Enterprise Oversight. As described below, FNMA is now under conservatorship by the Federal Housing Finance Agency (FHFA). FNMA primarily purchases conventional (*i.e.*, not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers, which includes state and federally chartered savings and loan associations, mutual savings banks, commercial banks, and credit unions and mortgage bankers, although it may purchase other types of mortgages as well. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA but are not backed by the full faith and credit of the U.S. Government. Instead, they are supported only by the discretionary authority of the U.S. Government to purchase the agency s obligations.

FHLMC was created by Congress in 1970 for the purpose of increasing the availability of mortgage credit for residential housing. It was, until recently, a government-sponsored corporation formerly owned by the twelve Federal Home Loan Banks and then owned entirely by private stockholders. As described below under U.S. Government Securities, FHLMC is now under conservatorship by the FHFA. FHLMC issues Participation Certificates (PCs) which represent interests in conventional mortgages from FHLMC s national portfolio. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government. Instead, they are supported only by the discretionary authority of the U.S. Government to purchase the agency s obligations.

On September 6, 2008, the FHFA placed FNMA and FHLMC into conservatorship. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of FNMA and FHLMC and of any stockholder, officer or director of FNMA and FHLMC with respect to FNMA and FHLMC and the assets of FNMA and FHLMC. FHFA selected a new chief executive officer and chairman of the board of directors for each of FNMA and FHLMC.

On September 7, 2008, the U.S. Treasury announced three additional steps taken by it in connection with the conservatorship. First, the U.S. Treasury entered into a Senior Preferred Stock Purchase Agreement with each of FNMA and FHLMC pursuant to which the U.S. Treasury will purchase up to an aggregate of $100 billion of each of FNMA and FHLMC to maintain a positive net worth in each enterprise. This agreement contains various covenants that severely limit each enterprise s operations. In exchange for entering into these agreements, the

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U.S. Treasury received $1 billion of each enterprise s senior preferred stock and warrants to purchase 79.9% of each enterprise s common stock. Second, the U.S. Treasury announced the creation of a new secured lending facility which is available to each of FNMA and FHLMC as a liquidity backstop. Third, the U.S. Treasury announced the creation of a temporary program to purchase mortgage-backed securities issued by each of FNMA and FHLMC. On February 18, 2009, the U.S. Treasury announced that it was doubling the size of its commitment to each enterprise under the Senior Preferred Stock Program to $200 billion. The U.S. Treasury s obligations under the Senior Preferred Stock Program are for an indefinite period of time for a maximum amount of $200 billion per enterprise. In 2009, the U.S. Treasury further amended the Senior Preferred Stock Purchase Agreement to allow the cap on the U.S. Treasury s funding commitment to increase as necessary to accommodate any cumulative reduction in FNMA s and FHLMC s net worth through the end of 2012. In August 2012, the Senior Preferred Stock Purchase Agreement was further amended to, among other things, accelerate the wind down of the retained portfolio, terminate the requirement that FNMA and FHLMC each pay a 10% dividend annually on all amounts received under the funding commitment, and require the submission of an annual risk management plan to the U.S. Treasury.

FNMA and FHLMC are continuing to operate as going concerns while in conservatorship and each remains liable for all of its obligations, including its guaranty obligations, associated with its mortgage-backed securities. The Senior Preferred Stock Purchase Agreement is intended to enhance each of FNMA s and FHLMC s ability to meet its obligations. The FHFA has indicated that the conservatorship of each enterprise will end when the director of FHFA determines that FHFA s plan to restore the enterprise to a safe and solvent condition has been completed.

Under the Federal Housing Finance Regulatory Reform Act of 2008 (the Reform Act), which was included as part of the Housing and Economic Recovery Act of 2008, FHFA, as conservator or receiver, has the power to repudiate any contract entered into by FNMA or FHLMC prior to FHFA s appointment as conservator or receiver, as applicable, if FHFA determines, in its sole discretion, that performance of the contract is burdensome and that repudiation of the contract promotes the orderly administration of FNMA s or FHLMC s affairs. The Reform Act requires FHFA to exercise its right to repudiate any contract within a reasonable period of time after its appointment as conservator or receiver.

FHFA, in its capacity as conservator, has indicated that it has no intention to repudiate the guaranty obligations of FNMA or FHLMC because FHFA views repudiation as incompatible with the goals of the conservatorship. However, in the event that FHFA, as conservator or if it is later appointed as receiver for FNMA or FHLMC, were to repudiate any such guaranty obligation, the conservatorship or receivership estate, as applicable, would be liable for actual direct compensatory damages in accordance with the provisions of the Reform Act. Any such liability could be satisfied only to the extent of FNMA s or FHLMC s assets available therefor.

In the event of repudiation, the payments of interest to holders of FNMA or FHLMC mortgage-backed securities would be reduced if payments on the mortgage loans represented in the mortgage loan groups related to such mortgage-backed securities are not made by the borrowers or advanced by the servicer. Any actual direct compensatory damages for repudiating these guaranty obligations may not be sufficient to offset any shortfalls experienced by such mortgage-backed security holders.

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Further, in its capacity as conservator or receiver, FHFA has the right to transfer or sell any asset or liability of FNMA or FHLMC without any approval, assignment or consent. Although FHFA has stated that it has no present intention to do so, if FHFA, as conservator or receiver, were to transfer any such guaranty obligation to another party, holders of FNMA or FHLMC mortgage-backed securities would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party.

In addition, certain rights provided to holders of mortgage-backed securities issued by FNMA and FHLMC under the operative documents related to such securities may not be enforced against FHFA, or enforcement of such rights may be delayed, during the conservatorship or any future receivership. The operative documents for FNMA and FHLMC mortgage-backed securities may provide (or with respect to securities issued prior to the date of the appointment of the conservator may have provided) that upon the occurrence of an event of default on the part of FNMA or FHLMC, in its capacity as guarantor, which includes the appointment of a conservator or receiver, holders of such mortgage-backed securities have the right to replace FNMA or FHLMC as trustee if the requisite percentage of mortgage-backed securities holders consent. The Reform Act prevents mortgage-backed security holders from enforcing such rights if the event of default arises solely because a conservator or receiver has been appointed. The Reform Act also provides that no person may exercise any right or power to terminate, accelerate or declare an event of default under certain contracts to which FNMA or FHLMC is a party, or obtain possession of or exercise control over any property of FNMA or FHLMC, or affect any contractual rights of FNMA or FHLMC, without the approval of FHFA, as conservator or receiver, for a period of 45 or 90 days following the appointment of FHFA as conservator or receiver, respectively.

In addition, in a February 2011 report to Congress from the Treasury Department and the Department of Housing and Urban Development, the Obama administration provided a plan to reform America s housing finance market. The plan would reduce the role of and eventually eliminate FNMA and FHLMC. Notably, the plan does not propose similar significant changes to GNMA, which guarantees payments on mortgage-related securities backed by federally insured or guaranteed loans such as those issued by the Federal Housing Association or guaranteed by the Department of Veterans Affairs. The report also identified three proposals for Congress and the administration to consider for the long-term structure of the housing finance markets after the elimination of FNMA and FHLMC, including implementing: (i) a privatized system of housing finance that limits government insurance to very limited groups of creditworthy low- and moderate-income borrowers; (ii) a privatized system with a government backstop mechanism that would allow the government to insure a larger share of the housing finance market during a future housing crisis; and (iii) a privatized system where the government would offer reinsurance to holders of certain highly-rated mortgage-related securities insured by private insurers and would pay out under the reinsurance arrangements only if the private mortgage insurers were insolvent.

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Privately Issued Mortgage-Related (Non-Agency) Securities. Commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers also create pass-through pools of conventional residential mortgage loans. Such issuers may be the originators and/or servicers of the underlying mortgage loans as well as the guarantors of the mortgage-related securities. Pools created by such non-governmental issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government or agency guarantees of payments in such pools. However, timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit. The insurance and guarantees are issued by governmental entities, private insurers and the mortgage poolers. There can be no assurance that the private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. Securities issued by certain private organizations may not be readily marketable.

Privately issued mortgage-related securities are not subject to the same underwriting requirements for the underlying mortgages that are applicable to those mortgage-related securities that have a government or government-sponsored entity guarantee. As a result, the mortgage loans underlying privately issued mortgage-related securities may, and frequently do, have less favorable collateral, credit risk or other underwriting characteristics than government or government-sponsored mortgage-related securities and have wider variances in a number of terms including interest rate, term, size, purpose and borrower characteristics. Mortgage pools underlying privately issued mortgage-related securities more frequently include second mortgages, high loan-to-value ratio mortgages and manufactured housing loans, in addition to commercial mortgages and other types of mortgages where a government or government-sponsored entity guarantee is not available. The coupon rates and maturities of the underlying mortgage loans in a privately-issued mortgage-related securities pool may vary to a greater extent than those included in a government guaranteed pool, and the pool may include subprime mortgage loans. Subprime loans are loans made to borrowers with weakened credit histories or with a lower capacity to make timely payments on their loans. For these reasons, the loans underlying these securities have had in many cases higher default rates than those loans that meet government underwriting requirements. The risk of non-payment is greater for mortgage-related securities that are backed by loans that were originated under weak underwriting standards, including loans made to borrowers with limited means to make repayment. A level of risk exists for all loans, although, historically, the poorest performing loans have been those classified as subprime. Other types of privately issued mortgage-related securities, such as those classified as pay-option adjustable rate or Alt-A have also performed poorly. Even loans classified as prime have experienced higher levels of delinquencies and defaults. The substantial decline in real property values across the U.S. has exacerbated the level of losses that investors in privately issued mortgage-related securities have experienced. It is not certain when these trends may reverse. Market factors that may adversely affect mortgage loan repayment include adverse economic conditions, unemployment, a decline in the value of real property, or an increase in interest rates.

Privately issued mortgage-related securities are not traded on an exchange and there may be a limited market for the securities, especially when there is a perceived weakness in the mortgage and real estate market sectors. Without an active trading market, mortgage-related securities held in a Fund s portfolio may be particularly difficult to value because of the complexities involved in assessing the value of the underlying mortgage loans.

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The Fund may purchase privately issued mortgage-related securities that are originated, packaged and serviced by third party entities. It is possible these third parties could have interests that are in conflict with the holders of mortgage-related securities, and such holders (such as the Fund) could have rights against the third parties or their affiliates. For example, if a loan originator, servicer or its affiliates engaged in negligence or willful misconduct in carrying out its duties, then a holder of the mortgage-related security could seek recourse against the originator/servicer or its affiliates, as applicable. Also, as a loan originator/servicer, the originator/servicer or its affiliates may make certain representations and warranties regarding the quality of the mortgages and properties underlying a mortgage-related security. If one or more of those representations or warranties is false, then the holders of the mortgage-related securities (such as the Fund) could trigger an obligation of the originator/servicer or its affiliates, as applicable, to repurchase the mortgages from the issuing trust. Notwithstanding the foregoing, many of the third parties that are legally bound by trust and other documents have failed to perform their respective duties, as stipulated in such trust and other documents, and investors have had limited success in enforcing terms.

Mortgage-related securities that are issued or guaranteed by the U.S. Government, its agencies or instrumentalities, are not subject to the Fund s industry concentration restriction (see Investment Restrictions) by virtue of the exclusion from that restriction available to all U.S. Government securities. The assets underlying such securities may be represented by a portfolio of first lien residential mortgages (including both whole mortgage loans and mortgage participation interests) or portfolios of mortgage pass-through securities issued or guaranteed by GNMA, FNMA or FHLMC. Mortgage loans underlying a mortgage-related security may in turn be insured or guaranteed by the FHA or the VA. In the case of privately issued mortgage-related securities whose underlying assets are neither U.S. Government securities nor U.S. Government insured mortgages, to the extent that real properties securing such assets may be located in the same geographical region, the security may be subject to a greater risk of default than other comparable securities in the event of adverse economic, political or business developments that may affect such region and, ultimately, the ability of residential homeowners to make payments of principal and interest on the underlying mortgages.

Collateralized Mortgage Obligations (CMOs). A CMO is a debt obligation of a legal entity that is collateralized by mortgages and divided into classes. Similar to a bond, interest and prepaid principal is paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans or private mortgage bonds, but are generally collateralized by portfolios of mortgage pass-through securities guaranteed by GNMA, FHLMC, or FNMA, and their income streams.

CMOs are structured into multiple classes, often referred to as tranches, with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including pre-payments. Actual maturity and average life will depend upon the pre-payment experience of the collateral. In the case of certain CMOs (known as sequential pay CMOs), payments of principal received from the pool of underlying mortgages, including pre-payments,

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are applied to the classes of CMOs in the order of their respective final distribution dates. Thus, no payment of principal will be made to any class of sequential pay CMOs until all other classes having an earlier final distribution date have been paid in full.

In a typical CMO transaction, a corporation (issuer) issues multiple series (*e.g.*, A, B, C, Z) of CMO bonds (Bonds). Proceeds of the Bond offering are used to purchase mortgages or mortgage pass-through certificates (Collateral). The Collateral is pledged to a third party trustee as security for the Bonds. Principal and interest payments from the Collateral are used to pay principal on the Bonds in the order A, B, C, Z. The Series A, B, and C Bonds all bear current interest. Interest on the Series Z Bond is accrued and added to principal and a like amount is paid as principal on the Series A, B, or C Bond currently being paid off. When the Series A, B, and C Bonds are paid in full, interest and principal on the Series Z Bond begins to be paid currently.

CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage- or asset-backed securities.

As CMOs have evolved, some classes of CMO bonds have become more common. For example, the Fund may invest in parallel-pay and planned amortization class (PAC) CMOs and multi-class pass through certificates. Parallel-pay CMOs and multi-class pass-through certificates are structured to provide payments of principal on each payment date to more than one class. These simultaneous payments are taken into account in calculating the stated maturity date or final distribution date of each class, which, as with other CMO and multi-class pass-through structures, must be retired by its stated maturity date or final distribution date but may be retired earlier. PACs generally require payments of a specified amount of principal on each payment date. PACs are parallel-pay CMOs with the required principal amount on such securities having the highest priority after interest has been paid to all classes. Any CMO or multi-class pass through structure that includes PAC securities must also have support tranches known as support bonds, companion bonds or non-PAC bonds which lend or absorb principal cash flows to allow the PAC securities to maintain their stated maturities and final distribution dates within a range of actual prepayment experience. These support tranches are subject to a higher level of maturity risk compared to other mortgage-related securities, and usually provide a higher yield to compensate investors. If principal cash flows are received in amounts outside a pre-determined range such that the support bonds cannot lend or absorb sufficient cash flows to the PAC securities as intended, the PAC securities are subject to heightened maturity risk. The Fund may invest in various tranches of CMO bonds, including support bonds.

FHLMC Collateralized Mortgage Obligations. FHLMC CMOs are debt obligations of FHLMC issued in multiple classes having different maturity dates which are secured by the pledge of a pool of conventional mortgage loans purchased by FHLMC. Payments of principal and interest on the CMOs are made semi-annually, as opposed to monthly. The amount of principal payable on each semi-annual payment date is determined in accordance with FHLMC s mandatory sinking fund schedule, which in turn, is equal to approximately 100% of FHA prepayment experience applied to the mortgage collateral pool. All sinking fund payments in the CMOs are allocated to the retirement of the individual classes of bonds in the order of their stated maturities. Payments of principal on the mortgage loans in the collateral pool in excess of the amount of FHLMC s minimum sinking fund obligation for any payment date are paid to the

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holders of the CMOs as additional sinking fund payments. Because of the pass-through nature of all principal payments received on the collateral pool in excess of FHLMC s minimum sinking fund requirement, the rate at which principal of the CMOs is actually repaid is likely to be such that each class of bonds will be retired in advance of its scheduled maturity date.

If collection of principal (including prepayments) on the mortgage loans during any semi-annual payment period is not sufficient to meet FHLMC s minimum sinking fund obligation on the next sinking fund payment date, FHLMC agrees to make up the deficiency from its general funds.

Criteria for the mortgage loans in the pool backing the FHLMC CMOs are identical to those of FHLMC PCs. FHLMC has the right to substitute collateral in the event of delinquencies and/or defaults.

Commercial Mortgage-Backed Securities. Commercial mortgage-backed securities include securities that reflect an interest in, and are secured by, mortgage loans on commercial real property. Many of the risks of investing in commercial mortgage-backed securities reflect the risks of investing in the real estate securing the underlying mortgage loans. These risks reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make loan payments, and the ability of a property to attract and retain tenants. Commercial mortgage-backed securities may be less liquid and exhibit greater price volatility than other types of mortgage- or asset-backed securities.

CMO Residuals. CMO residuals are mortgage securities issued by agencies or instrumentalities of the U.S. Government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks and special purpose entities of the foregoing.

The cash flow generated by the mortgage assets underlying a series of CMOs is applied first to make required payments of principal and interest on the CMOs and second to pay the related administrative expenses and any management fee of the issuer. The residual in a CMO structure generally represents the interest in any excess cash flow remaining after making the foregoing payments. Each payment of such excess cash flow to a holder of the related CMO residual represents income and/or a return of capital. The amount of residual cash flow resulting from a CMO will depend on, among other things, the characteristics of the mortgage assets, the coupon rate of each class of CMO, prevailing interest rates, the amount of administrative expenses and the prepayment experience on the mortgage assets in the same manner as an interest only (IO) class of stripped mortgage-backed securities. In particular, the yield to maturity on CMO residuals is extremely sensitive to prepayments on the related underlying mortgage assets. In addition, if a series of a CMO includes a class that bears interest at an adjustable rate, the yield to maturity on the related CMO residual will also be extremely sensitive to changes in the level of the index upon which interest rate adjustments are based. The Fund may fail to recoup some or all of its initial investment in a CMO residual.

CMO residuals are generally purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers. The CMO residual market has developed fairly recently and CMO residuals currently may not have the liquidity of other more established

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securities trading in other markets. CMO residuals may, or pursuant to an exemption therefrom, may not, have been registered under the Securities Act of 1933, as amended (the Securities Act). CMO residuals, whether or not registered under the Securities Act, may be subject to certain restrictions on transferability, and may be deemed illiquid. As used in this Statement of Additional Information, the term CMO residual does not include residual interests in real estate mortgage investment conduits.

Adjustable Rate Mortgage Backed Securities. Adjustable rate mortgage-backed securities (ARMs) have interest rates that reset at periodic intervals. Acquiring ARMs permits the Fund to participate in increases in prevailing current interest rates through periodic adjustments in the coupons of mortgages underlying the pool on which ARMs are based. Such ARMs generally have higher current yield and lower price fluctuations than is the case with more traditional fixed income debt securities of comparable rating and maturity. In addition, when prepayments of principal are made on the underlying mortgages during periods of rising interest rates, the Fund can reinvest the proceeds of such prepayments at rates higher than those at which they were previously invested. Mortgages underlying most ARMs, however, have limits on the allowable annual or lifetime increases that can be made in the interest rate that the mortgagor pays. Therefore, if current interest rates rise above such limits over the period of the limitation, the Fund, when holding an ARM, does not benefit from further increases in interest rates. Moreover, when interest rates are in excess of coupon rates (*i.e.*, the rates being paid by mortgagors) of the mortgages, ARMs behave more like fixed income securities and less like adjustable rate securities and are subject to the risks associated with fixed income securities. In addition, during periods of rising interest rates, increases in the coupon rate of adjustable rate mortgages generally lag current market interest rates slightly, thereby creating the potential for capital depreciation on such securities.

Stripped Mortgage-Backed Securities. Stripped mortgage-backed securities (SMBS) are derivative multi-class mortgage securities. SMBS may be issued by agencies or instrumentalities of the U.S. Government, or by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage banks, commercial banks, investment banks and special purpose entities of the foregoing.

SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of SMBS will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the IO class), while the other class will receive 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 pre-payments) on the related 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 securities. If the underlying mortgage assets experience greater than anticipated pre-payments of principal, the Fund may fail to recoup some or all of its initial investment in these securities even if the security is in one of the highest rating categories.

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Other Mortgage-Related Securities. Other mortgage-related securities include securities other than those described above that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property, including CMO residuals and stripped mortgage-backed securities. Other mortgage-related securities may be equity or debt securities issued by agencies or instrumentalities of the U.S. Government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks, partnerships, trusts and special purpose entities of the foregoing.

Asset-Backed Securities. The Fund may invest in, or have exposure to, asset-backed securities, which are securities that represent a participation in, or are secured by and payable from, a stream of payments generated by particular assets, most often a pool or pools of similar assets (*e.g.*, trade receivables). The credit quality of these securities depends primarily upon the quality of the underlying assets and the level of credit support and/or enhancement provided.

The underlying assets (*e.g.*, loans) are subject to prepayments that shorten the securities weighted average maturity and may lower their return. If the credit support or enhancement is exhausted, losses or delays in payment may result if the required payments of principal and interest are not made. The value of these securities also may change because of changes in the market s perception of the creditworthiness of the servicing agent for the pool, the originator of the pool, or the financial institution or trust providing the credit support or enhancement. Typically, there is no perfected security interest in the collateral that relates to the financial assets that support asset-backed securities. Asset-backed securities have many of the same characteristics and risks as the mortgage backed securities described above.

The Fund may purchase or have exposure to commercial paper, including asset-backed commercial paper (ABCP), that is issued by structured investment vehicles or other conduits. These conduits may be sponsored by mortgage companies, investment banking firms, finance companies, hedge funds, private equity firms and special purpose finance entities. ABCP typically refers to a short-term debt security, the payment of which is supported by cash flows from underlying assets, or one or more liquidity or credit support providers, or both. Assets backing ABCP include credit card, car loan and other consumer receivables and home or commercial mortgages, including subprime mortgages. The repayment of ABCP issued by a conduit depends primarily on the cash collections received from the conduit s underlying asset portfolio and the conduit s ability to issue new ABCP. Therefore, there could be losses to the Fund if investing in ABCP in the event of credit or market value deterioration in the conduit s underlying portfolio, mismatches in the timing of the cash flows of the underlying asset interests and the repayment obligations of maturing ABCP, or the conduit s inability to issue new ABCP. To protect investors from these risks, ABCP programs may be structured with various protections, such as credit enhancement, liquidity support, and commercial paper stop-issuance and wind-down triggers. However there can be no guarantee that these protections will be sufficient to prevent losses to investors in ABCP. Some ABCP programs provide for an extension of the maturity date of the ABCP if, on the related maturity date, the conduit is unable to access sufficient liquidity through the issue of additional ABCP. This may delay the sale of the underlying collateral and the Fund may incur a loss if the value of the collateral deteriorates during the extension period. Alternatively, if collateral for ABCP deteriorates in value, the

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collateral may be required to be sold at inopportune times or at prices insufficient to repay the principal and interest on the ABCP. ABCP programs may provide for the issuance of subordinated notes as an additional form of credit enhancement. The subordinated notes are typically of a lower credit quality and have a higher risk of default. To the extent the Fund purchases these subordinated notes, it will have a higher likelihood of loss than investors in the senior notes.

Some ABS, particularly home equity loan transactions, are subject to interest-rate risk and prepayment risk. A change in interest rates can affect the pace of payments on the underlying loans, which in turn, affects total return on the securities. ABS also carry credit or default risk. If many borrowers on the underlying loans default, losses could exceed the credit enhancement level and result in losses to investors in an ABS transaction. Finally, ABS have structure risk due to a unique characteristic known as early amortization, or early payout, risk. Built into the structure of most ABS are triggers for early payout, designed to protect investors from losses. These triggers are unique to each transaction and can include: a big rise in defaults on the underlying loans, a sharp drop in the credit enhancement level, or even the bankruptcy of the originator. Once early amortization begins, all incoming loan payments (after expenses are paid) are used to pay investors as quickly as possible based upon a predetermined priority of payment.

Other Asset-Backed Securities. Other asset-backed securities (unrelated to mortgage loans) will be offered to investors in the future and may be purchased by the Fund. Several types of asset-backed securities have already been offered to investors, including Enhanced Equipment Trust Certificates (EETCs) and Certificates for Automobile Receivables[SM] (CARS[SM]).

EETCs are typically issued by specially-created trusts established by airlines, railroads, or other transportation corporations. The proceeds of EETCs are used to purchase equipment, such as airplanes, railroad cars, or other equipment, which in turn serve as collateral for the related issue of the EETCs. The equipment generally is leased by the airline, railroad or other corporation, which makes rental payments to provide the projected cash flow for payments to EETC holders. Holders of EETCs must look to the collateral securing the certificates, typically together with a guarantee provided by the lessee corporation or its parent company for the payment of lease obligations, in the case of default in the payment of principal and interest on the EETCs. However, because principal and interest payments on EETCs are funded in the ordinary course by the lessee corporation, the Fund treats EETCs as corporate bonds/obligations for purposes of compliance testing and related classifications.

CARS[SM] represent undivided fractional interests in a trust whose assets consist of a pool of motor vehicle retail installment sales contracts and security interests in the vehicles securing the contracts. Payments of principal and interest on CARS[SM] are passed through monthly to certificate holders, and are guaranteed up to certain amounts and for a certain time period by a letter of credit issued by a financial institution unaffiliated with the trustee or originator of the trust. An investor s return on CARS[SM] may be affected by early prepayment of principal on the underlying vehicle sales contracts. If the letter of credit is exhausted, the trust may be prevented from realizing the full amount due on a sales contract because of state law requirements and restrictions relating to foreclosure sales of vehicles and the obtaining of deficiency judgments following such sales or because of depreciation, damage or loss of a vehicle, the application of federal and state bankruptcy and insolvency laws, or other factors. As a result, certificate holders may experience delays in payments or losses if the letter of credit is exhausted.

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Consistent with the Fund s investment objectives and policies, AllianzGI U.S. also may invest in other types of mortgage-related and asset-backed securities offered currently or in the future. Other asset-backed securities may be collateralized by the fees earned by service providers. The value of asset-backed securities may be substantially dependent on the servicing of the underlying asset pools and are therefore subject to risks associated with the negligence by, or defalcation of, their servicers. In certain circumstances, the mishandling of related documentation may also affect the rights of the security holders in and to the underlying collateral. The insolvency of entities that generate receivables or that utilize the assets may result in added costs and delays in addition to losses associated with a decline in the value of the underlying assets.

Investors should note that Congress from time to time may consider actions that would limit or remove the explicit or implicit guarantee of the payment of principal and/or interest on many types of asset-backed securities. Any such action would likely adversely impact the value of such securities.

Municipal Bonds

The Fund may invest in municipal bonds which pay interest that, in the opinion of bond counsel to the issuer (or on the basis of other authority believed by AllianzGI U.S. to be reliable), is exempt from federal income taxes (municipal bonds), although dividends that the Fund pays that are attributable to such interest will not be tax-exempt to shareholders of the Fund.

Municipal bonds share the attributes of debt/fixed-income securities in general, but are generally issued by states, municipalities and other political subdivisions, agencies, authorities and instrumentalities of states and multi-state agencies or authorities and may be either taxable or tax-exempt instruments. The municipal bonds that the Fund may purchase include general obligation bonds and limited obligation bonds (or revenue bonds), including industrial development bonds issued pursuant to former federal tax law. General obligation bonds are obligations involving the credit of an issuer possessing taxing power and are payable from such issuer s general revenues and not from any particular source. Limited obligation bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise or other specific revenue source. Tax-exempt private activity bonds and industrial development bonds generally are also revenue bonds and thus are not payable from the issuer s general revenues. The credit and quality of private activity bonds and industrial development bonds are usually related to the credit of the user of the facilities. Payment of interest on and repayment of principal of such bonds is the responsibility of the user (and/or any guarantor).

Municipal bonds are subject to credit and market risk. Generally, prices of higher quality issues tend to fluctuate less with changes in market interest rates than prices of lower quality issues and prices of longer maturity issues tend to fluctuate more than prices of shorter maturity issues. Prices and yields on municipal bonds are dependent on a variety of factors, including general

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money-market conditions, the financial condition of the issuer, general conditions of the municipal bond market, the size of a particular offering, the maturity of the obligation and the rating of the issue. A number of these factors, including the ratings of particular issues, are subject to change from time to time. Information about the financial condition of an issuer of municipal bonds may not be as extensive as that which is made available by corporations whose securities are publicly traded. Obligations of issuers of municipal bonds are subject to the provisions of bankruptcy, insolvency and other laws, such as the Federal Bankruptcy Reform Act of 1978, affecting the rights and remedies of creditors. Congress or state legislatures may seek to extend the time for payment of principal or interest, or both, or to impose other constraints upon enforcement of such obligations. There is also the possibility that as a result of litigation or other conditions, the power or ability of issuers to meet their obligations for the payment of interest and principal on their municipal bonds may be materially affected or their obligations may be found to be invalid or unenforceable.

The Fund may also invest in residual interest municipal bonds (RIBS) whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. RIBS are created by dividing the income stream provided by the underlying bonds to create two securities, one short-term and one long-term. The interest rate on the short-term component is reset by an index or auction process normally every seven to 35 days. After income is paid on the short-term securities at current rates, the residual income from the underlying bond(s) goes to the long-term securities. Therefore, rising short-term interest rates result in lower income for the longer-term portion, and vice versa. The longer-term bonds can be very volatile and may be less liquid than other municipal bonds of comparable maturity. An investment in RIBS typically will involve greater risk than an investment in a fixed rate bond. Because increases in the interest rate on the other security or index reduce the residual interest paid on a RIB, the value of a RIB is generally more volatile than that of a fixed rate bond. RIBS have interest rate adjustment formulas that generally reduce or, in the extreme, eliminate the interest paid to the Fund when short-term interest rates rise, and increase the interest paid to the Fund when short-term interest rates fall. RIBS have varying degrees of liquidity that approximate the liquidity of the underlying bond(s), and the market price for these securities is volatile. These securities generally will underperform the market of fixed rate bonds in a rising interest rate environment, but tend to outperform the market of fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, RIBS typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. The Fund may also invest in RIBS for the purpose of increasing the Fund s leverage. Should short-term and long-term interest rates rise, the combination of the Fund s investment in RIBS and its use of other forms of leverage (including the use of various derivative instruments) likely will adversely affect the Fund s net asset value per share and income, distributions and total returns to shareholders. Trusts in which RIBS may be held could be terminated, in which case the residual bond holder would take possession of the underlying bond(s) on an unleveraged basis.

The Fund may invest in Build America Bonds, which are taxable municipal bonds with federal subsidies for a portion of the issuer s borrowing costs. Build America Bonds were issued through the Build America Bond program, which was created as part of the American Recovery and Reinvestment Act of 2009, which authorized state and local governments to issue Build America Bonds as taxable bonds in 2009 and 2010, without volume limitations, to finance any capital

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expenditures for which such issuers could otherwise issue traditional tax-exempt bonds. The objective of the program was to reduce the borrowing costs of state and local governments. Pursuant to the Act, issuers could elect to receive the federal subsidies on Build America Bonds in one of two forms: (i) in the form of direct payments from the U.S. Treasury and the Internal Revenue Service (IRS) to the issuer over the life of the bond in an amount generally equal to 35% (or 45% in the case of Recovery Zone Economic Development Bonds) of the total coupon interest payable by the issuer to its bondholders (direct pay Build America Bonds) or (ii) in the form of a federal tax credit, which is passed along directly to bondholders, generally in an amount equal to 35% of the total coupon interest payable by the issuer to the bondholders (tax credit Build America Bonds).

The interest the Fund receives from its investments in either type of Build America Bonds is included in a Fund s taxable income and distributed to shareholders as taxable ordinary income. For any tax credit Build America Bond held by the Fund, the Fund may elect to pass through to its shareholders any tax credits from those bonds that otherwise would be allowed to the Fund. These tax credits can generally be used to offset U.S. federal income taxes and the federal alternative minimum tax, but such credits are generally not refundable. Any unused credits may be carried forward to succeeding taxable years.

Issuance of Build America Bonds ceased on December 31, 2010. Although the Build America Bond program was not extended, the Build America Bonds outstanding and issued before such date will continue to be eligible for the federal interest rate subsidy, which continues for the life of the Build America Bonds; however, no bonds issued following the expiration of the Build America Bond program will be eligible for the federal tax subsidies (either in the form of direct payments to the issuers or as federal tax credits passed along to bondholders). As of the date of this Statement of Additional Information, there is no indication that Congress will renew the program to permit issuance of new Build America Bonds.

Other Investment Companies

The Fund may invest in securities of open- or closed-end investment companies, including exchange-traded funds (ETFs), to the extent that such investments are consistent with the Fund s investment objectives and policies and permissible under the 1940 Act.

In general, under the 1940 Act, an investment company such as the Fund may not (i) own more than 3% of the outstanding voting securities of any one registered investment company, (ii) invest more than 5% of its total assets in the securities of any single registered investment company or (iii) invest more than 10% of its total assets in securities of other registered investment companies.

The Fund may invest in other investment companies to gain broad market or sector exposure, including during periods when it has large amounts of uninvested cash (such as the period shortly after the Fund receives the proceeds of an offering of its Common Shares) or when AllianzGI U.S. believes share prices of other investment companies offer attractive values.

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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 management fees and other expenses with respect to assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described in the Prospectus and herein. As described in the Prospectus in the section entitled Principal Risks of the Fund Leverage Risk, the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares.

Variable and Floating Rate Debt Instruments

The Fund may invest in floating rate debt instruments, including Senior Loans (described in more detail above). Floating rate debt instruments are instruments that pay interest at rates that adjust whenever a specified interest rate changes, float at a fixed margin above a generally recognized base lending rate and/or reset or are redetermined (*e.g.*, pursuant to an auction) on specified dates (such as the last day of a month or calendar quarter). These floating rate debt instruments may include, in addition to Senior Loans, instruments such as catastrophe and other event-linked bonds, bank capital securities, unsecured bank loans, corporate bonds, money market instruments and certain types of mortgage-backed and other asset-backed securities. Due to their floating rate features, these instruments will generally pay higher levels of income in a rising interest rate environment and lower levels of income as interest rates decline. For the same reason, the market value of a floating rate debt instrument is generally expected to have less sensitivity to fluctuations in market interest rates than a fixed-rate debt instrument, although the value of a floating rate instrument may nonetheless decline as interest rates rise and due to other factors, such as changes in credit quality.

The Fund also may invest in inverse floating rate debt instruments (inverse floaters). The interest rate on an inverse floater resets in the opposite direction from the market rate of interest to which the inverse floater is indexed. An inverse floating rate security may exhibit greater price volatility than a fixed rate obligation of similar credit quality.

Event-Linked Exposure

The Fund may obtain event-linked exposure by investing in event-linked bonds or event-linked swaps, or by implementing event-linked strategies. Event-linked exposure results in gains or losses that typically are contingent on the nonoccurrence of a specific trigger event, such as a hurricane, earthquake or other physical or weather-related phenomena. Some event-linked bonds are commonly referred to as catastrophe bonds. They may be issued by government agencies, insurance companies, reinsurers, special purpose corporations or other on-shore or off-shore entities (such special purpose entities are created to accomplish a narrow and well-defined objective, such as the issuance of a note in connection with a reinsurance transaction). If a trigger event causes losses exceeding a specific amount in the geographic region and time period specified in a bond, the Fund may lose a portion or all of its principal invested in the bond. If no trigger event occurs, the Fund will recover its principal plus interest.

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For some event-linked bonds, the trigger event or losses may be based on company-wide losses, index-portfolio losses, industry indices or readings of scientific instruments rather than specified actual losses. Often the event-linked bonds provide for extensions of maturity that are mandatory, or optional at the discretion of the issuer, in order to process and audit loss claims in those cases where a trigger event has, or possibly has, occurred. An extension of maturity may increase volatility. In addition to the specified trigger events, event-linked bonds also may expose the Fund to certain unanticipated risks including but not limited to issuer risk, credit risk, counterparty risk, adverse regulatory or jurisdictional interpretations and adverse tax consequences.

Event-linked bonds are a relatively new type of financial instrument. As such, there is no significant trading history for many of these bonds, and there can be no assurance that a liquid market in these bonds will develop. Lack of a liquid market may impose the risk of higher transaction costs and the possibility that the Fund may be forced to liquidate positions when it would not be advantageous to do so. Event-linked bonds are typically rated.

U.S. Government Securities

U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. The U.S. Government does not guarantee the net asset value of the Fund s shares. Some U.S. Government securities, such as Treasury bills, notes, and bonds, and mortgage-backed securities guaranteed by the GNMA, are supported by the full faith and credit of the United States; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of 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 instrumentality. U.S. Government securities may include zero coupon securities, which do not distribute interest on a current basis and tend to be subject to greater risk than interest-paying securities of similar maturities. Although U.S. Government-sponsored enterprises (GSEs), 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 GSEs, including the Federal Home Loan Banks, FHLMC and FNMA, there is no assurance that GSE obligations 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 GSEs and the values of their related securities or obligations. In addition, certain governmental entities 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 or guaranteed by these entities.

U.S. Government securities include securities that have no coupons, or have been stripped of their unmatured interest coupons, individual interest coupons from such securities that trade separately, and evidences of receipt of such securities. Such securities may pay no cash income,

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and are purchased at a deep discount from their value at maturity. See Zero-Coupon Bonds, Step-Ups and Payment-In-Kind Securities. Custodial receipts issued in connection with so-called trademark zero-coupon securities, such as Certificates of Accrual on Treasury Securities (CATs) and Treasury Income Growth Receipts (TIGRs), are not issued by the U.S. Treasury, and are therefore not U.S. Government securities, although the underlying bond represented by such receipt is a debt obligation of the U.S. Treasury. Other zero-coupon Treasury securities (*e.g.*, Separate Trading of Registered Interest and Principal of Securities (STRIPs) and Coupons Under Book-Entry Safekeeping (CUBEs) are direct obligations of the U.S. Government.

While some U.S. Government securities are guaranteed as to principal and interest, their market value is not guaranteed. U.S. Government securities are subject to the same interest rate and credit risks as are other debt securities. The U.S. Government does not guarantee the net asset value or market value of the Fund s Common Shares. The U.S. Government s ability to borrow money or otherwise finance its obligations, including as a result of legislatively-imposed limits on the amount of money it may borrow, could cause the values of U.S. Government securities, including those of the U.S. Government s agencies and instrumentalities and other government-sponsored enterprises, to decline.

When-Issued, Delayed Delivery and Forward Commitment Transactions

The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis. When such purchases are outstanding, the Fund may segregate liquid assets in an amount sufficient to meet the purchase price. Typically, no income accrues on securities the Fund has committed to purchase prior to the time delivery of the securities is made, although the Fund may earn income on securities it has segregated. If the Fund does not segregate liquid assets in such manner, then such securities will be considered senior securities representing indebtedness for purposes of the 1940 Act.

When purchasing a security on a when-issued, delayed delivery or forward commitment basis, the Fund assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its net asset value. Because the Fund is not required to pay for the security until the delivery date, these risks are in addition to the risks associated with the Fund s other investments. If the other party to a transaction fails to deliver the securities, the Fund could miss a favorable price or yield opportunity. If the Fund remains substantially fully invested at a time when when-issued, delayed delivery or forward commitment purchases are outstanding, the purchases may result in a form of leverage.

When the Fund has sold a security on a when-issued, delayed delivery or forward commitment basis, the Fund does not participate in future gains or losses with respect to the security. If the other party to a transaction fails to pay for the securities, the Fund could suffer a loss. Additionally, when selling a security on a when-issued, delayed delivery or forward commitment basis without owning the security, the Fund will incur a loss if the security s price appreciates in value such that the security s price is above the agreed upon price on the settlement date.

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The Fund may dispose of or renegotiate a transaction after it is entered into, and may sell when-issued, delayed delivery or forward commitment securities before the settlement date, which may result in a capital gain or loss. There is no percentage limitation on the extent to which the Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis.

Leverage and Borrowing

The Fund currently utilizes leverage through (i) its outstanding ARPS and (ii) the SSB Facility. As of August 3, 2018, the aggregate dollar amount (*i.e.,* liquidation preference) of the Fund s outstanding ARPS was $223,275,000, which then represented approximately 24.3% of the Fund s total assets (including assets attributable to the Fund s leverage), while the amount outstanding under the SSB Facility was $125,701,500, which then represented approximately 13.7% of the Fund s total assets (including assets attributable to the Fund s leverage). As of August 3, 2018, the Fund s outstanding ARPS and the amount outstanding under the SSB Facility, combined, represented approximately 37.9% of the Fund s total assets (including assets attributable to the Fund s leverage). On July 31, 2018, the Fund completed a tender offer for up to 100% of its outstanding ARPS, immediately prior to which the Fund had ARPS outstanding with an aggregate liquidation preference of $357,000,000 (representing 38.5% of the Fund s total assets, including assets attributable to leverage) and no amount outstanding under the SSB Facility.

The Fund expects to issue Cumulative Preferred Shares in one or more offerings and, in the future, may also issue additional Preferred Shares to further add leverage to its portfolio. The Fund may also add leverage to its portfolio by utilizing securities loans, reverse repurchase agreements, dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities. 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, short sales and when-issued, delayed delivery and forward commitment transactions.

Although the Fund currently expects to maintain approximately the same amount of leverage (as a percentage of its total assets) prior to and following the offering of Cumulative Preferred Shares, it may increase or reduce leverage depending on market conditions and other factors. The Fund utilizes 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 AllianzGI U.S. s assessment of the yield curve environment, interest rate trends, market conditions and other factors.

So long as the rate of return, net of applicable Fund expenses, on the debt obligations and other investments purchased by the Fund exceeds the dividend rates payable on its Preferred Shares together with the costs to the Fund of other 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.

Regarding the expenses associated with the Fund s leverage, the terms of the ARPS provide that they would ordinarily pay dividends at a rate set at auctions held every seven days, subject to a maximum applicable rate calculated as a function of the ARPS then-current rating and a reference interest rate. However, the weekly auctions for the ARPS, as well as auctions for similar Preferred Shares of other closed-end funds in the U.S., have failed since February 2008, and the dividend rates on the ARPS since that time have been paid at the maximum applicable rate (i.e. a multiple of a reference rate, which is the applicable AA Financial Composite Commercial Paper Rate (for a dividend period of fewer than 184 days) or the applicable Treasury Index Rate (for a dividend period of 184 days or more)). As of the date hereof, the Fund s ARPS have a Moody s rating of Aa3, meaning the multiple used to calculate the maximum applicable rate is 150%, subject to upward adjustment in the event of downgrade. See Use of Leverage and Description of Capital Structure in the Prospectus. The Fund expects that the ARPS will continue to pay dividends at the maximum applicable rate for the foreseeable future and cannot predict whether or when the auction markets for the

ARPS may resume normal functioning.

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Leveraging is a speculative technique and there are special risks and costs involved. The Fund cannot assure you that its Preferred Shares and use of any other forms of leverage (such as the use of reverse repurchase agreements or derivatives strategies), if any, will result in increases to the Fund s net asset value. Dividend, interest and other expenses borne by the Fund in connection with leverage may reduce the Fund s ability to pay dividends to holders of Preferred Shares, including the Cumulative Preferred Shares. In addition, because the fees received by the Investment Manager are based on the total managed assets of the Fund (including any assets attributable to any Preferred Shares or other forms of leverage of the Fund that may be outstanding), the Investment Manager has a financial incentive for the Fund to maintain high levels of leverage, potentially increasing the risk that the Fund may not be able to service its indebtedness, pay dividends to holders of Preferred Shares or satisfy ongoing financial maintenance tests associated with the ARPS and Cumulative Preferred Shares.

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

The 1940 Act also generally prohibits the Fund from engaging in most forms of leverage 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 its Common Shares unless, at the time of such declaration, the 300% asset coverage requirement described above is satisfied, while 200% asset coverage of senior securities representing indebtedness is required for distributions on Preferred Shares. 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, for certain instruments, 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

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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 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 places holders of Cumulative Preferred Shares at a greater risk of loss than if these strategies were not used. See Principal Risks of the Fund Leverage Risk in the Prospectus. Failure to maintain certain asset coverage requirements could result in an event of default under certain borrowings that may be used by the Fund.

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

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

Reverse Repurchase Agreements

The Fund may enter into reverse repurchase agreements and economically similar transactions for hedging or cash management purposes or to add leverage to its portfolio. See the sections Use of Leverage in the Prospectus and Leverage and Borrowing above. A reverse repurchase agreement involves the sale of a portfolio-eligible security by the Fund, coupled with its agreement to repurchase the instrument at a specified time and price. Under a reverse repurchase agreement, the Fund continues to be entitled to receive any principal and interest payments on the underlying security during the term of the agreement. Reverse repurchase agreements involve leverage risk and the risk that the market value of securities retained by the Fund may decline below the repurchase price of the securities sold by the Fund which it is obligated to repurchase. The Fund may segregate liquid assets equal (on a daily mark-to-market basis) to its obligations under reverse repurchase agreements. To the extent that positions in reverse repurchase agreements are not so covered, they would be deemed senior securities representing indebtedness for purposes of the 1940 Act.

The Fund also may effect simultaneous purchase and sale transactions that are known as sale-buybacks. A sale-buyback is similar to a reverse repurchase agreement, except that in a sale-buyback, the counterparty who purchases the security is entitled to receive any principal or interest payments made on the underlying security pending settlement of the Fund s repurchase of the underlying security.

Mortgage Dollar Rolls

A mortgage dollar roll is similar to a reverse repurchase agreement in certain respects. In a dollar roll transaction, the Fund sells a mortgage-related security, such as a security issued by GNMA, to a dealer and simultaneously agrees to repurchase a similar security (but not the same

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security) in the future at a pre-determined price. A dollar roll can be viewed, like a reverse repurchase agreement, as a collateralized borrowing in which the Fund pledges a mortgage-related security to a dealer to obtain cash. However, unlike reverse repurchase agreements, the dealer with which the Fund enters into a dollar roll transaction is not obligated to return the same securities as those originally sold by the Fund, but only securities which are substantially identical. To be considered substantially identical, the securities returned to the Fund generally must: (1) be collateralized by the same types of underlying mortgages; (2) be issued by the same agency and be part of the same program; (3) have a similar original stated maturity; (4) have identical net coupon rates; (5) have similar market yields (and therefore price); and (6) satisfy good delivery requirements, meaning that the aggregate principal amounts of the securities delivered and received back must be within 2.5% of the initial amount delivered.

As with reverse repurchase agreements, to the extent that positions in dollar roll agreements are not covered by segregated liquid assets at least equal to the amount of any forward purchase commitment, such transactions would be deemed senior securities representing indebtedness for purposes of the 1940 Act.

Short Sales

The Fund may make short sales of securities as part of its overall portfolio management strategies involving the use of derivative instruments and to offset potential declines in long positions in similar securities. The Fund intends to take short positions, if at all, principally for hedging purposes and/or with respect to securities held in the Fund s portfolio. A short sale is a transaction in which the Fund sells a security or other instrument it does not own in anticipation that the market price of that security will decline.

When the Fund engages in a short sale of a security, it must, to the extent required by law, borrow the security sold short and deliver it to the counterparty. The Fund may have to pay a fee to borrow particular securities and would often be obligated to pay over any payments received on such borrowed securities.

If the price of the security sold short increases between the time of the short sale and the time that the Fund replaces the borrowed security, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a capital gain. Any gain will be decreased, and any loss increased, by the transaction costs described above. The successful use of short selling may be adversely affected by imperfect correlation between movements in the price of the security sold short and the securities being hedged if the short sale is being used for hedging purposes.

If a request for return of borrowed securities or other instruments occurs at a time when other short sellers of the securities or other instruments are receiving similar requests, a short squeeze can occur, and the Fund may be compelled to replace borrowed securities and/or currencies previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities or other instruments short. The potential for the price of a fixed-income security sold short to rise is a function of both the remaining maturity of the obligation, its creditworthiness and its yield. Unlike short sales of equities or other instruments, the potential for the price of a

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fixed-income security to rise may be limited due to the fact that the security will be no more than par at maturity. However, the short sale of other instruments or securities generally, including fixed-income securities convertible into equities or other instruments, a fixed-income security trading at a deep discount from par or which pays a coupon that is high in relative or absolute terms, or which is denominated in a currency other than the U.S. dollar, involves the possibility of a theoretically unlimited loss since there is a theoretically unlimited potential for the market price of the security sold short to increase.

To the extent the Fund engages in short sales, it will provide collateral to the broker-dealer and (except in the case of short sales against the box) may maintain additional asset coverage in the form of segregated or earmarked liquid assets equal to the current market value of the securities sold short, or may ensure that such positions are covered by offsetting positions, until the Fund replaces the borrowed security. If the Fund does not segregate liquid assets in such manner, then such securities will be considered senior securities representing indebtedness for purposes of the 1940 Act. A short sale is against the box to the extent that the Fund contemporaneously owns, or has the right to obtain at no added cost, securities identical to those sold short. The Fund will engage in short selling to the extent permitted by the federal securities laws and rules and interpretations thereunder. To the extent the Fund engages in short selling in foreign (non-U.S.) jurisdictions, the Fund will do so to the extent permitted by the laws and regulations of such jurisdiction.

Illiquid Securities

The Fund may normally invest up to 5% of its total assets securities that are illiquid at the time of investment (determined using the SEC s standard applicable to open-end investment companies, that is, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Illiquid securities may include, among other things, certain written OTC options and various other derivative instruments, certain securities or other liquid assets being used as cover for such options, repurchase agreements with maturities in excess of seven days, certain loan participation interests, fixed time deposits which are not subject to prepayment or provide for withdrawal penalties upon prepayment (other than overnight deposits), and certain other securities whose disposition is restricted under the federal securities laws.

Illiquid securities may include privately placed securities, which are sold directly to a small number of investors, usually institutions. Unlike public offerings, such securities are not registered under the federal securities laws. Although certain of these securities may be readily sold, others may be illiquid, and their sale may involve substantial delays and additional costs.

Credit-Linked Trust Certificates

The Fund may invest in credit-linked trust certificates, which are investments in a limited purpose trust or other vehicle which, in turn, invests in a basket of derivative instruments, such as credit default swaps, total return swaps, basis swaps, interest rate swaps and other derivative transactions or securities, in order to provide exposure to the high yield or another debt securities market. For instance, the Fund may invest in credit-linked trust certificates as a cash

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management tool in order to gain exposure to the high yield markets and/or to remain fully invested when more traditional income-producing securities are not available, including during the period when the net proceeds of this offering and any future offering are being invested.

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

Portfolio Trading and Turnover Rate

A change in the securities held by the Fund is known as portfolio turnover. AllianzGI U.S. manages the Fund without regard generally to restrictions on portfolio turnover. Trading in fixed income securities does not generally involve the payment of brokerage commissions, but does involve indirect transaction costs. The use of futures contracts may involve the payment of commissions to futures commission merchants. High portfolio turnover (*e.g.*, greater than 100%) generally involves correspondingly greater expenses to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. The higher the rate of portfolio turnover of the Fund, the higher these transaction costs borne by the Fund generally will be. Such sales may result in realization of taxable capital gains, including short-term capital gains (which are generally treated as ordinary income upon distribution in the form of dividends).

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The portfolio turnover rate of the Fund is calculated by dividing (a) the lesser of purchases or sales of portfolio securities for the particular fiscal year by (b) the monthly average of the value of the portfolio securities owned by the Fund during the particular fiscal year. In calculating the rate of portfolio turnover, there is excluded from both (a) and (b) all securities, including options, whose maturities or expiration dates at the time of acquisition were one year or less. Proceeds from short sales and assets used to cover short positions undertaken are included in the amounts of securities sold and purchased, respectively, during the year.

For the fiscal year ended February 28, 2018, the Fund s portfolio turnover rate was 34%. For the fiscal year ended February 28, 2017, the Fund s portfolio turnover rate was 28%.

Securities Loans

Subject to the Fund s Investment Restrictions listed below, the Fund may make secured loans of its portfolio securities to brokers, dealers and other financial institutions and counterparties amounting to no more than one-third of its total assets. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. However, such loans will be made only to counterparties that are believed by AllianzGI U.S. to be of relatively high credit standing. Securities loans are made to counterparties pursuant to agreements requiring that loans be continuously secured by collateral consisting of U.S. Government securities, cash or cash equivalents (negotiable certificates of deposit, bankers acceptances or letters of credit) maintained on a daily mark-to-market basis in an amount at least equal at all times to the market value of the securities lent. The borrower pays to the Fund, as the lender, an amount equal to any dividends or interest received on the securities lent (which amounts, in the case of securities loans effected under the SSB Facility, may be used to offset the costs of leverage under the facility).

In the case of cash collateral, the Fund typically pays a rebate to the lender. Although voting rights (if any) or rights to consent with respect to the loaned securities (if any) pass to the borrower, the Fund, as the lender, retains the right to call the loans and obtain the return of the securities loaned at any time on reasonable notice, and it will do so in order that the securities may be voted by the Fund if the holders of such securities are asked to vote upon or consent to matters materially affecting the investment. The Fund may also call such loans in order to sell the securities involved. When engaged in securities lending, the Fund s performance will continue to reflect changes in the value of the securities loaned and will also reflect the receipt of interest, dividends or gains through investment of cash collateral by the Fund in permissible investments, or a fee, if the collateral is U.S. Government securities. It is possible that the Fund will realize losses on the investment of any cash collateralizing a securities loan; any such losses would be for the account of the Fund, not the borrower.

Participation on Creditors Committees

Generally, when the Fund holds bonds or other fixed income securities of an issuer, the Fund becomes a creditor of the issuer. As a creditor of an issuer, the Fund may be subject to challenges related to the securities that it holds, either in connection with the bankruptcy of the issuer or in connection with another action brought by other creditors of the issuer, shareholders of the issuer

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or the issuer itself (collectively, restructuring transactions). Although under no obligation to do so, the Investment Manager, as adviser to the Fund, may from time to time have an opportunity to consider, on behalf of the Fund and other similarly situated clients, negotiating or otherwise participating in the restructuring of the Fund s portfolio investment or the issuer of such investment. The Investment Manager, in its judgment and discretion and based on the considerations deemed by the Investment Manager to be relevant, may believe that it is in the best interests of the Fund to negotiate or otherwise participate in a restructuring transaction. Accordingly, and subject to applicable procedures approved by the Board of Trustees, the Fund may from time to time participate on committees formed by creditors to negotiate with the management of financially troubled issuers of securities held by the Fund. Such participation may subject the Fund to expenses such as legal fees and may make the Fund an insider of the issuer for purposes of the federal securities laws, and therefore may restrict the Fund s ability to trade in or acquire additional positions in a particular security when it might otherwise desire to do so. Participation by the Fund on such committees also may expose the Fund to potential liabilities under the federal bankruptcy laws or other laws governing the rights of creditors and debtors. Further, the Investment Manager has the general authority, subject to the above-mentioned procedures, to represent the Fund on creditors committees (or similar committees) or otherwise in connection with a restructuring transaction.

Short-Term Investments / Temporary Defensive Strategies

During temporary defensive periods or periods in which new capital is first being invested, the Fund may deviate from its investment policies and objectives. During such periods, the Fund may invest up to 100% of its managed assets in short-term investments, including high quality, short-term securities, or may invest in short- or intermediate-term U.S. Treasury securities. There can be no assurance that such techniques will be successful. During such periods, the Fund may not achieve its investment objectives.

Tax Consequences

The requirements for qualification as a RIC limit the extent to which the Fund may invest in certain securities and transactions described above. In addition, the Fund s use of certain investment instruments may alter the character and timing of the Fund s income or gain relative to other means of achieving similar investment exposure. In certain circumstances, accelerated attribution of income to the Fund may require the Fund to sell assets in order to meet RIC distribution requirements even when investment considerations make such sales otherwise undesirable. For more information concerning these requirements and the taxation of investments, see Tax Matters below.

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INVESTMENT RESTRICTIONS

Except as described below, the Fund, as a fundamental policy, may not, without the approval of the holders of a majority of the outstanding Common Shares and any outstanding preferred shares of beneficial interest (including Cumulative Preferred Shares) voting together as a single class, and of the holders of a majority of any outstanding preferred shares of beneficial interest (including Cumulative Preferred Shares) voting as a separate class:

(1) Concentrate its investments in a particular industry, as that term is used in the Investment Company Act of 1940, as amended, and as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction, from time to time.

(2) With respect to 75% of the Fund s total assets, purchase the securities of any issuer, except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities or securities issued by other investment companies, if, as a result, (i) more than 5% of the Fund s total assets would be invested in the securities of that issuer, or (ii) the Fund would hold more than 10% of the outstanding voting securities of that issuer.

(3) Purchase or sell real estate, although it may purchase securities secured by real estate or interests therein, or securities issued by companies which invest in real estate, or interests therein.

(4) Purchase or sell commodities or commodities contracts or oil, gas or mineral programs. This restriction shall not prohibit the Fund, subject to restrictions described in the Prospectus and elsewhere in this Statement of Additional Information, from purchasing, selling or entering into futures contracts, options on futures contracts, forward contracts, or any interest rate, securities-related or other hedging instrument, including swap agreements and other derivative instruments, subject to compliance with any applicable provisions of the federal securities or commodities laws.

(5) Borrow money or issue any senior security, except to the extent permitted under the Investment Company Act of 1940, as amended, and as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction, from time to time.

(6) Make loans, except to the extent permitted under the Investment Company Act of 1940, as amended, and as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction, from time to time.

(7) Act as an underwriter of securities of other issuers, except to the extent that in connection with the disposition of portfolio securities, it may be deemed to be an underwriter under the federal securities laws.

Subject to the Fund s self-imposed limitations, if any, as they may be amended from time to time, the Fund interprets its policies with respect to leverage and borrowing, issuing senior securities and lending to permit such activities as may be lawful for the Fund, to the full extent permitted by the 1940 Act or by exemption from the provisions therefrom pursuant to exemptive order of the SEC.

Currently, under the 1940 Act, the Fund may generally not lend money or property to any person, directly or indirectly, if such person controls or is under common control with the Fund, except for a loan from the Fund to a company that owns all of the outstanding securities of the Fund, except directors and qualifying shares.

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For purposes of the foregoing, majority of the outstanding, when used with respect to particular shares of the Fund (whether voting together as a single class or voting as separate classes), means (i) 67% or more of such shares present at a meeting, if the holders of more than 50% of such shares are present or represented by proxy, or (ii) more than 50% of such shares, whichever is less.

Unless otherwise indicated, all limitations applicable to the Fund s investments (as stated above and elsewhere in this Statement of Additional Information) apply only at the time a transaction is entered into. Any subsequent change in a rating assigned by any rating service to a security (or, if unrated, deemed by AllianzGI U.S. to be of comparable quality), or change in the percentage of the Fund s total assets invested in certain securities or other instruments, or change in the average maturity or duration of the Fund s investment portfolio, resulting from market fluctuations or other changes in the Fund s total assets will not require the Fund to dispose of an investment until AllianzGI U.S. determines that it is practicable to sell or close out the investment without undue market or tax consequences to the Fund. In the event that rating agencies assign different ratings to the same security, AllianzGI U.S. will determine which rating it believes best reflects the security s quality and risk at that time, which may be the higher of the several assigned ratings.

Under the 1940 Act, a senior security does not include any promissory note or evidence of indebtedness where such loan is for temporary purposes only and in an amount not exceeding 5% of the value of the total assets of the issuer at the time the loan is made. A loan is presumed to be for temporary purposes if it is repaid within sixty days and is not extended or renewed.

The Fund would be deemed to concentrate in a particular industry if it invested 25% or more of its total assets in that industry. The Fund s industry concentration policy does not preclude it from focusing investments in issuers in a group of related industrial sectors (such as different types of utilities).

The Fund may not change its policy to invest at least 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities unless it provides shareholders with notice of such change if and to the extent required by the 1940 Act and the rules thereunder.

To the extent the Fund covers its commitments under reverse repurchase agreements, credit default swaps, derivatives and certain other instruments by the segregation of assets determined by AllianzGI U.S. to be liquid in accordance with procedures adopted by the Trustees or, for certain instruments, by entering into an offsetting position, such instruments will not be considered senior securities for purposes of the asset coverage requirements otherwise applicable to borrowings by the Fund or the Fund s issuance of Preferred Shares.

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MANAGEMENT OF THE FUND

Trustees and Officers

The business of the Fund is managed under the direction of the Fund s Board of Trustees. Subject to the provisions of the Fund s Agreement and Declaration of Trust, as may be amended from time to time (the Declaration), its Bylaws, as may be amended from time to time (the Bylaws) and Massachusetts law, the Trustees have all powers necessary and convenient to carry out this responsibility, including the election and removal of the Fund s officers.

Board Leadership Structure. The Fund s Board of Trustees consists of eleven Trustees, eight of whom are not interested persons (within the meaning of Section 2(a)(19) of the 1940 Act) of the Fund or of the Investment Manager (the Independent Trustees), which represents over 72% of Board members that are Independent Trustees. One additional Trustee who will not be treated as an Independent Trustee during any offering of the Cumulative Preferred Shares due to their ownership of shares issued by or other relationship with members of the underwriting syndicate is expected to qualify as a fully Independent Trustee following completion of such offering, with the result that over 81% of Board members are expected to be Independent Trustees. An Independent Trustee serves as Chairman of the Board of Trustees and is selected by a vote of the majority of the Independent Trustees. The Chairman of the Trustees presides at meetings of the Board and acts as a liaison with service providers, officers, attorneys and other Trustees generally between meetings, and performs such other functions as may be requested by the Board from time to time.

The Board of Trustees meets regularly four times each year to discuss and consider matters concerning the Fund, and also holds special meetings to address matters arising between regular meetings. The Independent Trustees regularly meet outside the presence of Fund management and are advised by independent legal counsel. Regular meetings generally take place in-person; other meetings may take place in-person or by telephone.

The Board of Trustees has established six standing Committees to facilitate the Trustees oversight of the management of the Trust: the Audit Oversight Committee, the Compliance Committee, the Contracts Committee, the Governance and Nominating Committee, the Performance Committee and the Valuation Committee. The functions and role of each Committee are described below under Committees of the Board of Trustees. The membership of each Committee includes, at a minimum, all of the Independent Trustees, which the Board believes allows them to participate in the full range of the Board s oversight duties.

The Board reviews its leadership structure periodically and has determined that its leadership structure, including an Independent Chairman, a supermajority of Independent Trustees and having Independent Trustees serve as Committee Chairs, is appropriate in light of the characteristics and circumstances of the Fund. In reaching this conclusion, the Board considered, among other things, the predominant role of the Investment Manager in the day-to-day management of Fund affairs, the extent to which the work of the Board is conducted through the Committees, the number of portfolios that comprise the Fund Complex (as such term is defined in the instructions to Form N-2), the variety of asset classes those series include, the net assets of the Fund and the Fund Complex and the management, distribution and other service arrangements of the Fund and the Fund Complex. The Board also believes that its structure, including the presence of two Trustees who are executives with one or more Investment Manager-affiliated entities, facilitates an efficient flow of information concerning the management of the Fund to the Independent Trustees.

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Risk Oversight. The Fund has retained the Investment Manager to provide investment advisory services and administrative services. The Investment Manager is immediately responsible for the management of risks that may arise from Fund investments and operations. Some employees of the Investment Manager and its affiliates serve as the Fund s officers, including the Fund s principal executive officer and principal financial and accounting officer, chief compliance officer and chief legal officer. The Investment Manager employs different processes, procedures and controls to identify and manage different types of risks that may affect the Fund. The Board oversees the performance of these functions by the Investment Manager, both directly and through the Committee structure it has established. The Board receives from the Investment Manager a wide range of reports, both on a regular and as-needed basis, relating to the Fund s activities and to the actual and potential risks of the Fund. These include, among others, reports and presentations on investment risks, custody and valuation of Fund assets, compliance with applicable laws, and the Fund s financial accounting and reporting. In addition, the Board meets periodically with the portfolio managers of the Fund to receive reports regarding the portfolio management of the Fund and its performance, including its investment risks. The Board has emphasized to the Investment Manager the importance of maintaining vigorous risk-management programs and procedures.

In addition, the Board has appointed a Chief Compliance Officer (CCO). The CCO oversees the development of compliance policies and procedures that are reasonably designed to minimize the risk of violations of the federal securities laws (Compliance Policies). The CCO reports directly to the Independent Trustees, interacts with individuals within the Investment Manager s organization including its Head of Risk Management, and provides presentations to the Board at its quarterly meetings and an annual report on the application of the Compliance Policies. The Board periodically discusses relevant risks affecting the Fund with the CCO at these meetings. The Board has approved the Compliance Policies and reviews the CCO s reports. Further, the Board annually reviews the sufficiency of the Compliance Policies, as well as the appointment and compensation of the CCO.

The Board recognizes that the reports it receives concerning risk management matters are, by their nature, typically summaries of the relevant information. Moreover, the Board recognizes that not all risks that may affect the Fund can be identified in advance; that it may not be practical or cost-effective to eliminate or mitigate certain risks; that it may be necessary to bear certain risks (such as investment-related risks) in seeking to achieve the Fund s investment objectives; and that the processes, procedures and controls employed to address certain risks may be limited in their effectiveness. As a result of the foregoing and for other reasons, the Board s risk management oversight is subject to substantial limitations.

The Trustees and executive officers of the Fund, their years of birth, the position they hold with the Fund, their term of office and length of time served, a description of their principal occupations during the past five years, the number of portfolios in the fund complex (as defined in SEC regulations) that the Trustee oversees and any other directorships held by the Trustee are listed in the following tables. Except as shown, each Trustee s and officer s principal occupation

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and business experience for the last five years have been with the employer(s) indicated, although in some cases the Trustee may have held different positions with such employer(s). Unless otherwise indicated, the business address of the persons listed below is 1633 Broadway, New York, NY 10019.

Independent Trustees[(1)]

Name, Address* and Year of Birth	Position(s) Held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past 5 Years
Deborah A. DeCotis 1952 Class III	Trustee	Since March 2011	Advisory Director, Morgan Stanley & Co., Inc. (since 1996); Member, Circle Financial Group (since 2009); and Member, Council on Foreign Relations (since 2013); Trustee, Smith College (since 2017); and Director, Watford Re (since 2017). Formerly, Co-Chair Special Projects Committee, Memorial Sloan Kettering (2005-2015); Trustee, Stanford University (2010-2015); and Principal, LaLoop LLC, a retail accessories company (1999-2014).	90	None.
F. Ford Drummond 1962	Trustee	Since June 2015	Owner/Operator, Drummond Ranch; and	64	Director, BancFirst Corporation.

Class III			Chairman, Oklahoma Water Resources Board. Formerly, Director, The Cleveland Bank; and General Counsel, BMI-Health Plans (benefits administration).		
Bradford K. Gallagher 1944 Class II	Trustee	Since September 2010	Retired. Founder, Spyglass Investments LLC, a private investment vehicle (since 2001). Formerly, Chairman and Trustee, The Common Fund (2005-2014); and Partner, New Technology Ventures Capital Management LLC, a venture capital fund (2011-2013).	90	None.
James A. Jacobson 1945 Class II	Trustee	Since December 2009	Retired. Trustee (since 2002) and Chairman of Investment Committee (since 2007), Ronald McDonald House of New York; and Trustee, New Jersey City University (since 2014).	90	Formerly, Trustee, Alpine Mutual Funds Complex (consisting of 18 funds) (2009-2016).
Hans W. Kertess 1939 Class I	Trustee, Vice Chairman of the Board	Since February 2004	President, H. Kertess & Co., a financial advisory company; and Senior Adviser (formerly Managing Director), Royal Bank of Canada	90	None.

Capital Markets
(since 2004).

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Name, Address* and Year of Birth	Position(s) Held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past 5 Years
James S. MacLeod 1947 Class III	Trustee	Since June 2015	Executive Chairman of the Board, CoastalSouth Bancshares, Inc.; Chairman, CoastalStates Bank; Vice Chairman of the Board and Member of Executive Committee, University of Tampa; Trustee, MUSC Foundation and Director, Mortgage Bankers Association of America. Formerly, Executive Vice President, Mortgage Guaranty Insurance Corporation; and Chief Executive Officer, Homeowners Mortgage.	64	Non-Executive Chairman & Director, Sykes Enterprises, Inc.
Alan Rappaport 1953 Class I	Trustee	Since June 2010	Advisory Director (formerly, Vice Chairman), Roundtable Investment Partners (since 2009); Adjunct Professor, New York University Stern School of Business (since 2011); Lecturer, Stanford University Graduate School of Business (since 2013); and Director, Victory Capital Holdings, Inc., an asset management firm (since 2013). Formerly, Trustee, American Museum of Natural History (2005-2015); and Trustee and Member of Board of Overseers, NYU Langone Medical	90	None.

			Center (2007-2015).		
Davey S. Scoon 1946 Class II	Trustee, Chairman of the Board	Since June 2015	Adjunct Professor, University of Wisconsin-Madison (since 2011).	64	Director, Albireo Pharma, Inc. (since 2016); and Director, AMAG Pharmaceuticals, Inc. (since 2006). Formerly, Director, Biodel Inc. (2013- 2016); Director, Orthofix International N.V. (2011-2015); and Chairman, Tufts Health Plan (1997-2014).

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Interested Trustee[2]

Name, Address* and Year of Birth	Position(s) Held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
A. Douglas Eu 1961 Class III	Trustee	Since April 2016	Chief Executive Officer, Managing Director and Chairman of the Executive Committee of Allianz Global Investors U.S. Holdings LLC (since 2016); and Member of the Global Executive Committee of Allianz Global Investors GmbH (since 2006). Formerly, Chief Executive Officer of Allianz Global Investors Asia Pacific GmbH (2006-2015).	64	Formerly, Director, Securities and Futures Commission Advisory Committee Hong Kong (2007-2013).
Erick R. Holt 1952 Class I	Trustee	Since December 2017	Board Member, Global Chief Risk Officer, General Counsel and Chief Compliance Officer (2006-December 2017) of Allianz Asset Management GmbH.	64	None.
William B. Ogden, IV 1945 Class I	Trustee	Since September 2006	Retired. Formerly, Asset Management Industry Consultant; and Managing Director, Investment Banking Division of Citigroup Global Markets Inc.	90	None.

* Unless otherwise indicated, the business address of the persons listed above is c/o Allianz Global Investors U.S. LLC, 1633 Broadway, New York, New York 10019.

(1) Independent Trustees are those Trustees who are not interested persons (as defined in Section 2(a)(19) of the 1940 Act).

(2) Each of Messrs. Holt and Eu is an interested person of the Fund, as defined in Section 2(a)(19) of the 1940 Act, due to his affiliation with the Investment Manager and its affiliates. During any offering of Cumulative Preferred Shares, Mr. Ogden will be treated by the Fund as an interested person due to his ownership of shares issued by or

other relationship with a member of the underwriting syndicate, but Mr. Ogden is expected to qualify as and be treated as a fully Independent Trustee following completion of such offering.

In accordance with the Fund s staggered board (see Anti-Takeover and Other Provisions in the Declaration of Trust), the Common Shareholders of the Fund elect Trustees to fill the vacancies of Trustees whose terms expire at each annual meeting of Common Shareholders. So long as any Preferred Shares are outstanding, Cumulative Preferred Shareholders and holders of any other Preferred Shares outstanding, voting as a separate class, will elect two Trustees and the remaining Trustees will be elected by Common Shareholders, Cumulative Preferred Shareholders

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and holders of any other Preferred Shares outstanding, voting together as a single class. Holders of Preferred Shares (including Cumulative Preferred Shares) are entitled to elect a majority of the Fund s Trustees under certain circumstances.

Executive Officers

Name, Address and Year of Birth	Position(s) Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years
Thomas J. Fuccillo 1633 Broadway, 43rd Floor New York, NY 10019 1968	President and Chief Executive Officer	04/2016 to present	Managing Director, Chief Regulatory Counsel and Head of Retail and Funds Legal of Allianz Global Investors U.S. Holdings LLC; Managing Director, Chief Legal Officer and Secretary of Allianz Global Investors Distributors LLC; Secretary and Chief Legal Officer of The Korea Fund, Inc. and President and Chief Executive Officer of 64 funds in the Fund Complex. Formerly, Vice President, Secretary and Chief Legal Officer of numerous funds in the Fund Complex (2004-2016).
Scott Whisten 1633 Broadway, 43rd Floor New York, NY 10019 1966	Treasurer, Principal Financial and Accounting Officer	04/2018 to present	Director of Allianz Global Investors U.S. LLC and Treasurer, Principal Financial and Accounting Officer of 64 funds in the Fund Complex. Formerly, Assistant Treasurer of numerous funds in the Fund Complex (2007-2018).
Angela Borreggine 1633 Broadway, 43rd Floor New York, NY 10019 1964	Chief Legal Officer and Secretary	04/2016 to present	Director and Senior Counsel of Allianz Global Investors U.S. Holdings LLC; and Chief Legal Officer and Secretary of 64 funds in the Fund Complex. Formerly, Assistant Secretary of numerous funds in the Fund Complex (2015-2016).
Thomas L. Harter, CFA 600 West Broadway San Diego, CA 92101 1975	Chief Compliance Officer	06/2013 to present	Director of Allianz Global Investors U.S. Holdings LLC; Director, Deputy Chief Compliance Officer of Allianz Global Investors U.S. LLC and Chief Compliance Officer of 64 funds in the Fund Complex and of The Korea Fund, Inc.
Richard J. Cochran 1633 Broadway, 43rd Floor	Assistant Treasurer	6/2012 to present	Vice President of Allianz Global Investors U.S. LLC; and Assistant Treasurer of 64 funds in the Fund Complex and of The Korea Fund, Inc.

New York, NY 10019 1961			
Orhan Dzemaili 1633 Broadway, 43rd Floor New York, NY 10019 1974	Assistant Treasurer	6/2012 to present	Director of Allianz Global Investors U.S. LLC; Treasurer, Principal Financial and Accounting Officer of The Korea Fund, Inc. and Assistant Treasurer of 64 funds in the Fund Complex. Formerly, Assistant Treasurer of The Korea Fund, Inc. (2016 - 2018).

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Name, Address and Year of Birth	Position(s) Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years
Debra Rubano 1633 Broadway, 43rd Floor New York, NY 10019 1975	Assistant Secretary	12/2015 to present	Director and Senior Counsel of Allianz Global Investors U.S. Holdings LLC; and Assistant Secretary of 64 funds in the Fund Complex.
Craig Ruckman 1633 Broadway, 43rd Floor New York, NY 10019 1977	Assistant Secretary	12/2017 to present	Director and Senior Counsel of Allianz Global Investors U.S. Holdings LLC; and Assistant Secretary of 64 funds in the Fund Complex. Formerly, Associate of K&L Gates LLP (2012-2016).

Each of the Fund s executive officers is an interested person of the Fund (as defined in Section 2(a)(19) of the 1940 Act) as a result of his or her position(s) set forth in the table above.

Trustee Qualifications. The Board has determined that each Trustee should serve as such based on several factors (none of which alone is decisive). Each Trustee has served in such role for several years and is knowledgeable about the Fund s business and service provider arrangements, and has also served for a substantial length of time as trustee or director to a number of other investment companies advised by the Investment Manager and its affiliates. Among the factors the Board considered when concluding that an individual should serve on the Board were the following: (i) the individual s business and professional experience and accomplishments; (ii) the individual s ability to work effectively with other members of the Board; (iii) the individual s prior experience, if any, serving on the boards of public companies (including, where relevant, other investment companies) and other complex enterprises and organizations; and (iv) how the individual s skills, experiences and attributes would contribute to an appropriate mix of relevant skills and experience on the Board.

In respect of each current Trustee, the individual s substantial professional accomplishments and prior experience, including, in some cases, in fields related to the operations of the Fund, were a significant factor in the determination that the individual should serve as a Trustee of the Fund. Following is a summary of various qualifications, experiences and skills of each Trustee (in addition to business experience during the past five years set forth in the table above) that contributed to the Board s conclusion that an individual should serve on the Board. References to qualifications, experiences and skills are not intended to hold out the Board or individual Trustees as having any special expertise or experience, and shall not impose any greater responsibility or liability on any such person or on the Board by reason thereof.

Deborah A. DeCotis Ms. DeCotis has substantial senior executive experience in the investment banking industry, having served as a Managing Director for Morgan Stanley. She has extensive board experience and/or experience in oversight of investment management functions through her experience as a Director of the Helena Rubinstein Foundation, Stanford Graduate School of Business and Armor Holdings.

F. Ford Drummond Mr. Drummond has substantial legal background and experience in the oversight and management of regulated companies through his work as General Counsel of BMI Health Plans, a benefits administrator. He has substantial board experience in the banking sector as a director of the BancFirst Corporation, Oklahoma s largest state chartered bank, and as a former director of The Cleveland Bank. Mr. Drummond also serves

as a member and is a past chairman of the Oklahoma Water Resources Board, which provides tax exempt financing for water infrastructure projects in the state.

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A. Douglas Eu Mr. Eu has substantial senior executive experience in the asset management industry as Chief Executive Officer of Allianz Global Investors business in North America and formerly, Chief Executive Office for Allianz Global Investors business in the Asia-Pacific region. Mr. Eu has also served in a variety of other senior-level positions in the asset management industry. Because of his familiarity with the Fund Complex, the Investment Manager and affiliated entities, Mr. Eu serves as an important information resource for the Independent Trustees.

Bradford K. Gallagher Mr. Gallagher has substantial executive and board experience in the financial services and investment management industries. He has served as director to several other investment companies. Having served on the Operating Committee of Fidelity Investments and as a Managing Director and President of Fidelity Investments Institutional Services Company, he provides the Fund with significant asset management industry expertise. He also brings significant securities industry experience, having served as a developer and founder of several enterprises and private investment vehicles.

Erick R. Holt Mr. Holt has substantial executive-level experience in the asset management industry, including extensive experience as General Counsel, Global Chief Risk Officer and Chief Compliance Officer of the holding company for the Investment Manager and other affiliates. Because of his familiarity with the Fund Complex, the Investment Manager and affiliated entities, he serves as an important information resource for the Independent Trustees.

James A. Jacobson Mr. Jacobson has substantial executive and board experience in the financial services industry. He served for more than 15 years as a senior executive at a New York Stock Exchange (NYSE) specialist firm. He has also served on the NYSE Board of Directors, including terms as Vice Chair. As such, he provides significant expertise on matters relating to portfolio brokerage and trade execution. He also provides significant financial expertise and serves as the Audit Oversight Committee s Chair and has been determined by the Board to be an audit committee financial expert. He has expertise in investment company matters through his past service as a trustee of another fund family.

Hans W. Kertess Mr. Kertess has substantial executive experience in the investment management industry. He is the president of a financial advisory company, H. Kertess & Co., and formerly served as a Managing Director of Royal Bank of Canada Capital Markets. He has significant expertise in the investment banking industry.

James S. MacLeod Mr. MacLeod has substantial business and finance experience, including in the banking sector. He has experience as an officer and a board member of public and private companies. He is the Executive Chairman of the Board of Coastal Bancshares and Chairman of CoastalStates Bank and Homeowners Mortgage. He is also on the board of Sykes Enterprises, Inc. He also has experience in the non-profit sector overseeing the endowment of the University of Tampa while serving as Vice Chairman of the Board and as a member of the Executive Committee.

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William B. Ogden, IV Mr. Ogden has substantial senior executive experience in the investment banking industry. He served as Managing Director at Citigroup, where he established and led the firm s efforts to raise capital for and provide mergers and acquisition advisory services to asset managers and investment advisers. He also has significant expertise with fund products through his senior-level responsibility for originating and underwriting a broad variety of such products.

Alan Rappaport Mr. Rappaport has substantial senior executive experience in the financial services industry. He formerly served as Chairman and President of the private bank division of Bank of America and as Vice Chairman of U.S. Trust. He is currently Advisory Director of an investment banking firm.

Davey S. Scoon Mr. Scoon has many years of senior executive experience in the financial services industry, including 14 years as Chief Operating Officer of Colonial Mutual Funds. He has a background and experience in accounting and finance as well as experience as an officer of public companies. He served as Chief Administrative and Financial Officer for Tom s of Maine and SunLife Financial U.S. He serves on several public company boards. He is a director of several biomedical companies, including serving as board chair of a health plan with a $1 billion investment portfolio. He also provides significant financial expertise and has been determined by the Board to be an audit committee financial expert.

Committees of the Board of Trustees

Audit Oversight Committee. The Board of the Fund has established an Audit Oversight Committee in accordance with
Section 3(a)(58)(A) of the Exchange Act. The Fund s Audit Oversight Committee is currently composed of Messrs. Drummond, Gallagher, Jacobson, Kertess, MacLeod, Ogden, Rappaport and Scoon, and Ms. DeCotis, each of whom is an Independent Trustee, except that, to the extent that Mr. Ogden is deemed not to be an Independent Trustee during any offering of the Cumulative Preferred Shares, such Trustee will recuse himself from participation on the Audit Committee. Mr. Jacobson is the current Chair of the Fund s Audit Oversight Committee. The Fund s Audit Oversight Committee provides oversight with respect to the internal and external accounting and auditing procedures of the Fund and, among other things, determines the selection of the independent registered public accounting firm for the Fund and considers the scope of the audit, approves all audit and permitted non-audit services proposed to be performed by the independent registered public accounting firm on behalf of the Fund, and approves non-audit services to be performed by the independent registered public accounting firm for certain affiliates, including the Investment Manager and entities in a control relationship with the Investment Manager that provide services to the Fund where the engagement relates directly to the operations and financial reporting of the Fund. The Audit Oversight Committee considers the possible effect of those services on the independence of the Fund s independent registered public accounting firm. During the fiscal year ended February 28, 2018 the Audit Oversight Committee convened 5 times.

Compliance Committee. The Fund s Compliance Committee is currently composed of Messrs. Drummond, Eu, Gallagher, Jacobson, Kertess, MacLeod, Ogden, Rappaport, Holt and Scoon and Ms. DeCotis. Mr. Drummond is the current Chair of the Fund s Compliance Committee. The Compliance Committee s responsibilities include providing oversight with respect to regulatory

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and fiduciary compliance matters involving the Fund, reviewing and making recommendations regarding compliance policies and procedures, receiving reports from the CCO as to the results of internal audit functions, advising the Board on matters relating to the CCO and serving as principal liaison between the Board and compliance officers. During the fiscal year ended February 28, 2018 the Compliance Committee convened 4 times.

Contracts Committee. The Fund s Contracts Committee is currently composed of Messrs. Drummond, Gallagher, Jacobson, Kertess, MacLeod, Ogden, Rappaport and Scoon, and Ms. DeCotis, each of whom is an Independent Trustee, except that, to the extent that Mr. Ogden is deemed not to be an Independent Trustee during any offering of the Cumulative Preferred Shares, such Trustee will recuse himself from participation on the Contracts Committee. Ms. DeCotis is the current Chair of the Fund s Contracts Committee. The Contracts Committee s responsibilities include reviewing and considering the periodic renewal of the Funds investment advisory and administration and distribution agreements and plans. During the fiscal year ended February 28, 2018 the Contracts Committee convened 4 times.

Governance and Nominating Committee. The Fund has a Governance and Nominating Committee currently composed of Messrs. Drummond, Gallagher, Jacobson, Kertess, MacLeod, Ogden, Rappaport and Scoon, and Ms. DeCotis, each of whom is an Independent Trustee, except that, to the extent that Mr. Ogden is deemed not to be an Independent Trustee during any offering of the Cumulative Preferred Shares, such Trustee will recuse himself from participation on the Governance and Nominating Committee. Mr. MacLeod is the current Chair of the Governance and Nominating Committee. The Governance and Nominating Committee s responsibilities include the oversight of matters relating to the functions and duties of the Board of Trustees (including Board education) and the screening and nomination of candidates for election to the Board of Trustees as independent trustees of the Fund. It is the policy of the Governance and Nominating Committee to consider trustee nominees recommended by shareholders. The procedures by which shareholders can submit nominee recommendations to the Governance and Nominating Committee are summarized below. Governance and Nominating Committee will periodically review and recommend for approval by the Board the structure and level of compensation and any related benefits to be paid or provided by the Fund to the Independent Trustees for their services on the Board and any committees of the Board. During the fiscal year ended February 28, 2018 the Governance and Nominating Committee convened 3 times.

Qualifications, Evaluation and Identification of Trustee Nominees. The Governance and Nominating Committee requires that Trustee candidates have a college degree or equivalent business experience, but has not otherwise established specific, minimum qualifications that must be met by an individual to be considered by the Governance and Nominating Committee for nomination as a Trustee. The Governance and Nominating Committee may take into account a wide variety of factors in considering Trustee candidates, including, but not limited to: (i) availability and commitment of a candidate to attend meetings and perform his or her responsibilities on the Board; (ii) relevant industry and related experience; (iii) educational background; (iv) ability, judgment and expertise; and (v) overall diversity of the Board s composition. The Governance and Nominating Committee may consider candidates for Trustee recommended by the Fund s current Trustees, the Fund s officers, the Investment Manager, shareholders of the Fund and any other source the Governance and Nominating Committee deems appropriate. The Governance and Nominating Committee may, but is not required to, retain a third-party search firm at the Fund s expense to identify potential candidates.

Consideration of Candidates Recommended by Shareholders. The Governance and Nominating Committee will review and consider nominees recommended by shareholders to serve as Trustee, provided that the recommending shareholder follows the Procedures for

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Shareholders to Submit Nominee Candidates, which are set forth as Appendix A to the Fund s Governance and Nominating Committee Charter. Among other requirements, these procedures provide that the recommending shareholder must submit any recommendation in writing to the Fund, to the attention of the Fund s Secretary, at the address of the principal executive offices of the Fund. Any recommendation must include certain biographical and other information regarding the candidate and the recommending shareholder, and must include a written and signed consent of the candidate to be named as a nominee and to serve as a Trustee if elected. The foregoing description of the requirements is only a summary.

The Governance and Nominating Committee has full discretion to reject nominees recommended by shareholders, and there is no assurance that any such person properly recommended and considered by the Committee will be nominated for election to the Board of Trustees.

Performance Committee. The Fund s Performance Committee is currently composed of Messrs. Drummond, Eu, Gallagher, Jacobson, Kertess, MacLeod, Ogden, Rappaport, Holt and Scoon and Ms. DeCotis. Mr. Rappaport is the current Chair of the Fund s Performance Committee. The Performance Committee s responsibilities include reviewing the performance of the Fund and any changes in investment philosophy, approach and personnel of the Investment Manager. During the fiscal year ended February 28, 2018 the Performance Committee met 6 times.

Valuation Committee. The Board of the Fund has a Valuation Committee currently consisting of Messrs. Drummond, Eu, Gallagher, Jacobson, Kertess, MacLeod, Ogden, Rappaport and Scoon and Ms. DeCotis. Mr. Ogden is the current Chair of the Trust s Valuation Committee. The Valuation Committee has been delegated the responsibility by the Board for overseeing determination of the fair value of the Fund s portfolio securities on behalf of the Board in accordance with the Fund s valuation procedures. However, the ultimate responsibility for determinations of fair value of the Fund s portfolio securities lies with the Fund s Board of Trustees. The Valuation Committee reviews and approves procedures for the fair valuation of the Fund s portfolio securities and periodically reviews information from the Investment Manager regarding fair value and liquidity determinations made pursuant to Board-approved procedures, and makes related recommendations to the full Board and assists the full Board in resolving particular fair valuation and other valuation matters. During the fiscal year ended February 28, 2018 the Valuation Committee met 4 times.

Securities Ownership

For each Trustee, the following table discloses the dollar range of equity securities beneficially owned by the Trustee in the Fund and, on an aggregate basis, in any registered investment

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companies overseen by the Trustee within the Fund s family of investment companies as of December 31, 2017. The dollar ranges used in the table are (i) None; (ii) $1-$10,000; (iii) $10,001-$50,000; (iv) $50,001-$100,000; and (v) Over $100,000. The following table includes securities in which the Trustees hold an economic interest through their deferred compensation plan. See Trustees Compensation below.

Name of Trustee	Dollar Range of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee in Family of Investment Companies
Independent Trustees(1)		
Deborah A. DeCotis	None	Over $100,000
F. Ford Drummond	None	Over $100,000
Bradford K. Gallagher	None	Over $100,000
James A. Jacobson	None	Over $100,000
Hans W. Kertess	None	Over $100,000
James S. MacLeod	$1 - $10,000	Over $100,000
Alan Rappaport	$1 - $10,000	Over $100,000
Davey S. Scoon	None	Over $100,000
Interested Trustees(1)		
A. Douglas Eu	None	Over $100,000
Erick R. Holt	None	None
William B. Ogden IV	None	Over $100,000

(1) Independent Trustees are those Trustees who are not Interested Persons (as defined in Section 2(a)(19) of the 1940 Act), and Interested Trustees are those Trustees who are Interested Persons of the Portfolio. Each of Messrs. Eu and Holt is an Interested Person of the Portfolio due to her or his affiliation with the Investment Manager and its affiliates. During any offering of Cumulative Preferred Shares, Mr. Ogden will be treated by the Fund as an interested person due to his ownership of shares issued by or other relationship with a member of the underwriting syndicate, but Mr. Ogden is expected to qualify as and be treated as a fully Independent Trustee following completion of such offering.

To the Fund s knowledge, the following table provides information regarding each class of securities owned beneficially in an investment adviser or principal underwriter of the Fund, or a person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Fund, as of December 31, 2017 by Independent Trustees and their immediate

family members:

Name of Trustee	Name of Owners and Relationships to Trustee	Company	Title of Class	Value of Securities	Percent of Class
Deborah A. DeCotis	N/A	N/A	N/A	N/A	N/A
F. Ford Drummond	N/A	N/A	N/A	N/A	N/A
Bradford K. Gallagher	N/A	N/A	N/A	N/A	N/A
James A. Jacobson	N/A	N/A	N/A	N/A	N/A
Hans W. Kertess	N/A	N/A	N/A	N/A	N/A
James S. MacLeod	N/A	N/A	N/A	N/A	N/A
William B. Ogden, IV(1)	N/A	N/A	N/A	N/A	N/A
Alan Rappaport	N/A	N/A	N/A	N/A	N/A
Davey S. Scoon	N/A	N/A	N/A	N/A	N/A

(1) Mr. Ogden owns a less than 1% limited liability company interest in PIMCO Global Credit Opportunity Onshore Fund LLC, a private investment vehicle sponsored by an affiliate of the Investment Manager. During any offering of Cumulative Preferred Shares, Mr. Ogden will be treated by the Fund as an interested person due to his ownership of shares issued by a member of the underwriting syndicate, but he is expected to qualify as a fully Independent Trustee following completion of such offering.

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As of July 30, 2018, the Fund s officers and Trustees as a group owned less than 1% of the outstanding Common Shares.

As of July 30, 2018 to the knowledge of the Fund, the following entities owned beneficially or of record the number of shares of the noted class as set forth below, representing the indicated percentage of such class as of such date. To the knowledge of the Fund, no other person owned of record or beneficially 5% or more of any class of the Fund s outstanding equity securities on such date.

Beneficial Owner	Class	Percentage of Class
UBS Group AG Bahnhofstrasse 45 PO Box CH-8021 Zurich, Switzerland	Preferred Shares	56.41%

Compensation

Each of the Independent Trustees also serves as a trustee of Allianz Funds, Allianz Funds Multi-Strategy Trust, AllianzGI Institutional Multi-Series Trust and Premier Multi-Series VIT (collectively the Allianz-Sponsored OEFs). Each of the Independent Trustees also serves as a trustee of AllianzGI Convertible & Income Fund 2024 Target Term Fund, AllianzGI Convertible & Income Fund II, AllianzGI Equity & Convertible Income Fund, AllianzGI NFJ Dividend, Interest & Premium Strategy Fund and AllianzGI Diversified Income & Convertible Fund, each a closed-end fund for which the Investment Manager serves as investment manager (together with the Fund, the Allianz Closed-End Funds and, together with the Allianz-Sponsored OEFs, the Allianz-Sponsored Funds). In addition, each of Messrs. Gallagher, Jacobson, Kertess, Ogden and Rappaport and Ms. DeCotis serves as a trustee or director of a number of closed-end and open-end funds for which Allianz Global Investors Fund Management LLC (a predecessor entity of the Investment Manager) (Allianz Global Fund Management) previously served as investment manager and its affiliate, Pacific Investment Management Company LLC (PIMCO), served as sub-adviser (together, the PIMCO-Sponsored Funds). The PIMCO-Sponsored Funds were transitioned to the PIMCO Funds platform effective September 5, 2014, such that Allianz Global Fund Management no longer served as the investment manager to those funds. Subsequently, the Independent Trustees received separate compensation from the Allianz-Sponsored Funds, in addition to amounts received for service on the Boards of the PIMCO-Sponsored Funds.

Each of the Allianz-Sponsored Funds is expected to hold joint meetings of their Boards of Trustees whenever possible. Each Trustee, other than any Trustee who is a director, officer, partner or employee of the Investment Manager or any entity controlling, controlled by or under common control with the Investment Manager, receives annual compensation of $235,000, payable quarterly. The Independent Chairman of the Boards receives an additional $75,000 per year, payable quarterly. The Audit Oversight Committee Chairman receives an additional $25,000 annually, payable quarterly. The Performance Committee Chair receives an additional $10,000 annually, payable quarterly. The Contracts Committee Chair receives an additional $10,000 annually, payable quarterly. The Valuation Committee Chair receives an additional $5,000 annually, payable quarterly. The Compliance Committee Chair receives an additional $5,000 annually, payable quarterly. Trustees will also be reimbursed for meeting-related expenses.

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Each Trustee s compensation and other costs in connection with joint meetings will be allocated among the Allianz-Sponsored Funds on the basis of fixed percentages as between each such group of funds. Trustee compensation and other costs will then be further allocated pro rata among the individual funds within each grouping (such as among the Allianz Closed-End Funds) based on the complexity of issues relating to each such fund and relative time spent by the Trustees in addressing them, and on each such fund s relative net assets.

Trustees do not currently receive any pension or retirement benefits from the Fund or the Fund Complex (see below). The Fund has adopted a deferred compensation plan for the Trustees that permits the Trustees to defer their receipt of compensation from the Fund, at their election, in accordance with the terms of the plan. Under the plan, each Trustee may elect not to receive fees from the Fund on a current basis but to receive in a subsequent period chosen by the Trustee an amount equal to the value of such compensation if they had been invested in series of Allianz Funds or Allianz Funds Multi-Series Trust selected by the Trustees on the normal payment dates for such compensation. As a result of this arrangement, the Fund, upon making the deferred payments, will be in substantially the same financial position as if the deferred compensation had been paid on the normal payment dates and immediately reinvested in shares of the fund(s) selected by the Trustees.

The following table provides information concerning the compensation paid to the Trustees for the fiscal year ended February 28, 2018 for the Fund and the compensation received by the Trustees for serving as Trustees of the Fund and other funds in the same Fund Complex as the Fund. Each officer and each Trustee who is a director, officer, partner, member or employee of the Investment Manager or of any entity controlling, controlled by or under common control with the Investment Manager, including any Interested Trustee, serves without any compensation from the Fund.

Name of Person	Aggregate compensation from the Fund for the Fiscal Year Ended February 28, 2018(1)	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation from the Fund and Fund Complex Paid to Trustees for Calendar Year-Ended December 31, 2017(1)(2)
Bradford K. Gallagher	$ 4,497	N/A	N/A	$ 460,000
James A. Jacobson	$ 4,974	N/A	N/A	$ 535,000
Hans W. Kertess	$ 4,497	N/A	N/A	$ 535,000
William B. Ogden IV	$ 4,592	N/A	N/A	$ 465,000
Alan Rappaport	$ 4,686	N/A	N/A	$ 470,000
Deborah A. DeCotis	$ 4,686	N/A	N/A	$ 470,000
F. Ford Drummond	$ 4,592	N/A	N/A	$ 240,000
James S. MacLeod	$ 4,497	N/A	N/A	$ 235,000
Davey S. Scoon	$ 5,932	N/A	N/A	$ 310,000

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(1) All compensation figures in this table include payments deferred by Trustees for the relevant period. As of December 31, 2017, the total amount of deferred compensation accrued and outstanding across the Fund Complex (relating to deferrals during the calendar year ended December 31, 2017 and any prior years) was as follows: Drummond $2,565,556, MacLeod $102,474, Rappaport $867,584 and Scoon $1,271,463.

(2) In addition to the Allianz-Sponsored Funds, which are managed by AllianzGI U.S., during each Fund s most recently completed fiscal year, each of Ms. DeCotis and Messrs. Kertess, Gallagher, Jacobson, Ogden and Rappaport served as trustees of the PIMCO-Sponsored Funds, which are managed by PIMCO. The Allianz-Sponsored Funds and the PIMCO-Sponsored Funds are considered to be in the same Fund Complex as the Funds. Ms. DeCotis and Messrs. Kertess, Gallagher, Jacobson, Ogden and Rappaport currently serve as trustee or director of 90 funds in the Fund Complex, including the PIMCO-Sponsored Funds. For the calendar year ended December 31, 2017, amounts received by these Trustees from Allianz-Sponsored Funds were: for Mr. Jacobson, $260,000; for Ms. DeCotis, $245,000; and for Messrs. Kertess, Gallagher, Ogden and Rappaport, $235,000, $235,000, $240,000 and $245,000, respectively. These amounts are included in the Fund Complex totals in the table above. Each of Messrs. Drummond, MacLeod and Scoon serves as trustee or director of other Allianz-Sponsored Funds considered to be in the same Fund Complex as each Fund. Messrs. Drummond, MacLeod and Scoon currently serve as trustee or director of 64 such investment companies.

The Fund has no employees.

Codes of Ethics

The Fund and Investment Manager have each adopted a separate code of ethics pursuant to the requirements of Rule 17j-1 of the 1940 Act governing personal trading activities of, as applicable, all Trustees and officers of the Fund, and directors, officers and employees of the Investment Manager who, in connection with their regular functions, play a role in the recommendation of any purchase or sale of a security by the Fund or obtain information pertaining to such purchase or sale or who have the power to influence the management or policies of the Fund or the Investment Manager. Such persons are prohibited from effecting certain transactions, allowed to effect certain exempt transactions (including with respect to securities that may be purchased or held by the Fund), and are required to preclear certain security transactions with the applicable compliance officer or his designee and to report certain transactions on a regular basis. The Fund and the Investment Manager have each developed procedures for administration of their respective codes. Text-only versions of the codes of ethics can be viewed online or downloaded from the EDGAR Database on the SEC s website at www.sec.gov. You may also review and copy those documents by visiting the SEC s Public Reference Room in Washington, DC, information on the operation of which may be obtained by calling 1-202-551-8090. Copies may be obtained, after paying a duplicating fee, by electronic request to publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, DC 20549-0102.

INVESTMENT MANAGER

Investment Manager

Allianz Global Investors U.S. LLC (as previously defined, the Investment Manager) serves as investment manager to the Fund pursuant to an investment management agreement (the Investment Management Agreement) between it and the Fund.

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The Investment Manager is a majority-owned indirect subsidiary of Allianz SE, a publicly traded European insurance and financial services company.

The Investment Manager is located at 1633 Broadway, New York, NY 10019. The Investment Manager had approximately $115.7 billion in assets under management as of June 30, 2018.

The Investment Manager, subject to the supervision of the Board of Trustees, is responsible for managing, either directly or through others selected by the Investment Manager, the investments of the Fund. The Investment Manager also furnishes to the Board of Trustees periodic reports on the investment performance of the Fund.

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Investment Management Agreement

Under the terms of the Investment Management Agreement, subject to such policies as the Trustees of the Fund may determine, the Investment Manager, at its expense, will furnish continuously an investment program for the Fund and will make investment decisions on behalf of the Fund and place all orders for the purchase and sale of portfolio securities subject always to the Fund s investment objectives, policies and restrictions.

Subject to the control of the Trustees, the Investment Manager also manages, supervises and conducts the other affairs and business of the Fund, furnishes office space and equipment, provides bookkeeping and certain clerical services (excluding determination of the net asset value of the Fund, shareholder accounting services and the accounting services for the Fund) and pays all salaries, fees and expenses of officers and Trustees of the Fund who are affiliated with the Investment Manager. The Investment Manager has, at its own expense, retained State Street Bank & Trust Co. to perform certain administrative services for the Fund and may retain affiliates to provide other administrative service. As indicated under Portfolio Transactions Brokerage and Research Services, the Fund s portfolio transactions may be placed with broker-dealers which furnish the Investment Manager, without cost, certain research, statistical and quotation services of value to them or their respective affiliates in advising the Fund or their other clients. In so doing, the Fund may incur greater brokerage commissions and other transactions costs than it might otherwise pay.

Pursuant to the Investment Management Agreement, the Fund has agreed to pay the Investment Manager an annual management fee, payable on a monthly basis, at the annual rate of 0.70% of the Fund s average daily total managed assets for the services and facilities it provides. Total managed assets means the total assets of the Fund (including any assets attributable to any Preferred Shares or other forms of leverage of the Fund that may be outstanding) minus accrued liabilities (other than liabilities representing leverage). For purposes of calculating total managed assets, the liquidation preference of any Preferred Shares outstanding is not considered a liability. By way of clarification, with respect to any reverse repurchase agreement, dollar roll or similar transaction, total managed assets include any proceeds from the sale of an asset of the Fund to a counterparty in such a transaction, in addition to the value of the underlying asset as of the relevant measuring date. All fees and expenses are accrued daily and deducted before payment of dividends to investors.

Except as otherwise described in the Prospectus, the Fund pays, in addition to the investment management fee described above, all expenses not assumed by the Investment Manager, including, without limitation, fees and expenses of Trustees who are not interested persons of the Investment Manager or the Fund, interest charges, taxes, brokerage commissions, expenses of issue of shares, fees and expenses of registering and qualifying the Fund and its classes of shares for distribution under federal and state laws and regulations, charges of custodians, auditing and legal expenses, expenses of determining net asset value of the Fund, reports to shareholders, expenses of meetings of shareholders, expenses of printing and mailing prospectuses, proxy statements and proxies to existing shareholders, and its proportionate share of insurance premiums and professional association dues or assessments. The Fund is also responsible for such nonrecurring expenses as may arise, including litigation in which the Fund may be a party, and other expenses as determined by the Trustees. The Fund may have an obligation to indemnify its officers and Trustees with respect to such litigation.

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Pursuant to the Investment Management Agreement, the Fund paid the Investment Manager a total of $6,632,033 for the fiscal year ended February 28, 2018, $6,471,292 for the fiscal year ended February 28, 2017 and $6,951,264 for the fiscal year ended February 29, 2016.

Certain Terms of the Investment Management Agreement

The Investment Management Agreement is subject to the approval of the Trustees of the Fund (including all of the Trustees who are not interested persons of the Investment Manager). By its terms, the Investment Management Agreement will continue in force with respect to the Fund for an initial two year period, and continue in force from year to year thereafter, but only so long as its continuance is approved at least annually by (i) vote, cast in person at a meeting called for that purpose, of a majority of those Trustees who are not interested persons of the Investment Manager or the Fund, and (ii) the majority vote of either the full Board of Trustees or the vote of a majority of the outstanding shares of all classes of the Fund. The Investment Management Agreement automatically terminates on assignment. The Investment Management Agreement may be terminated on not less than 60 days notice by the Investment Manager to the Fund or by the Fund to the Investment Manager.

The Investment Management Agreement provides that the Investment Manager shall not be subject to any liability in connection with the performance of its services thereunder in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties.

Portfolio Managers

Other Accounts Managed. Messrs. Forsyth and Kass also manage the other registered investment companies, other pooled investment vehicles and/or other accounts indicated below. The following table identifies, as of February 28, 2018, (i) the number of registered investment companies, pooled investment vehicles and other accounts managed by the portfolio managers; and (ii) the total assets of such companies, vehicles and accounts, and the number and total assets of such companies, vehicles and accounts with respect to which the advisory fee is based on performance.

	Total Number of Accounts	Total Assets of All Accounts ($ in millions)
Douglas Forsyth		
Registered Investment Companies	9	$ 7,713
Other Pooled Investment Vehicles	29	$ 33,418**
Other Accounts	10	$ 753*
Justin Kass		
Registered Investment Companies	8	$ 6,527
Other Pooled Investment Vehicles	22	$ 30,256
Other Accounts	5	$ 343

* Of the Other Accounts, one account totaling $58 million in assets pays an advisory fee that is based on the performance of the account.

**

Of the Other Pooled Investment Vehicles, six accounts totaling $2,021 million pay an advisory fee that is based in part on the performance of the accounts.

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Potential Conflicts of Interest

Like other investment professionals with multiple clients, a portfolio manager for the Fund may face certain potential conflicts of interest in connection with managing both the Fund and other accounts at the same time. The paragraphs below describe some of these potential conflicts, which AllianzGI U.S. believes are faced by investment professionals at most major financial firms.

AllianzGI U.S. has adopted compliance policies and procedures that address certain of these potential conflicts. The management of accounts with different advisory fee rates and/or fee structures, including accounts that pay advisory fees based on account performance (performance fee accounts) may raise potential conflicts of interest by creating an incentive to favor higher-fee accounts. These potential conflicts may include, among others:

The most attractive investments could be allocated to higher-fee accounts or performance fee accounts.

The trading of higher-fee accounts could be favored as to timing and/or execution price. For example, higher-fee accounts could be permitted to sell securities earlier than other accounts when a prompt sale is desirable or to buy securities at an earlier and more opportune time.

The investment management team could focus their time and efforts primarily on higher-fee accounts due to a personal stake in compensation.

When AllianzGI U.S. considers the purchase or sale of a security to be in the best interests of the Fund as well as other accounts, AllianzGI U.S. s trading desk may, to the extent permitted by applicable laws and regulations, aggregate the securities to be sold or purchased. Aggregation of trades may create the potential for unfairness to the Fund or another account if one account is favored over another in allocating the securities purchased or sold for example, by allocating a disproportionate amount of a security that is likely to increase in value to a favored account. AllianzGI U.S. considers many factors when allocating securities among accounts, including the account s investment style, applicable investment restrictions, availability of securities, available cash and other current holdings. AllianzGI U.S. attempts to allocate investment opportunities among accounts in a fair and equitable manner. However, accounts are not assured of participating equally or at all in particular investment allocations due to such factors as noted above.

Cross trades, in which one AllianzGI U.S. account sells a particular security to another account (potentially saving transaction costs for both accounts), may also pose a potential conflict of interest when cross trades are effected in a manner perceived to favor one client over another.

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For example, AllianzGI U.S. may cross a trade between a performance fee account and a fixed fee account that results in a benefit to the performance fee account and a detriment to the fixed fee account. AllianzGI U.S. has adopted compliance procedures that provide that all cross trades are to be made at an independent current market price, as required by law.

Another potential conflict of interest may arise from the different investment objectives and strategies of the Fund and other accounts. For example, another account may have a shorter-term investment horizon or different investment objectives, policies or restrictions than the Fund. Depending on another account s objectives or other factors, a portfolio manager may give advice and make decisions that may differ from advice given, or the timing or nature of decisions made, with respect to the Fund. In addition, investment decisions are subject to suitability for the particular account involved. Thus, a particular security may not be bought or sold for certain accounts even though it was bought or sold for other accounts at the same time. More rarely, a particular security may be bought for one or more accounts managed by a portfolio manager when one or more other accounts are selling the security (including short sales). There may be circumstances when purchases or sales of portfolio securities for one or more accounts may have an adverse effect on other accounts. AllianzGI U.S. maintains trading policies designed to provide portfolio managers an opportunity to minimize the effect that short sales in one portfolio may have on holdings in other portfolios.

A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. As a result, the portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

The Fund s portfolio managers may be able to select or influence the selection of the broker/dealers that are used to execute securities transactions for the Fund. In addition to executing trades, some brokers and dealers provide AllianzGI U.S. with brokerage and research services (as those terms are defined in Section 28(e) of the Exchange Act), which may result in the payment of higher brokerage fees than might have otherwise be available. These services may be more beneficial to certain funds or accounts than to others. In order to be assured of continuing to receive services considered of value to its clients, AllianzGI U.S. has adopted a brokerage allocation policy embodying the concepts of Section 28(e) of the Exchange Act. Although the payment of brokerage commissions is subject to the requirement that the portfolio manager determine in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the Fund, a portfolio manager s decision as to the selection of brokers and dealers could yield disproportionate costs and benefits among the funds and/or accounts that he or she manages.

The Fund s portfolio managers may also face other potential conflicts of interest in managing the Fund, and the description above is not a complete description of every conflict that could be deemed to exist in managing both the Fund and other accounts. In addition, the Fund s portfolio managers may also manage other accounts (including their personal assets or the assets of family

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members) in their personal capacity. AllianzGI U.S. s investment personnel, including the Fund s portfolio managers, are subject to restrictions on engaging in personal securities transactions pursuant to AllianzGI U.S. s Code of Business Conduct and Code of Ethics (for purposes of this paragraph only, the Code), which contain provisions and requirements designed to identify and address conflicts of interest between personal investment activities and the interests of the Fund. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of AllianzGI U.S. will not interfere with (i) making decisions in the best interest of advisory clients (including the Fund) or (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Portfolio Manager Compensation

The compensation system is designed to support the organization s corporate values and culture. While acknowledging the importance of financial incentives and seeking to pay top quartile compensation for top quartile performance, AllianzGI U.S. also believes that compensation is only one of a number of critically important elements that allow the emergence of a strong, winning culture that attracts, retains and motivates talented investors and teams. AllianzGI U.S. s compensation system supports its belief that investment professionals are a key element of the company s success in meeting clients objectives. To the extent that there are regional experts located in other AllianzGI U.S.-affiliated offices worldwide who are associated persons of AllianzGI U.S. and who serve as portfolio managers for certain funds advised or sub-advised by AllianzGI U.S., this compensation strategy is applied independently by the AllianzGI U.S.-affiliated company that employs such a portfolio manager. In such cases, AllianzGI U.S. compensates the employing company through an affiliated transfer pricing arrangement that takes into account the value placed by AllianzGI U.S. on the shared service of the portfolio manager.

The primary components of compensation are the base salary and an annual variable compensation payment. Base salary typically reflects scope, responsibilities and experience required in a particular role, be it on the investment side or any other function in the company. Base compensation is regularly reviewed against peers with the help of compensation survey data. Base compensation is typically a greater percentage of total compensation for more junior positions, while for the most senior roles it is typically a comparatively small component, often capped and only adjusted every few years.

The variable compensation component typically comprises a cash bonus that pays out immediately after the performance year as well as a deferred component, for members of staff whose variable compensation exceeds a certain threshold. Except for certain specialist investment teams as noted below, variable compensation is determined on a discretionary basis and is primarily designed to reflect the achievements of an individual against set goals, over a certain time period. For an investment professional these goals will typically be 70% quantitative and 30% qualitative. The former will reflect a weighted average of investment performance over a three-year rolling time period (one-year (25%) and three-year (75%) results) and the latter reflects contributions to broader team goals, contributions made to client review meetings, product development or product refinement initiatives. Portfolio managers have their performance metric aligned with the benchmarks of the client portfolios they manage.

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After consultation and oversight from the firm s compensation committee, the lead portfolio manager allocates the team s share of the shared revenue to the individual team members. Allocation to individual team members is determined based on individual performance and contribution to the team and client success. All team members have agreed upon performance objectives to serve as a basis for performance evaluation during the year. These objectives are both quantitative and qualitative in nature. Quantitative objectives typically align to investment performance and client-stated objectives. Qualitative objectives reflect contributions to broader team goals, such as idea sharing, contributions made to client review meetings, product development or product refinement initiatives, and the way behaviors reflect AllianzGI U.S. s core values of excellence, passion, integrity and respect. For all investment professionals, a 360-degree feedback evaluation forms part of the qualitative input. Achievement against these goals as measured by the lead portfolio manager and Chief Investment Officer serve to link performance to compensation. Notwithstanding the basis for determining variable compensation, all compensation principles, including the deferral rules and deferred instruments described below, apply.

As noted above, variable compensation includes a deferral component. The deferred component for most recipients would be a notional award of the Long Term Incentive Program (LTIP); for members of staff whose variable compensation exceeds an additional threshold, the deferred compensation is itself split 50%/50% between the LTIP and a Deferral into Funds program (DIF). Deferral rates increase in line with the overall variable compensation and can reach up to 42%. Overall awards, splits, components and deferral percentages are regularly reviewed to ensure they are competitive and, where applicable, comply with regulatory standards.

The LTIP element of the variable compensation cliff vests three years after each (typically annual) award. Its value is directly tied to the operating profit of AllianzGI U.S.

The DIF element of the variable compensation cliff vests three years after each (typically annual) award and enables qualifying members of staff to invest in a range of AllianzGI U.S. funds. Investment professionals are encouraged to invest into their own funds or funds of a similar nature to those that they manage. The value of the DIF award is determined by the performance of the fund over the three-year period covering each award.

Assuming an annual deferral of 33% over a three-year period, a typical member of staff will have roughly one year s variable compensation (3x33%) as a deferred component in the bank . Three years after the first award, and for as long as deferred components were awarded without break, cash payments in each year will consist of the annual cash bonus for that current year s performance, as well as a payout from LTIP/DIF commensurate with the prior cumulative three-year performance.

In addition to competitive compensation, the firm s approach to retention includes providing a challenging career path for each professional, a supportive culture to ensure each employee s progress and a full benefits package.

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Securities Ownership

The following table discloses the dollar range of equity securities beneficially owned by the portfolio manager of the Fund. The information is as of February 28, 2018.

Name of Portfolio Manager	Dollar Range of Equity Securities in the Fund
Douglas Forsyth	None
Justin Kass	None

Proxy Voting Policies

The policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities have been included as Appendix A. Summary descriptions of the proxy voting policies and procedures of AllianzGI U.S. are also included in Appendix A. Information about how the Fund voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30th will be made available without charge, upon request, by calling the Fund s shareholder servicing agent at (800) 254-5197, on the Fund s website at https://us.allianzgi.com/en-us/allianz-global-investors-proxy-policies-and-voting-records and on the SEC s website at http://www.sec.gov.

PORTFOLIO TRANSACTIONS

Investment Decisions and Portfolio Transactions

Investment decisions for the Fund and for the other investment advisory clients of the Investment Manager are made with a view to achieving their respective investment objectives. Investment decisions are the product of many factors in addition to basic suitability for the particular client involved (including the Fund). Some securities considered for investments by the Fund also may be appropriate for other clients served by the Investment Manager. Thus, a particular security may be bought or sold for certain clients even though it could have been bought or sold for other clients at the same time, including accounts in which the Investment Manager, its affiliates and its employees may have a financial interest. If a purchase or sale of securities consistent with the investment policies of the Fund and one or more of these clients served by the Investment Manager is considered at or about the same time, transactions in such securities will be allocated among the Fund and other clients pursuant to the Investment Manager s trade allocation policy, as applicable, that is designed to ensure that all accounts, including the Fund, are treated fairly, equitably, and in a non-preferential manner, such that allocations are not based upon fee structure or portfolio manager preference. The Investment Manager may acquire on behalf of its clients (including the Fund) securities or other financial instruments providing exposure to different aspects of the capital and debt structure of an issuer, including without limitation those that relate to senior and junior/subordinate obligations of such issuer. In certain circumstances, the interests of those clients exposed to one portion of the issuer s capital and debt structure may diverge from those clients exposed to a different portion of the issuer s capital and debt structure. The Investment Manager may advise some clients or take actions for them in their best interests with respect to their exposures to an issuer s capital and debt structure that may diverge from the interests of other clients with different exposures to the same issuer s capital and debt structure. These conflicts may be exacerbated when securities are involved in bankruptcy restructuring or similar processes. In such circumstances, decisions over whether to trigger an event of default, over the terms of any workout, or how to exit an investment may result in conflicts of interest. In order to minimize such conflicts, a portfolio manager may avoid certain investment opportunities that would potentially give rise to conflicts with other clients or the Investment Manager may enact internal procedures designed to minimize such conflicts, which could have the effect of limiting a Fund s investment opportunities.

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The Investment Manager may aggregate orders for the Fund with simultaneous transactions entered into on behalf of its other clients when, in its reasonable judgment, aggregation may result in an overall economic benefit to the Fund and the other clients in terms of pricing, brokerage commissions or other expenses. When feasible, the Investment Manager allocates trades prior to execution. When pre-execution allocation is not feasible, the Investment Manager promptly allocates trades following established and objective procedures. Allocations generally are made at or about the time of execution and before the end of the trading day. As a result, one account may receive a price for a particular transaction that is different from the price received by another account for a similar transaction on the same day. In general, trades are allocated among portfolio managers on a pro rata basis (to the extent a portfolio manager decides to participate fully in the trade), for further allocation by each portfolio manager among that manager s eligible accounts. In allocating trades among accounts, portfolio managers generally consider a number of factors, including, but not limited to, each account s deviation (in terms of risk exposure and/or performance characteristics) from a relevant model portfolio, each account s investment objectives, restrictions and guidelines, its risk exposure, its available cash, and its existing holdings of similar securities. Once trades are allocated, they may be reallocated only in unusual circumstances due to recognition of specific account restrictions. In some cases, the Investment Manager may sell a security on behalf of a client, including the Fund, to a broker-dealer that thereafter may be purchased for the accounts of one or more other clients, including the Fund, from that or another broker-dealer. The Investment Manager has adopted procedures it believes are reasonably designed to obtain the best execution for the transactions by each account.

Brokerage and Research Services

There is generally no stated commission in the case of fixed-income securities and other securities, which are traded on a principal basis in the OTC markets, but the price paid by the Fund usually includes an undisclosed dealer commission or mark-up. In underwritten offerings, the price paid by the Fund includes a disclosed, fixed commission or discount retained by the underwriter or dealer. Transactions on U.S. stock exchanges and other agency transactions involve the payment by the Fund of negotiated brokerage commissions. Such commissions vary among different brokers. Also, a particular broker may charge different commissions according to such factors as the difficulty and size of the transaction. Transactions in foreign securities generally involve the payment of fixed brokerage commissions, which are generally higher than those in the United States.

The Investment Manager places orders for the purchase and sale of portfolio securities, options, futures contracts, swap agreements and other instruments for the Fund and buys and sells such securities, options, futures, swap agreements and other instruments for the Fund through a substantial number of brokers and dealers. In so doing, the Investment Manager uses its best efforts to obtain for the Fund the most favorable price and execution available. In seeking the most favorable price and execution, the Investment Manager, having in mind the Fund s best interests, considers all factors it deems relevant, including, by way of illustration, price, the size

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of the transaction, the nature of the market for the security, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker-dealer involved and the quality of service rendered by the broker-dealer in that or other transactions.

The Fund paid brokerage commissions of $58,899 for the fiscal year ended February 28, 2018, $75,814 for the fiscal year ended February 28, 2017 and $205,838 for the fiscal year ended February 29, 2016.

The Investment Manager places orders for the purchase and sale of portfolio investments for the Fund s account with brokers or dealers selected by it in its discretion. In effecting purchases and sales of portfolio securities for the account of the Fund, the Investment Manager will seek the best execution of the Fund s orders. In doing so, the Fund may pay higher commission rates than the lowest available when the Investment Manager believes it is reasonable to do so in light of the value of the brokerage and research services provided by the broker effecting the transaction, as discussed below.

It has for many years been a common practice in the investment advisory business for advisers of investment companies and other institutional investors to receive research and brokerage products and services (together, services) from broker-dealers that execute portfolio transactions for the clients of such advisers. Consistent with this practice, the Investment Manager receives services from many broker-dealers with which the Investment Manager places the Fund s portfolio transactions. These services, which in some cases may also be purchased for cash, may include, among other things, such items as general economic and security market reviews, industry and company reviews, evaluations of securities, recommendations as to the purchase and sale of securities, and services related to the execution of securities transactions. The management fee paid by the Fund is not reduced because the Investment Manager receives such services even though the receipt of such services relieves the Investment Manager from expenses it might otherwise bear. Research and brokerage services provided by broker-dealers chosen by the Investment Manager to place the Fund s portfolio transactions may be useful to the Investment Manager in providing services to other clients, although not all of these services may be necessarily useful and of value to the Investment Manager in managing the Fund. Conversely, research and brokerage services provided to the Investment Manager by broker-dealers in connection with trades executed on behalf of other clients of the Investment Manager may be useful to the Investment Manager in managing the Fund, although not all of these services may be necessarily useful and of value to the Investment Manager in managing such other clients.

In reliance on the safe harbor provided by Section 28(e) of the Exchange Act and the SEC s interpretive guidance thereunder, the Investment Manager may cause the Fund to pay a broker-dealer that provides brokerage and research services (as defined for purposes of Section 28(e)) to the Investment Manager an amount of commission for effecting a securities transaction for the Fund in excess of the commission that another broker-dealer would have charged for effecting that transaction if the Investment Manager determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services provided by the broker-dealer viewed in terms of either a particular transaction or the Investment Manager s overall

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responsibilities to the advisory accounts for which the Investment Manager may exercise investment discretion. The Investment Manager may seek to operate in reliance on Section 28(e) and also comply with the requirements of MiFID II through the use of MiFID II-compliant research payment accounts (RPAs) which are controlled by the Investment Manager. Through an RPA, the Investment Manager makes payments to an executing broker-dealer out of client assets for research alongside payments to that executing broker-dealer for execution and the executing broker-dealer is legally obligated to pay for research by transmitting payments it receives for research into an RPA. The SEC staff recently agreed not to recommend enforcement against an adviser subject to MiFID II seeking to operate in reliance on Section 28(e) if it pays for research through the use of RPAs and provided that all other conditions of Section 28(e) are satisfied.

As noted above, the Investment Manager may purchase new issues of securities for the Fund in underwritten fixed price offerings. In these situations, the underwriter or selling group member may provide the Investment Manager with research in addition to selling the securities (at the fixed public offering price) to the Fund or other advisory clients. Because the offerings are conducted at a fixed price, the ability to obtain research from a broker-dealer in this situation provides knowledge that may benefit the Fund, the Investment Manager and other clients of the Investment Manager without incurring additional costs. These arrangements may not fall within the safe harbor of Section 28(e) because the broker-dealer is considered to be acting in a principal capacity in underwritten transactions. However, FINRA has adopted rules expressly permitting broker-dealers to provide bona fide research to advisers in connection with fixed price offerings under certain circumstances. As a general matter in these situations, the underwriter or selling group member will provide research credits at a rate that is higher than that which is available for secondary market transactions.

The Investment Manager may place orders for the purchase and sale of portfolio securities with a broker-dealer that is an affiliate of the Investment Manager where, in the judgment of the Investment Manager, such firm will be able to obtain a price and execution at least as favorable as other qualified broker-dealers. Pursuant to applicable sections under the 1940 Act, a broker-dealer that is an affiliate of the Investment Manager may receive and retain compensation for effecting portfolio transactions for the Fund if the commissions paid to such an affiliated broker-dealer by the Fund do not exceed applicable 1940 Act limitations.

SEC rules further require that commissions paid to such an affiliated broker dealer or the Investment Manager by the Fund on exchange transactions not exceed usual and customary brokerage commissions. The rules define usual and customary commissions to include amounts which are reasonable and fair compared to the commission, fee or other remuneration received or to be received by other brokers in connection with comparable transactions involving similar securities being purchased or sold on a securities exchange during a comparable period of time. As required by applicable SEC rules, the Board of Trustees has adopted procedures that are reasonably designed to provide that any commissions, fees or other remuneration paid to an affiliated broker are consistent with the foregoing standards.

Since the securities in which the Fund will invest consist primarily of fixed income securities, which are generally not subject to stated brokerage commissions, as described above, the Fund s anticipated investments in securities subject to stated commissions are expected to generally constitute a small percentage of the aggregate dollar amount of the Fund s transactions.

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The Fund did not pay any commissions to affiliated brokers during the fiscal years ended February 28, 2018, February 28, 2017 and February 29, 2016.

Holdings of Securities of the Fund s Regular Brokers and Dealers

The following table lists the regular brokers or dealers of the Fund whose securities the Fund acquired during the fiscal year ended February 28, 2018, as well as the Fund s Holdings in such brokers or dealers as of February 28, 2018.

Broker or Dealer	Value of Securities Held by the Fund as of February 28, 2018
State Street Bank & Trust Company	$ 18,273,000
Bank of America Corp.	$ 15,456,723

DISTRIBUTIONS

See Terms of the Cumulative Preferred Shares in the applicable prospectus supplement for information relating to distributions to Fund shareholders.

For U.S. federal income tax purposes, the Fund is currently required to allocate each type of its income (such as ordinary income and net capital gain), if any, between and among Common Shares and each series of Preferred Shares (including the Cumulative Preferred Shares) in proportion to total distributions paid to each class for the tax year.

While any Cumulative Preferred Shares are outstanding, the Fund may not declare any cash dividend or other distribution on its Common Shares unless at the time of such declaration (1) all accumulated dividends on the Cumulative Preferred Shares have been paid and (2) the net asset value of the Fund s portfolio (determined after deducting the amount of such dividend or other distribution) is at least 200% of the liquidation value of any outstanding Cumulative Preferred Shares. In addition to delaying or preventing the payment of dividends to holders of Common Shares, these limitations could cause the Fund to incur income and excise tax and, under certain circumstances, impair the ability of the Fund to maintain its qualification for taxation as a RIC. See Tax Matters.

ANTI-TAKEOVER AND OTHER PROVISIONS IN THE DECLARATION OF TRUST

Shareholder Liability

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration contains an express disclaimer of shareholder liability for acts or obligations of the Fund and requires that notice of such limited

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liability be given in each agreement, obligation or instrument entered into or executed by the Fund or the Trustees. The Declaration also provides for indemnification out of the Fund s assets and property for all loss and expense of any shareholder held personally liable on account of being or having been a shareholder. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability should be limited to circumstances in which such disclaimer is inoperative or the Fund is unable to meet its obligations, and thus should be considered remote.

Anti-Takeover Provisions

As described below, the Declaration includes provisions that could limit the ability of other entities or persons to acquire control of the Fund, convert the Fund to open-end status or to change the composition of its Board of Trustees, and could have the effect of depriving shareholders of opportunities to sell their shares at a premium over the then current prevailing market prices by discouraging a third party from seeking to obtain control of the Fund.

The Fund s Trustees are divided into three classes (Class I, Class II and Class III), having initial terms of one, two and three years, respectively. At each annual meeting of shareholders, the term of one class will expire and each Trustee elected to that class will hold office until the third annual meeting thereafter. The classification of the Board of Trustees in this manner could delay for an additional year the replacement of a majority of the Board of Trustees. In addition, the Declaration provides that a Trustee may be removed only for cause and only (i) by action of at least seventy-five percent (75%) of the outstanding shares of the classes or series of shares entitled to vote for the election of such Trustee, or (ii) by written instrument, signed by at least seventy-five percent (75%) of the remaining Trustees, specifying the date when such removal shall become effective. Cause for these purposes shall require willful misconduct, dishonesty or fraud on the part of the Trustee in the conduct of his office or such Trustee being convicted of a felony.

Except as provided in the next paragraph, the affirmative vote or consent of at least seventy-five percent (75%) of the Board of Trustees and at least seventy-five percent (75%) of the holders of shares of the Fund outstanding and entitled to vote thereon are required to authorize any of the following transactions (each a Material Transaction): (1) a merger, consolidation or share exchange of the Fund or any series or class of shares of the Fund with or into any other person or company, or of any such person or company with or into the Fund or any such series or class of shares; (2) the issuance or transfer by the Fund or any series or class of shares (in one or a series of transactions in any twelve-month period) of any securities of the Fund or such series or class to any other person or entity for cash, securities or other property (or combination thereof) having an aggregate fair market value of $1,000,000 or more, excluding sales of securities of the Fund or such series or class in connection with a public offering, issuances of securities of the Fund or such series or class pursuant to a dividend reinvestment plan adopted by the Fund and issuances of securities of the Fund or such series or class upon the exercise of any stock subscription rights distributed by the Fund; or (3) a sale, lease, exchange, mortgage, pledge, transfer or other disposition by the Fund or any series or class of shares (in one or a series of transactions in any twelve-month period) to or with any person of any assets of the Fund or such series or class having an aggregate fair market value of $1,000,000 or more, except for transactions in securities effected by the Fund or such series or class in the ordinary course of its

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business. The same affirmative votes are required with respect to any shareholder proposal as to specific investment decisions made or to be made with respect to the Fund s assets or the assets of any series or class of shares of the Fund. Notwithstanding the approval requirements specified in the preceding paragraph, the Declaration requires no vote or consent of the Fund s shareholders to authorize a Material Transaction if the transaction is approved by a vote of both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined below), so long as all other conditions and requirements, if any, provided for in the Fund s Bylaws and applicable law (including any shareholder voting rights under the 1940 Act) have been satisfied.

In addition, the Declaration provides that the Fund may be terminated at any time by vote or consent of at least seventy-five percent (75%) of the Fund s shares entitled to vote or, alternatively, by vote or consent of both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined below) upon written notice to shareholders of the Fund.

In certain circumstances, the Declaration also imposes shareholder voting requirements that are more demanding than those required under the 1940 Act in order to authorize a conversion of the Fund from a closed-end to an open-end investment company. See Repurchase of Common Shares; Conversion to Open-End Fund below.

As noted, the voting provisions described above could have the effect of depriving Common Shareholders of an opportunity to sell their Common Shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. In the view of the Fund s Board of Trustees, however, these provisions offer several possible advantages, including: (1) requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid for the amount of Common Shares required to obtain control; (2) promoting continuity and stability; and (3) enhancing the Fund s ability to pursue long-term strategies that are consistent with its investment objectives and management policies. The Board of Trustees has determined that the voting requirements described above, which are generally greater than the minimum requirements under the 1940 Act, are in the best interests of the Fund s Common Shareholders generally.

A Continuing Trustee, as used in the discussion above, is any member of the Fund s Board of Trustees who either (i) has been a member of the Board for a period of at least thirty-six months (or since the commencement of the Fund s operations, if less than thirty-six months) or (ii) was nominated to serve as a member of the Board of Trustees by a majority of the Continuing Trustees then members of the Board.

The foregoing is intended only as a summary and is qualified in its entirety by reference to the full text of the Declaration and the Fund s Bylaws, both of which have been filed as exhibits to the Fund s registration statement on file with the SEC.

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Liability of Trustees

The Declaration provides that the obligations of the Fund are not binding upon the Trustees of the Fund individually, but only upon the assets and property of the Fund, and that the Trustees shall not be liable for errors of judgment or mistakes of fact or law. Nothing in the Declaration, however, protects a Trustee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

REPURCHASE OF COMMON SHARES; CONVERSION TO OPEN-END FUND

The Fund is a closed-end investment company and as such its shareholders will not have the right to cause the Fund to redeem their shares. Instead, the Fund s Common Shares will trade in the open market at a price that will be a function of several factors, including dividend levels and stability (which will in turn be affected by dividend and interest payments by the Fund s portfolio holdings, regulations affecting the timing and character of Fund s distributions, Fund expenses and other factors), portfolio credit quality, liquidity, call protection, market supply and demand, and similar factors relating to the Fund s portfolio holdings. Shares of a closed-end investment company may frequently trade at prices lower than net asset value. The Fund s Board of Trustees will regularly monitor the relationship between the market price and net asset value of the Common Shares. If the Common Shares were to trade at a substantial discount to net asset value for an extended period of time, the Board may consider the repurchase of its Common Shares on the open market or in private transactions, the making of a tender offer for such shares or the conversion of the Fund to an open-end investment company. The Fund cannot assure you that the Board of Trustees will decide to take or propose any of these actions, or that share repurchases or tender offers will actually reduce any market discount. The Fund has no present intention to repurchase its Common Shares and would do so only in the circumstances described in this section.

Subject to its investment limitations, the Fund may borrow to finance the repurchase of shares or to make a tender offer. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Fund in anticipation of share repurchases or tenders will reduce the Fund s net income. Any share repurchase, tender offer or borrowing that might be approved by the Board of Trustees would have to comply with the Exchange Act, and the 1940 Act and the rules and regulations thereunder.

The Fund s Board of Trustees may also from time to time consider submitting to the holders of the shares of beneficial interest of the Fund a proposal to convert the Fund to an open-end investment company. In determining whether to exercise its sole discretion to submit this issue to shareholders, the Board of Trustees would consider all factors then relevant, including the relationship of the market price of the Common Shares to net asset value, the extent to which the Fund s capital structure is leveraged and the possibility of re-leveraging, the spread, if any, between the yields on the securities in the Fund s portfolio and the Fund s cost of leverage and general market and economic conditions.

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The Declaration requires the affirmative vote or consent of holders of at least seventy-five percent (75%) of each class of the Fund s shares entitled to vote on the matter to authorize a conversion of the Fund from a closed-end investment company to an open-end investment company, unless the conversion is authorized by both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined above under Anti-Takeover and Other Provisions in the Declaration of Trust Anti-Takeover Provisions). This seventy-five percent (75%) shareholder approval requirement is higher than is required under the 1940 Act. In the event that a conversion is approved by the Trustees and the Continuing Trustees as described above, the minimum shareholder vote required under the 1940 Act would be necessary to authorize the conversion. Currently, the 1940 Act would require approval of the holders of a majority of the outstanding Common Shares and, if issued, Preferred Shares voting together as a single class, and the holders of a majority of the outstanding Preferred Shares, if issued, voting as a separate class, in order to authorize a conversion.

If the Fund were to convert to an open-end company, it would have to redeem any outstanding Preferred Shares and the Common Shares likely would no longer be listed on the NYSE. In contrast to a closed-end investment company, shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their NAV per share, less any redemption charge that is in effect at the time of redemption.

The repurchase by the Fund of its shares at prices below net asset value will result in an increase in the net asset value of those shares that remain outstanding. However, there can be no assurance that share repurchases or tenders at or below net asset value will result in the Fund s shares trading at a price equal to their net asset value. Nevertheless, the fact that the Fund s shares may be the subject of repurchase or tender offers at net asset value from time to time, or that the Fund may be converted to an open-end company, may reduce any spread between market price and net asset value that might otherwise exist.

In addition, a purchase by the Fund of its Common Shares will decrease the Fund s total assets. This would likely have the effect of increasing the Fund s expense ratio. Any purchase by the Fund of its Common Shares at a time when reverse repurchase agreements, borrowings, or Preferred Shares or other forms of leverage are outstanding will increase the leverage applicable to the outstanding Common Shares then remaining. See the Prospectus under Principal Risks of the Fund Leverage Risk.

Before deciding whether to take any action if the Fund s Common Shares trade below net asset value, the Board of Trustees would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund s portfolio, the effect of any action that might be taken on the Fund or its shareholders and market considerations. Based on these considerations, even if the Fund s Common Shares should trade at a discount, the Board of Trustees may determine that, in the interest of the Fund and its shareholders, no action should be taken.

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TAX MATTERS

The following discussion of U.S. federal income tax consequences of an investment in Cumulative Preferred Shares of the Fund is based on the Code, U.S. Treasury regulations promulgated thereunder, and other applicable authority, as of the date of this Statement of Additional Information. These authorities are subject to change by legislative, administrative or judicial action, possibly with retroactive effect. The following discussion is only a summary of some of the important U.S. federal tax considerations generally applicable to investments in the Fund. This summary does not purport to be a complete description of the U.S. federal income tax considerations applicable to an investment in the Fund. There may be other tax considerations applicable to particular shareholders. For example, except as otherwise specifically noted herein, we have not described certain tax considerations that may be relevant to certain types of holders subject to special treatment under the U.S. federal income tax laws, including shareholders subject to the U.S. federal alternative minimum tax, insurance companies, tax-exempt organizations, pension plans and trusts, regulated investment companies, dealers in securities, shareholders holding Cumulative Preferred Shares through tax-advantaged accounts (such as 401(k) plans or individual retirement accounts), financial institutions, shareholders holding Cumulative Preferred Shares as part of a hedge, straddle, or conversion transaction, entities that are not organized under the laws of the United States or a political subdivision thereof, and persons who are neither citizens nor residents of the United States. This summary assumes that investors hold Cumulative Preferred Shares as capital assets (within the meaning of the Code). Shareholders should consult their own tax advisors regarding their particular situation and the possible application of U.S. federal, state, local, foreign or other tax laws.

Taxation of the Fund

The Fund has elected to be treated as a RIC under Subchapter M of the Code and intends each year to qualify and be eligible to be treated as such. In order to qualify for the special tax treatment accorded RICs and their shareholders, the Fund must, among other things: (i) derive at least 90% of its gross income in each taxable year from dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including, but not limited to, gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies and net income derived from interests in qualified publicly traded partnerships (as defined below); (ii) diversify its holdings so that at the close of each quarter of the Fund s taxable year, (a) at least 50% of the value of its total assets consists of cash and cash items (including receivables), U.S. Government securities, securities of other RICs, and other securities limited, with respect to any one issuer, to no more than 5% of the value of the Fund s total assets and not more than 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of the Fund s total assets is invested, including through corporations in which the Fund owns a 20% or more voting stock interest, in the securities (other than those of the U.S. Government or other RICs) of any one issuer or of two or more issuers that the Fund controls and that are engaged in the same, similar or related trades or businesses, or in the securities of one or more qualified publicly traded partnerships; and (iii) distribute with respect to each taxable year at least 90% of the sum of its investment company taxable income (as that term is defined in the Code, without regard to the deduction for dividends paid generally, taxable ordinary income and the excess, if any, of net short-term capital gains over net long-term capital losses) and net tax-exempt income for such year.

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In general, for purposes of the 90% gross income requirement described in (i) above, income derived from a partnership will be treated as qualifying income only to the extent such income is attributable to items of income of the partnership that would be qualifying income if realized directly by the RIC. However, 100% of the net income derived from an interest in a qualified publicly traded partnership (a partnership (a) the interests in which are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof and (b) that derives less than 90% of its income from the qualifying income described in (i) above) will be treated as qualifying income. In general, qualified publicly traded partnerships will be treated as partnerships for U.S. federal income tax purposes because they meet the passive income requirement under Code Section 7704(c)(2). In addition, although in general the passive loss rules of the Code do not apply to RICs, such rules do apply to a RIC with respect to items attributable to an interest in a qualified publicly traded partnership.

For purposes of the diversification test described in (ii) above, the term outstanding voting securities of such issuer will include the equity securities of a qualified publicly traded partnership. Also, for purposes of the diversification test in (ii) above, the identification of the issuer (or, in some cases, issuers) of a particular Fund investment can depend on the terms and conditions of that investment. In some cases, identification of the issuer (or issuers) is uncertain under current law, and an adverse determination or future guidance by the IRS with respect to issuer identification for a particular type of investment may adversely affect the Fund s ability to meet the diversification test in (ii) above.

If the Fund qualifies for treatment as a RIC, the Fund will not be subject to U.S. federal income tax on income distributed to its shareholders in a timely manner in the form of dividends (including Capital Gain Dividends, as defined below). The Fund s intention to qualify for treatment as a RIC may negatively affect the Fund s return to its shareholders by limiting its ability to acquire or continue to hold positions that would otherwise be consistent with its investment strategy or by requiring it to engage in transactions it would otherwise not engage in, resulting in additional transaction costs. If the Fund were to fail to meet the income, diversification, or distribution test described above, the Fund could in some cases cure such failure, including by paying a Fund-level tax, paying interest, making additional distributions, or disposing of certain assets. If the Fund were ineligible to or otherwise did not cure such failure for any year, or if the Fund were otherwise to fail to qualify as a RIC accorded special tax treatment for such year, the Fund would be subject to tax on its taxable income at corporate rates, and all distributions from earnings and profits, including any distributions of net tax-exempt income and net long-term capital gains, would be taxable to shareholders as ordinary income. Some portions of such distributions may be eligible for the dividends-received deduction in the case of corporate shareholders and may be eligible to be treated as qualified dividend income in the case of shareholders taxed as individuals, provided, in both cases, that the shareholder meets certain holding period and other requirements in respect of the Fund s shares (as described below). In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before re-qualifying as a RIC that is accorded special tax treatment.

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The Fund intends to distribute all or substantially all of its investment company taxable income (computed without regard to the dividends-paid deduction), its net tax-exempt income (if any) and its net capital gain (that is, the excess of net long-term capital gain over net short-term capital loss, in each case determined with reference to any loss carryforwards) in each taxable year. Any taxable income including any net capital gain retained by the Fund will be subject to tax at the Fund level at regular corporate rates. In the case of net capital gain, the Fund is permitted to designate the retained amount as undistributed capital gain in a timely notice to its shareholders who would then, in turn, (i) be required to include in income for U.S. federal income tax purposes, as long-term capital gain, their shares of such undistributed amount, and (ii) be entitled to credit their proportionate shares of the tax paid by the Fund on such undistributed amount against their U.S. federal income tax liabilities, if any, and to claim refunds on a properly filed U.S. tax return to the extent the credit exceeds such liabilities. If the Fund makes this designation, for U.S. federal income tax purposes, the tax basis of shares owned by a shareholder of the Fund would be increased by an amount equal to the difference between the amount of undistributed capital gains included in the shareholder s gross income under clause (i) of the preceding sentence and the tax deemed paid by the shareholder under clause (ii) of the preceding sentence. The Fund is not required to, and there can be no assurance that the Fund will, make this designation if it retains all or a portion of its net capital gain in a taxable year.

As described under Distributions above, if at any time when Preferred Shares are outstanding the Fund does not meet applicable asset coverage requirements, it will be required to suspend distributions to Common Shareholders until the requisite asset coverage is restored. Any such suspension may cause the Fund to pay a U.S. federal income and excise tax on undistributed income or gains and may, in certain circumstances, prevent the Fund from qualifying for treatment as a RIC. The Fund may repurchase or otherwise retire Preferred Shares in an effort to comply with the distribution requirement applicable to RICs.

In determining its net capital gain, including in connection with determining the amount available to support a Capital Gain Dividend (as defined below), its taxable income and its earnings and profits, a RIC generally may elect to treat part or all of any post-October capital loss (defined as any net capital loss attributable to the portion of the taxable year after October 31) or late-year ordinary loss (generally, the sum of (i) net ordinary loss, if any, from the sale, exchange or other taxable disposition of property, attributable to the portion, if any, of the taxable year after October 31, plus (ii) other net ordinary loss, if any, attributable to the portion, if any, of the taxable year after December 31) as if incurred in the succeeding taxable year.

A nondeductible excise tax at the rate of 4% will be imposed on the excess, if any, of the Fund s required distribution over its actual distributions in any calendar year. Generally, the required distribution is 98% of the Fund s ordinary income for the calendar year plus 98.2% of its capital gain net income recognized during the one-year period ending on October 31 (or a later date if the Fund is permitted to elect and so elects), plus undistributed amounts from prior years. For purposes of the required excise tax distribution, a RIC s ordinary gains and losses from the sale, exchange, or other taxable disposition of property that would otherwise be taken into account after October 31 (or such later date, if the Fund makes the election referred to immediately above) generally are treated as arising on January 1 of the following calendar year. Also, for purposes of the excise tax, the Fund will be treated as having distributed any amount on which it

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is subject to corporate income tax for the taxable year ending within the calendar year. The Fund intends to make distributions sufficient to avoid imposition of the excise tax, although there can be no assurance that it will be able to do so. The Fund may determine to pay the excise tax in a year to the extent it is deemed to be in the best interest of the Fund (e.g., if the excise tax is *de minimis*).

Capital losses in excess of capital gains (net capital losses) are not permitted to be deducted against the Fund s net investment income. Instead, potentially subject to certain limitations, the Fund may carry net capital losses from any taxable year forward to subsequent taxable years to offset capital gains, if any, realized during such subsequent taxable years. Capital loss carryforwards are reduced to the extent they offset current-year net realized capital gains, whether the Fund retains or distributes such gains. If the Fund incurs or has incurred net capital losses in taxable years beginning after December 22, 2010 (post-2010 losses), those losses will be carried forward to one or more subsequent taxable years without expiration to offset capital gains realized during such subsequent taxable years; any such carryforward losses will retain their character as short-term or long-term. If the Fund incurred net capital losses in a taxable year beginning on or before December 22, 2010 (pre-2011 losses), the Fund is permitted to carry such losses forward for eight taxable years; in the year to which they are carried forward, such losses are treated as short-term capital losses that first offset any short-term capital gains, and then offset any long-term capital gains. The Fund must use any post-2010 losses, which will not expire, before it uses any pre-2011 losses. This increases the likelihood that pre-2011 losses will expire unused at the conclusion of the eight-year carryforward period. The Fund s available capital loss carryforwards, if any, will be set forth in its annual shareholder report for each fiscal year.

Distributions

The Fund intends to make monthly distributions. For U.S. federal income tax purposes, distributions of net investment income are generally taxable to shareholders as ordinary income. Taxes on distributions of capital gains are determined by how long the Fund owned (or is deemed to have owned) the investments that generated the gains, rather than how long a shareholder has owned his or her shares. In general, the Fund will recognize long-term capital gain or loss on investments it has owned (or is deemed to have owned) for more than one year, and short-term capital gain or loss on investments it has owned (or is deemed to have owned) for one year or less. Tax rules can alter the Fund s holding period in investments and thereby affect the tax treatment of gain or loss on such investments. Distributions of net capital gain that are properly reported by the Fund as capital gain dividends (Capital Gain Dividends) will be taxable to shareholders as long-term capital gains includible in net capital gain and taxed to individuals at reduced rates. Distributions of net short-term capital gain (as reduced by any net long-term capital loss for the taxable year) will be taxable to shareholders as ordinary income.

The Fund may report certain dividends as derived from qualified dividend income which will be taxed in the hands of individuals at the rates applicable to net capital gain, provided holding period and other requirements are met at both the shareholder and Fund levels. Interest income, short-term capital gain and, generally, REIT distributions, are not qualified dividend income.

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Dividends received by corporate shareholders may qualify for the dividends-received deduction to the extent of the amount of qualifying dividends received by the Fund from domestic corporations and to the extent, if any, that a portion of interest paid or accrued on certain high yield discount obligations owned by the Fund is treated as a dividend, providing holding period and other requirements are met at both the shareholder and Fund levels.

Any distribution of income that is attributable to (i) income received by the Fund in lieu of dividends with respect to securities on loan pursuant to a securities lending transaction or (ii) dividend income received by the Fund on securities it temporarily purchased from a counterparty pursuant to a repurchase agreement that is treated for U.S. federal income tax purposes as a loan by the Fund, will not constitute qualified dividend income to non-corporate shareholders and will not be eligible for the dividends-received deduction for corporate shareholders.

Subject to any future regulatory guidance to the contrary, any distribution of income attributable to dividends from the Fund s investment in a REIT will ostensibly not qualify for the 20% pass through deduction that would generally be available to a non-corporate shareholder were the shareholder to own such REIT directly.

The IRS currently requires a RIC that the IRS recognizes as having two or more classes of stock for U.S. federal income tax purposes to allocate to each such class proportionate amounts of each type of the RIC s income (such as ordinary income and capital gains) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the Fund intends each tax year to allocate Capital Gain Dividends between and among its Common Shares and each series of its Preferred Shares, including the Cumulative Preferred Shares, in proportion to the total dividends paid to each class with respect to such tax year. Dividends qualifying and not qualifying for the dividends received deduction or as qualified dividend income will similarly be allocated between and among Common Shares and each series of Preferred Shares.

If, in and with respect to any taxable year, the Fund makes a distribution in excess of its current and accumulated earnings and profits, the excess distribution will be treated as a return of capital to the extent of a shareholder s tax basis in his or her shares, and thereafter as capital gain. A return of capital is not taxable, but it reduces a shareholder s basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by the shareholder of such shares. Where one or more such distributions occur in and with respect to any taxable year of the Fund, the available earnings and profits will be allocated first to the distributions made to the holders of Preferred Shares, including the Cumulative Preferred Shares, and only thereafter to distributions made to holders of Common Shares. As a result, the holders of Preferred Shares will receive a disproportionate share of the distributions treated as dividends, and the holders of the Common Shares will receive a disproportionate share of the distributions treated as a return of capital.

A distribution by the Fund will be treated as paid on December 31 of any calendar year if it is declared by the Fund in October, November or December with a record date in such a month and paid by the Fund during January of the following calendar year. Such distributions will be taxable to shareholders in the calendar year in which the distributions are declared, rather than the calendar year in which the distributions are received.

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As required by federal law, detailed federal tax information with respect to each calendar year will be furnished to shareholders early in the succeeding year.

Dividends and distributions on the Fund s shares are generally subject to U.S. federal income tax as described herein to the extent they do not exceed the Fund s realized income and gains, even though such dividends and distributions may economically represent a return of a particular shareholder s investment. Such distributions are likely to occur in respect of shares purchased at a time when the Fund s net asset value reflects unrealized gains or income or gains that are realized but not yet distributed. Such realized income and gains may be required to be distributed even when the Fund s net asset value also reflects unrealized losses.

Sales or Exchanges of Cumulative Preferred Shares

The sale or exchange of shares of the Fund by a shareholder may give rise to a gain or loss. In general, any gain or loss realized upon a taxable disposition of shares will be treated as long-term capital gain or loss if the shares have been held for more than 12 months. Otherwise, the gain or loss on the taxable disposition of shares will be treated as short-term capital gain or loss. However, any loss realized upon a taxable disposition of shares held for six months or less will be treated as long-term, rather than short-term, to the extent of any Capital Gain Dividends received (or deemed received) by the shareholder with respect to those shares. All or a portion of any loss realized upon a taxable disposition of shares will be disallowed under the Code s wash sale rule if other substantially identical shares of the Fund are purchased (whether through the automatic reinvestment of dividends or otherwise) within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

In certain circumstances, the Fund may redeem Cumulative Preferred Shares. Shareholders who redeem all Cumulative Preferred Shares held, or considered to be held, by them and do not hold (directly or by attribution) any other Fund shares will be treated as having sold their shares (pursuant to Section 302(b) of the Code) and generally will realize a capital gain or loss. If a shareholder redeems fewer than all its Cumulative Preferred Shares or continues to hold (directly or by attribution) other Fund shares, in certain circumstances such shareholder may be treated as having received a distribution under Section 301 of the Code (Section 301 distribution) unless the redemption is treated under Section 302(b) of the Code as being either (i) substantially disproportionate with respect to such shareholder or (ii) otherwise not essentially equivalent to a dividend under the relevant rules of the Code (each of (i) or (ii) being a redemption subject to Section 302(b) of the Code). A section 301 distribution is not treated as a sale or exchange giving rise to capital gain or loss, but rather is treated as a dividend to the extent supported by the Fund s current and accumulated earnings and profits, with the excess treated as a return of capital reducing the shareholder s tax basis in its Fund shares, and thereafter as capital gain. Where a redeeming shareholder is treated as receiving a dividend, there is a risk that non-redeeming shareholders whose interests in the Fund increase as a result of such redemption will be treated as having received a taxable distribution from the Fund. The extent of such risk will vary depending upon the particular circumstances of the redemption, in particular whether such redemption is a single and isolated event or is part of a plan for periodically redeeming shares of the Fund; if isolated, any such risk is likely remote.

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The Fund s repurchase of its shares on the open market similarly results in a percentage increase in the interests of remaining shareholders. In such a case, a selling shareholder would likely have no specific knowledge that he or she is selling his or her shares to the Fund. It is therefore less likely that shareholders whose percentage share interests in the Fund increase as a result of any such open-market sale will be treated as having received a taxable distribution from the Fund.

Medicare Tax

The Code generally imposes a 3.8% Medicare contribution tax on the net investment income of certain individuals whose income exceeds certain threshold amounts, and of certain trusts and estates under similar rules. For these purposes, net investment income generally includes, among other things, (i) distributions paid by the Fund of net investment income and capital gains as described above, and (ii) any net gain from the sale, exchange or redemption of Fund shares. Cumulative Preferred Shareholders are advised to consult their tax advisors regarding the possible implications of this additional tax on their investment in the Fund.

Original Issue Discount, Market Discount, Payment-in-Kind Securities and Preferred Securities

Some debt obligations with a fixed maturity date of more than one year from the date of issuance (including zero-coupon bonds) will be treated as debt obligations that are issued originally at a discount. Generally, the amount of the original issue discount (OID) is treated as interest income and is included in the Fund s income (and thus is required to be distributed) over the term of the debt security, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt obligation.

Some debt obligations with a fixed maturity date of more than one year from the date of issuance that are acquired by the Fund in the secondary market may be treated as having market discount. Very generally, market discount is the excess of the stated redemption price of a debt obligation (or, in the case of an obligation issued with OID, its revised issue price) over the purchase price of such obligation. Subject to the discussion below regarding Section 451 of the Code, (i) generally, any gain recognized on the disposition of, and any partial payment of principal on, a debt obligation having market discount is treated as ordinary income to the extent the gain, or principal payment, does not exceed the accrued market discount on such debt obligation, (ii) alternatively, the Fund may elect to accrue market discount currently, in which case, the Fund will be required to include the accrued market discount in the Fund s income (as ordinary income) and thus distribute it over the term of the debt obligations, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt obligations, and (iii) the rate at which the market discount accrues, and thus is included in the Fund s income, will depend upon which of the permitted accrual methods the Fund elects. Notwithstanding the foregoing, effective for taxable years beginning after 2017, Section 451 of the Code generally requires any accrual method taxpayer to take into account items of gross income no later than the time at which such items are taken into account as

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revenue in the taxpayer s financial statements. The application of Section 451 to the accrual of market discount is currently unclear. If Section 451 applies to the accrual of market discount, the Fund must include in income any market discount as it takes the same into account on its financial statements. In the case of higher-risk securities, the amount of market discount may be unclear. See Higher Risk Securities.

From time to time, a substantial portion of the Fund s investments in debt obligations could be treated as having OID and/or market discount, which, in some cases could be significant.

Some debt obligations with a fixed maturity date of one year or less from the date of issuance may be treated as having OID or, in certain cases, acquisition discount (very generally, the excess of the stated redemption price over the purchase price). The Fund will be required to include the OID or acquisition discount in income (as ordinary income) and thus distribute it over the term of the debt obligation, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt obligation. The rate at which OID or acquisition discount accrues, and thus is included in the Fund s income, will depend upon which of the permitted accrual methods the Fund elects.

Some preferred securities may include provisions that permit the issuer, at its discretion, to defer the payment of distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring the payment of its distributions, the Fund may be required to report income for U.S. federal income tax purposes to the extent of any such deferred distributions even though the Fund has not yet actually received the cash distribution.

In addition, payment-in-kind securities will give rise to income which is required to be distributed even though the Fund receives no interest payment in cash on the security during the year.

By reason of holding the foregoing kinds of securities, the Fund may be required to pay out as an income distribution each year an amount which is greater than the total amount of cash interest the Fund actually received. Such distributions may be made from the cash assets of the Fund or by liquidation of portfolio securities, if necessary (including when it is not advantageous to do so). The Fund may realize gains or losses from such liquidations. In the event the Fund realizes net capital gains from such transactions, its shareholders may receive a larger capital gain distribution, if any, than they would in the absence of such transactions.

Securities Purchased at a Premium

Very generally, where the Fund purchases a bond at a price that exceeds the redemption price at maturity that is, at a premium the premium is amortizable over the remaining term of the bond. In the case of a taxable bond, if the Fund makes an election applicable to all such bonds it purchases, which election is irrevocable without consent of the IRS, the Fund reduces the current taxable income from the bond by the amortized premium and reduces its tax basis in the bond by the amount of such offset; upon the disposition or maturity of such bonds acquired on or after January 4, 2013, the Fund is permitted to deduct any remaining premium allocable to a prior period. In the case of a tax-exempt bond, tax rules require the Fund to reduce its tax basis by the amount of amortized premium.

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Higher-Risk Securities

Investments in debt obligations that are at risk of or in default present special tax issues for the Fund. Tax rules are not entirely clear about issues such as whether or to what extent the Fund should recognize market discount on a debt obligation, when the Fund may cease to accrue interest, OID or market discount, when and to what extent the Fund may take deductions for bad debts or worthless securities and how the Fund should allocate payments received on obligations in default between principal and income. These and other related issues will be addressed by the Fund when, as and if it invests in such securities, in order to seek to ensure that it distributes sufficient income to preserve its status as a RIC and does not become subject to federal income or excise tax.

High Yield Discount Obligations

A portion of the interest paid or accrued on certain high yield discount obligations owned by the Fund may not, and interest paid on debt obligations, if any, that are considered for tax purposes to be payable in the equity of the issuer or a related party will not be deductible to the issuer. This may affect the cash flow of the issuer. If a portion of the interest paid or accrued on certain high yield discount obligations is not deductible, that portion will be treated as a dividend paid by the issuer for purposes of the corporate dividends received deduction. In such cases, if the issuer of the high yield discount obligations is a domestic corporation, dividend payments by the Fund may be eligible for the dividends-received deduction to the extent attributable to the deemed dividend portion of such accrued interest.

Municipal Bonds

The interest on municipal bonds is generally exempt from U.S. federal income tax. The Fund does not expect to invest 50% or more of its assets in municipal bonds on which the interest is exempt from U.S. federal income tax, or in interests in other RICs. As a result, it does not expect to be eligible to pay exempt-interest dividends to its shareholders under the applicable tax rules. As a result, interest on municipal bonds is taxable to shareholders of the Fund when received as a distribution from the Fund. In addition, gains realized by the Fund on the sale or exchange of municipal bonds are taxable to shareholders of the Fund when distributed to them.

As discussed in Investment Objective and Policies, unlike most municipal bonds, interest paid by an issuer on a Build America Bond is taxable to the bondholder. Thus, the interest the Fund receives on such bonds will be included in the Fund s taxable income and taxable to shareholders as ordinary income when distributed by the Fund.

If the Fund holds, directly or indirectly, one or more tax credit Build America Bonds (which will have been issued prior to December 31, 2010) on one or more applicable dates during a taxable year, it is possible that the Fund will elect to permit its shareholders to claim a tax credit on their income tax returns equal to each shareholder s proportionate share of tax credits from the

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applicable bonds that otherwise would be allowed to the Fund. In such a case, a shareholder will be deemed to receive a distribution of money with respect to its Fund shares equal to the shareholder s proportionate share of the amount of such credits and be allowed a credit against the shareholder s U.S. federal income tax liability equal to the amount of such deemed distribution, subject to certain limitations imposed by the Code on the credits involved. Even if the Fund is eligible to pass through tax credits to shareholders, the Fund may choose not to do so.

Certain Investments in REITs and Mortgage-Related Securities

Any investment by the Fund in equity securities of REITs may result in the Fund s receipt of cash in excess of the REIT s earnings; if the Fund distributes these amounts, these distributions could constitute a return of capital to Fund shareholders for U.S. federal income tax purposes. Dividends received by the Fund from a REIT generally will not constitute qualified dividend income.

The Fund may invest directly or indirectly in real estate mortgage investment conduits (REMICs) (including by investing in residual interests in CMOs with respect to which an election to be treated as a REMIC is in effect) or equity interests in taxable mortgage pools (TMPs). Under a notice issued by the IRS in October 2006 and Treasury Regulations that have yet to be issued but may apply retroactively, a portion of the Fund s income (including income allocated to the Fund from a REIT or other pass-through entity) that is attributable to a residual interest in a REMIC or an equity interest in a TMP referred to in the Code as an excess inclusion will be subject to U.S. federal income tax in all events. This notice also provides, and the regulations are expected to provide, that excess inclusion income of a RIC, such as the Fund, will generally be allocated to shareholders of the RIC in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related interest directly. As a result, the Fund may not be a suitable investment for charitable remainder trusts, as noted below.

In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) in the case of a non-U.S. shareholder, will not qualify for any reduction in U.S. federal withholding tax (discussed below), and (iii) will constitute unrelated business taxable income (UBTI) to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on unrelated business income, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a U.S. federal income tax return, to file such a tax return and pay tax on such income. A shareholder will be subject to U.S. federal income tax on such inclusions notwithstanding any exemption from such income tax otherwise available under the Code.

Income of a RIC that would be UBTI if earned directly by a tax-exempt entity will not generally be attributed as UBTI to a tax-exempt shareholder of the RIC. Notwithstanding this blocking effect, a tax-exempt shareholder could realize UBTI by virtue of its investment in the Fund if shares in the Fund constitute debt-financed property in the hands of the tax-exempt shareholder within the meaning of Code Section 514(b). A tax-exempt shareholder may also recognize UBTI if the Fund recognizes excess inclusion income derived from direct or indirect

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investments in residual interests in REMICs or equity interests in TMPs as described above, if the amount of such income recognized by the Fund exceeds the Fund s investment company taxable income (after taking into account deductions for dividends paid by the Fund).

In addition, special tax consequences apply to charitable remainder trusts (CRTs) that invest directly or indirectly in residual interests in REMICs or equity interests in TMPs. Under legislation enacted in December 2006, if a charitable remainder trust (CRT), as defined in Section 664 of the Code, realizes any UBTI for a taxable year, a 100% excise tax is imposed on such UBTI. Under IRS guidance issued in October 2006, a CRT will not recognize UBTI solely as a result of investing in a RIC that recognizes excess inclusion income. Rather, if at any time during any taxable year a CRT (or one of certain other tax-exempt shareholders, such as the United States, a state or political subdivision, or an agency or instrumentality thereof, and certain energy cooperatives) is a record holder of a share in a RIC that recognizes excess inclusion income, then the RIC will be subject to a tax on that portion of its excess inclusion income for the taxable year that is allocable to such shareholders at the highest federal corporate income tax rate. The extent to which this IRS guidance remains applicable in light of the December 2006 legislation is unclear. To the extent permitted under the 1940 Act, the Fund may elect to specially allocate any such tax to the applicable CRT, or other shareholder, and thus reduce such shareholder s distributions for the year by the amount of the tax that relates to such shareholder s interest in the Fund. CRTs and other tax-exempt shareholders are urged to consult their tax advisors concerning the consequences of investing in the Fund.

Options, Futures, and Forward Contracts, Swap Agreements, and other Derivatives

The U.S. federal income tax treatment of the Fund s options activity will vary based on the nature and the subject of the options. In general, option premiums from the Fund s option writing activity are not immediately included in the income of the Fund when received. Instead, in the case of certain options (including options on single stocks, options on certain narrow-based indexes and options not listed on certain exchanges) the premiums are recognized when the option contract expires, the option is exercised by the holder, or the Fund transfers or otherwise terminates the option. If a call option written by the Fund with respect to individual stocks is exercised and the Fund sells or delivers the underlying stock, the Fund generally will recognize capital gain or loss equal to (a) the sum of the strike price and the option premium received by the Fund minus (b) the Fund s adjusted tax basis in the stock. Such gain or loss generally will be short-term or long-term depending upon the holding period of the underlying stock. If securities are purchased by the Fund pursuant to the exercise of a put option written by it, the Fund will generally subtract the premium received for purposes of computing its cost basis in the stock purchased. Gain or loss arising in respect of a termination of the Fund s obligation under an option other than through the exercise of the option and related sale or delivery of the underlying stock will be short-term capital gain or loss depending on whether the premium income received by the Fund is greater or less than the amount paid by the Fund (if any) in terminating the transaction. Thus, for example, if an option written by the Fund expires unexercised, the Fund generally will recognize short-term capital gain equal to the premium received.

The tax treatment of certain options that are listed on a qualified board of exchange (listed options) written or purchased by the Fund (including options on futures contracts, broad-based

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equity indices and debt securities), as well as certain futures contracts, will be governed by Section 1256 of the Code (Section 1256 contracts). Gains or losses on Section 1256 contracts generally are considered 60% long-term and 40% short-term capital gains or losses (60/40), although certain foreign currency gains and losses from such contracts may be treated as ordinary in character. Also, Section 1256 contracts held by the Fund at the end of each taxable year (and, for purposes of the nondeductible 4% excise tax, on certain other dates as prescribed under the Code) are marked to market with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as ordinary or 60/40 gain or loss, as applicable. Certain options and futures listed on non-U.S. exchanges will meet the requirements for Section 1256 treatment.

Certain covered call-writing activities of the Fund, if any, may trigger the U.S. federal income tax straddle rules of Section 1092 of the Code, requiring that losses be deferred and holding periods be tolled on offsetting positions in options and stocks deemed to constitute substantially similar or related property. Options on single stocks that are not deep in the money may constitute qualified covered calls, which generally are not subject to the straddle rules; the holding period on stock underlying qualified covered calls that are in the money although not deep in the money will be suspended while such calls are outstanding. Thus, the straddle rules and the rules governing qualified covered calls could cause gains that would otherwise constitute long-term capital gains to be treated as short-term capital gains, and distributions that would otherwise constitute qualified dividend income to fail to satisfy the holding period requirements and therefore to be taxed as ordinary income or to fail to qualify for the dividends received deduction for corporations.

In addition to the foregoing special rules in respect of futures and options transactions, the Fund s transactions in other derivatives contracts (*e.g.*, swap agreements and forward contracts), as well as any of its hedging, short sale, securities loan or similar transactions may be subject to one or more special tax rules (*e.g.*, notional principal contract, mark-to-market, constructive sale, straddle, wash sale and short sale rules), the effect of which may be, among other things, to accelerate the recognition of income to the Fund, to defer losses to the Fund, to cause adjustments in the holding periods of the Fund s securities, to convert lower taxed long-term capital gains or qualified dividend income into higher taxed short-term capital gains or ordinary income and to convert short-term capital losses into long-term capital losses. These rules, therefore, could affect the amount, timing and/or character of distributions to shareholders.

Because these and other tax rules applicable to these types of transactions are in some cases uncertain under current law, an adverse determination or future guidance by the IRS with respect to these rules (which determination or guidance could be retroactive) may affect whether the Fund has made sufficient distributions, and otherwise satisfied the relevant requirements, to maintain its qualification as a RIC and avoid a Fund-level tax.

Book-Tax Differences

Certain of the Fund s investments in derivative instruments and hedging activities, are likely to produce a difference between its book income and the sum of its taxable income and net tax-exempt income (if any). If such a difference arises and the Fund s book income is less than the

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sum of its taxable income (including realized capital gains) and net tax-exempt income (if any), the Fund could be required to make distributions exceeding book income to qualify as a RIC that is accorded special tax treatment. If the Fund s book income exceeds the sum of its taxable income (including realized capital gains) and net tax-exempt income (if any), the distribution (if any) of such excess will be treated as (i) a dividend to the extent of the Fund s remaining current or accumulated earnings and profits, (ii) thereafter, as a return of capital to the extent of the recipient s adjusted tax basis in the shares and (iii) thereafter, as gain from the sale or exchange of a capital asset. As described above, available earnings and profits will be allocated first to the distributions made to the holders of Preferred Shares, including the Cumulative Preferred Shares,

Non-U.S. Taxation

Income received by the Fund from sources within foreign countries may be subject to withholding and other taxes imposed by such countries. Tax treaties between certain countries and the United States may reduce or eliminate such taxes. The Fund does not expect to be eligible to elect to pass through such foreign taxes and therefore does not expect that shareholders will be entitled to a credit or deduction in respect of such taxes.

Non-U.S. Shareholders

Distributions by the Fund to Cumulative Preferred Shareholders that are not U.S. persons within the meaning of the Code (foreign shareholders) properly reported by the Fund as (1) Capital Gain Dividends, (2) short-term capital gain dividends and (3) interest-related dividends, each as defined and subject to certain conditions described below, generally are not subject to withholding of U.S. federal income tax.

In general, the Code defines (1) short-term capital gain dividends as distributions of net short-term capital gains in excess of net long-term capital losses and (2) interest-related dividends as distributions from U.S.-source interest income of types similar to those not subject to U.S. federal income tax if earned directly by an individual foreign shareholder, in each case to the extent such distributions are properly reported as such by the Fund in a written notice to shareholders. If the Fund invests in a RIC that properly reports and pays Capital Gain Dividends, short-term capital gain dividends or interest-related dividends to the Fund, such distributions retain their character as not subject to withholding if properly reported when paid by the Fund to foreign shareholders. The exceptions to withholding for Capital Gain Dividends and short term capital gain dividends do not apply to (A) distributions to an individual foreign shareholder who is present in the United States for a period or periods aggregating 183 days or more during the year of the distribution and (B) distributions attributable to gain that is treated as effectively connected with the conduct by the foreign shareholder of a trade or business within the United States under special rules regarding the disposition of U.S. real property interests as described below. The exception to withholding for interest-related dividends does not apply to distributions to a foreign shareholder (A) that has not provided a satisfactory statement that the beneficial owner is not a U.S. person, (B) to the extent that the dividend is attributable to certain interest on an obligation if the foreign shareholder is the issuer or is a 10% shareholder of the issuer, (C) that is within certain foreign countries that have inadequate information exchange with the United States, or (D) to the extent the dividend is attributable to interest paid by a person that is a related person of the foreign shareholder and the foreign shareholder is a controlled foreign corporation.

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The Fund is permitted to report such part of its dividends as interest-related or short-term capital gain dividends as are eligible, but is not required to do so. The Fund does not currently intend to report any eligible part of its dividends as interest-related dividends or short-term capital gain dividends.

In the case of shares held through an intermediary, the intermediary is permitted to withhold even if the Fund reports all or a portion of a payment as an interest-related or short-term capital gain dividend to shareholders. Foreign persons should contact their intermediaries regarding the application of these rules to their accounts.

Distributions by the Fund to foreign shareholders other than Capital Gain Dividends, short-term capital gain dividends, and interest-related dividends (e.g. dividends attributable to foreign source dividend and interest income or to short-term capital gains or U.S. source interest income to which the exception from withholding described above does not apply) are generally subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate).

A foreign shareholder is not, in general, subject to U.S. federal income tax on gains (and is not allowed a deduction for losses) realized on the sale of shares of the Fund unless (i) such gain is effectively connected with the conduct by the foreign shareholder of a trade or business within the United States, (ii) in the case of a foreign shareholder that is an individual, the shareholder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale and certain other conditions are met, or (iii) the special rules relating to gain attributable to the sale or exchange of U.S. real property interests (USRPIs) apply to the foreign shareholder s sale of shares of the Fund (as described below).

Special rules would apply if the Fund were a qualified investment entity (QIE) because it is either a U.S. real property holding corporation (USRPHC) or would be a USRPHC but for the operation of certain exceptions to the definition of USRPIs described below. Very generally, a USRPHC is a domestic corporation that holds USRPIs the fair market value of which equals or exceeds 50% of the sum of the fair market values of the corporation s USRPIs, interests in real property located outside the United States, and other trade or business assets. USRPIs are generally defined as any interest in U.S. real property and any interest (other than solely as a creditor) in a USRPHC or former USRPHC. If the Fund holds, directly or indirectly, significant interests in REITs, it may be a USRPHC. Interests in domestically controlled QIEs, including REITs and RICs that are QIEs, not-greater-than-10% interests in publicly traded classes of stock in REITs and not-greater-than-5% interests in publicly traded classes of stock in RICs generally are not USRPIs, but these exceptions do not apply for purposes of determining whether the Fund is a QIE.

If an interest in the Fund were a USRPI, with respect to a foreign shareholder, the foreign shareholder generally would be required to file U.S. tax returns and pay taxes due in connection with gain recognized on the sale, redemption or other disposition of the Fund s shares.

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If the Fund were a QIE, under a special look-through rule, any distributions by the Fund to a foreign shareholder (including, in certain cases, distributions made by the Fund in redemption of its shares) that are attributable directly or indirectly to (i) distributions received by the Fund from a lower-tier RIC or REIT that the Fund is required to treat as USRPI gain in its hands and (ii) gains realized on the disposition of USRPIs by the Fund, would retain their character as gains realized from USRPIs in the hands of the Fund s foreign shareholders and would be subject to U.S. tax withholding. In addition, such distributions could result in the foreign shareholder being required to file a U.S. tax return and pay tax on the distributions at regular U.S. federal income tax rates. The consequences to a foreign shareholder, including the rate of such withholding and character of such distributions (e.g., as ordinary income or USRPI gain), would vary depending upon the extent of the foreign shareholder s current and past ownership of the Fund.

Foreign shareholders of the Fund may also be subject to wash sale rules to prevent the avoidance of the tax-filing and payment obligations discussed above through the sale and repurchase of Fund shares.

Whether or not the Fund is characterized as a QIE will depend upon the nature and mix of the Fund s assets. The Fund does not expect to be a QIE.

Foreign shareholders should consult their tax advisors and, if holding shares through intermediaries, their intermediaries, concerning the application of these rules to their investment in the Fund.

Foreign shareholders with respect to whom income from the Fund is effectively connected with a trade or business conducted by the foreign shareholder within the United States will in general be subject to U.S. federal income tax on the income derived from the Fund at the rates applicable to U.S. citizens, residents or domestic corporations, whether such income is received in cash or reinvested in shares of the Fund and, in the case of a foreign corporation, may also be subject to a branch profits tax.

If a foreign shareholder is eligible for the benefits of a tax treaty, any effectively connected income or gain will generally be subject to U.S. federal income tax on a net basis only if it is also attributable to a permanent establishment maintained by the shareholder in the United States. More generally, foreign shareholders who are residents in a country with an income tax treaty with the United States may obtain different tax results than those described herein, and are urged to consult their tax advisors.

In order to qualify for any exemptions from withholding described above or for lower withholding tax rates under income tax treaties, or to establish an exemption from backup withholding, a foreign shareholder must comply with special certification and filing requirements relating to its non-US status (including, in general, furnishing an IRS Form W-8BEN, W-8BEN-E, or substitute form). Foreign shareholders in the Fund should consult their tax advisors in this regard.

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Special rules (including withholding and reporting requirements) apply to foreign partnerships and those holding shares in the Fund through foreign partnerships. Additional considerations may apply to foreign trusts and estates. Investors holding shares in the Fund through foreign entities should consult their tax advisors about their particular situation. A beneficial holder of Fund shares who is a foreign shareholder may be subject to state and local tax and to the U.S. federal estate tax in addition to the federal tax on income referred to above.

Reporting and Withholding for U.S. Shareholders and Non-U.S. Shareholders

Sections 1471-1474 of the Code and U.S. Treasury Regulations and IRS guidance issued hereunder (collectively, FATCA) generally requires the Fund to obtain information sufficient to identify the status of each of its shareholders under FATCA or under an applicable intergovernmental agreement (an IGA) between the United States and a foreign government. If a shareholder fails to provide this information or otherwise fails to comply with FATCA or an IGA, the Fund may be required to withhold under FATCA at a rate of 30% with respect to that shareholder on ordinary dividends, it pays, and, on or after January 1, 2019, 30% of the gross proceeds on share redemptions or exchanges and certain Capital Gain Dividends. If a payment by the Fund is subject to FATCA withholding, the Fund is required to withhold even if such payment would otherwise be exempt from withholding under the rules applicable to non-U.S. shareholders described above (e.g., Capital Gain Dividends and short-term capital gain and interest-related dividends).

Each prospective investor is urged to consult its tax adviser regarding the applicability of FATCA and any other reporting requirements with respect to the prospective investor s own situation, including investments through an intermediary.

Backup Withholding

Backup withholding is generally required with respect to taxable distributions or the gross proceeds of a sale or exchange of shares paid to any non-corporate shareholder who fails to properly furnish a correct taxpayer identification number, who has under-reported dividend or interest income, or who fails to certify that he or she is not subject to such withholding. Amounts withheld as a result of backup withholding are remitted to the U.S. Treasury but do not constitute an additional tax imposed on the shareholder; such amounts may be claimed as a credit on the shareholder s U.S. federal income tax return, provided the appropriate information is furnished to the IRS.

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Tax Shelter Reporting Regulations

Under U.S. Treasury regulations, if a shareholder recognizes a loss with respect to the Fund s shares of $2 million or more for an individual shareholder or $10 million or more for a corporate shareholder, the shareholder must file with the IRS a disclosure statement on Form 8886. Direct shareholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, shareholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to shareholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer s treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Shares Purchased Through Tax-Qualified Plans

Special tax rules apply to investments through defined contribution plans and other tax-qualified plans. Shareholders should consult their tax advisors to determine the suitability of shares of the Fund as an investment through such plans and the precise effect of an investment on their particular tax situation.

Other Taxation

Distributions also may be subject to additional state, local and non-U.S. taxes, depending on each shareholder s particular situation. Additionally, most states permit mutual funds, such as the Fund, to pass through to their shareholders the state tax exemption on income earned from investments in certain direct U.S. Treasury obligations, as well as some limited types of U.S. government agency securities (such as Federal Farm Credit Bank and Federal Home Loan Bank securities), so long as the Fund meets all applicable state requirements. Therefore, shareholders in the Fund may be allowed to exclude from their state taxable income distributions made to them by the Fund to the extent attributable to interest the Fund earned on such investments. The availability of these exemptions varies by state. Investments in securities of certain U.S. government agencies, including securities issued by GNMA and FNMA, and repurchase agreements collateralized by U.S. government securities generally do not qualify for these exemptions. Moreover, these exemptions may not be available to corporate shareholders. All shareholders should consult their tax advisors regarding the applicability of these exemptions to their situation. The Fund will provide information annually to shareholders indicating the amount and percentage of its dividend distribution which is attributable to interest on federal obligations, and will indicate to the extent possible from what types of federal obligations such dividends are derived.

The Fund is organized as a Massachusetts business trust. Under current law, so long as the Fund qualifies for the federal income tax treatment described above, it is believed that the Fund will not be liable for any income or franchise tax imposed by Massachusetts. Shareholders, in any event, are advised to consult their own tax advisors with respect to the particular tax consequences to them of an investment in the Fund.

PERFORMANCE RELATED AND COMPARATIVE INFORMATION

The Fund may quote certain performance-related information and may compare certain aspects of its portfolio and structure to other substantially similar closed-end funds as categorized by Lipper, Inc. (Lipper), Morningstar Inc. or other independent services. Comparison of the Fund to an alternative investment should be made with consideration of differences in features and expected performance. The Fund may obtain data from sources or reporting services, such as Bloomberg Financial and Lipper, that the Fund believes to be generally accurate.

The Fund, in its advertisements, may refer to pending legislation from time to time and the possible effect of such legislation on investors, investment strategy and related matters. At any time in the future, yields and total return may be higher or lower than past yields and there can be no assurance that any historical results will continue.

Past performance is not indicative of future results. At the time Common Shareholders sell their shares, they may be worth more or less than their original investment.

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CUSTODIAN, TRANSFER AGENT AND DIVIDEND DISBURSEMENT AGENT

State Street Bank & Trust Co., 801 Pennsylvania Avenue, Kansas City, Missouri 64105, serves as custodian for assets of the Fund. The custodian performs custodial and fund accounting services.

American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, New York 11219 serves as the transfer agent, registrar and dividend disbursement agent for the Common Shares, as well as agent for the Dividend Reinvestment Plan relating to the Common Shares.

Deutsche Bank Trust Company Americas, 60 Wall Street, New York, New York 10005, serves as auction agent, transfer agent, registrar, dividend paying agent and redemption agent for the ARPS.

American Stock Transfer & Trust Company, LLC, serves as transfer agent and dividend paying agent for the Cumulative Preferred Shares.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP serves as independent registered public accounting firm for the Fund. PricewaterhouseCoopers LLP provides audit services, tax and other audit related services to the Fund.

COUNSEL

Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, Massachusetts 02199, passes upon certain legal matters in connection with shares offered by the Fund, and also acts as counsel to the Fund.

REGISTRATION STATEMENT

A Registration Statement on Form N-2, including any amendments thereto (the Registration Statement), relating to the shares of the Fund offered hereby, has been filed by the Fund with the SEC, Washington, D.C. The Prospectus and this Statement of Additional Information do not contain all of the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to the Fund and the shares offered or to be offered hereby, reference is made to the Fund s Registration Statement. Statements contained in the Prospectus and this Statement of Additional Information as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. Copies of the Registration Statement may be inspected without charge at the SEC s principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the SEC upon the payment of certain fees prescribed by the SEC.

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FINANCIAL STATEMENTS

The Fund s audited financial statements appearing in the Fund s annual shareholder report for the year ended February 28, 2018 are incorporated by reference in this Statement of Additional Information and have been so incorporated in reliance upon the reports of PricewaterhouseCoopers LLP, independent registered public accounting firm for the Fund, which reports are included in such annual shareholder reports. The annual shareholder reports are available upon request and without charge by writing to the Fund at 1633 Broadway, New York, New York 10019.

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Appendix A

Allianz Global Investors Sponsored Closed-End Funds (each a Trust)

Proxy Voting Policy

1. It is the policy of each Trust that proxies should be voted in the interest of its shareholders, as determined by those who are in the best position to make this determination. Each Trust believes that the firms and/or persons purchasing and selling securities for the Trust and analyzing the performance of the Trust s securities are in the best position and have the information necessary to vote proxies in the best interests of the Trust and its shareholders, including in situations where conflicts of interest may arise between the interests of shareholders, on one hand, and the interests of the investment adviser, a sub-adviser and/or any other affiliated person of the Trust, on the other. Accordingly, each Trust s policy shall be to delegate proxy voting responsibility to the entity with portfolio management responsibility for the Trust.

2. Each Trust delegates the responsibility for voting proxies to Allianz Global Investors U.S. LLC (AllianzGI US). A summary of the detailed proxy voting policy of AllianzGI US is attached as Exhibit 1 hereto. Such summary may be revised from time to time to reflect changes to AllianzGI US s detailed proxy voting policy.

3. The party voting the proxy (i.e., AllianzGI US) shall vote such proxies in accordance with such party s proxy voting policy and, to the extent consistent with such policy, may rely on information and/or recommendations supplied by others.

4. AllianzGI US shall deliver a copy of its proxy voting policy and any material amendments thereto to the applicable Board of the Trust promptly after the adoption or amendment of any such policy.

5. The party voting the proxy shall: (i) maintain such records and provide such voting information as is required for the Trust s regulatory filings including, without limitation, Form N-PX and the required disclosure of policy called for by Item 18 of Form N-2 and Item 7 of Form N-CSR; and (ii) shall provide such additional information as may be requested, from time to time, by the Board or the Trust s Chief Compliance Officer.

6. This Proxy Voting Policy Statement, a summary of the detailed proxy voting policy of AllianzGI US, and how each Trust voted proxies relating to portfolio securities held during the most recent twelve month period ending June 30, shall be made available (i) without charge, upon request, by calling 1-800-254-5197; (ii) on the Trusts website at us.allianzgi.com; and (iii) on the U.S. Securities and Exchange Commission s (SEC s) website at www.sec.gov. In addition, to the extent required by applicable law or determined by the Trust s Chief Compliance Officer or Board of Trustees, a summary of the detailed proxy voting policy of AllianzGI US shall also be included in the Trust s Registration Statement or Form N-CSR filings.

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Exhibit 1

Allianz Global Investors U.S. LLC (AllianzGI US)

Description of Proxy Voting Policy and Procedures

AllianzGI US typically votes proxies as part of its discretionary authority to manage accounts, unless the client has explicitly reserved the authority for itself. When voting proxies, AllianzGI US seeks to make voting decisions solely in the best interests of its clients and to enhance the economic value of the underlying portfolio securities held in its clients accounts.

AllianzGI US has adopted the Allianz Global Investors Global Corporate Governance Guidelines and Proxy Voting Policy (the Proxy Guidelines) that are reasonably designed to ensure that the firm is voting in the best interest of its clients. The Proxy Guidelines set forth AllianzGI US s policies and procedures with regards to proxy voting and reflect AllianzGI US s general voting positions on specific corporate governance issues. For the purpose of voting proxies for all accounts of AllianzGI US, AllianzGI US uses the services of its affiliate, Allianz Global Investors GmbH (AllianzGI GmbH). The employees of AllianzGI GmbH who provide proxy voting services to AllianzGI US are considered associated persons as that term is defined in the Advisers Act. AllianzGI has retained an independent third party service provider (the Proxy Provider) to assist in the proxy voting process by implementing the votes in accordance with the Proxy Guidelines as well as assisting in the administrative process. The Proxy Provider offers a variety of proxy-related services to assist in AllianzGI US s handling of proxy voting responsibilities.

The Proxy Guidelines also provide for oversight of the proxy voting process by a proxy committee comprised of senior representatives from various functions within the organization (Proxy Committee). The Proxy Guidelines summarize AllianzGI US s position on various issues, including issues of corporate governance and corporate actions, and give general indication as to how AllianzGI US will vote shares on such issues. Under certain circumstances, AllianzGI US may not vote proxies in accordance with the standard positions denoted in to the Proxy Guidelines, for example if: (1) the Proxy Guidelines do not cover potential voting issues, (2) AllianzGI US determines there may be a potential material conflict between AllianzGI US s interest and those of a client with respect to proxy voting, and (3) the Proxy Committee has determined that voting otherwise would be in the best interests of AllianzGI US s clients. In evaluating issues, the Proxy Committee may consider information from many sources, including the portfolio management team, the analyst responsible for monitoring the stock of the company at issue, management of a company presenting a proposal, shareholder groups and independent proxy research services. In the event that either the analyst or portfolio manager wishes to override the Proxy Guidelines, the proposal will be presented to the Proxy Committee for a final decision. Any deviations from the Proxy Guidelines will be documented and maintained in accordance with Rule 204-2 under the Advisers Act.

In certain circumstances, a client may request in writing that AllianzGI US vote proxies for its account in accordance with a set of guidelines which differs from the Proxy Guidelines. For example, a client may wish to have proxies voted for its account in accordance with the Taft-Hartley proxy voting guidelines. In that case, AllianzGI US will vote the shares held by such client accounts in accordance with their direction, which may be different from the vote cast for shares held on behalf of other client accounts that vote in accordance with the Proxy Guidelines.

AllianzGI US will generally refrain from voting proxies on securities that are subject to share blocking restrictions. Certain countries require the freezing of shares for trading purposes at the

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custodian/sub-custodian bank level in order to vote proxies to ensure that shareholders voting at meetings continue to hold the shares through the actual shareholder meeting. However, because AllianzGI US cannot anticipate every proxy proposal that may arise (including a proxy proposal that an analyst and/or portfolio manager believes has the potential to significantly affect the economic value of the underlying security, such as proxies relating to mergers and acquisitions), AllianzGI US may, from time to time, instruct the Proxy Provider to cast a vote for a proxy proposal in a share blocked country. AllianzGI US will not be responsible for voting of proxies that AllianzGI US has not been notified on a timely basis by the client s custodian.

In accordance with the Proxy Guidelines, AllianzGI US may review additional criteria associated with voting proxies and evaluate the expected benefit to its clients when making an overall determination on how or whether to vote a proxy. In addition, AllianzGI US may refrain from voting a proxy on behalf of its clients accounts due to de-minimis holdings, immaterial impact on the portfolio, items relating to non-U.S. issuers (such as those described below), non-discretionary holdings not covered by AllianzGI US, timing issues related to the opening/closing of accounts, securities lending issues (see below), contractual arrangements with clients and/or their authorized delegate, the timing of receipt of information, or where circumstances beyond its control prevent it from voting. For example, AllianzGI US may refrain from voting a proxy of a non-U.S. issuer due to logistical considerations that may impair AllianzGI US s ability to vote the proxy. These issues may include, but are not limited to: (i) proxy statements and ballots being written in a language other than English, (ii) untimely notice of a shareholder meeting, (iii) requirements to vote proxies in person, (iv) restrictions on non-U.S. person s ability to exercise votes, (v) restrictions on the sale of securities for a period of time in proximity to the shareholder meeting, or (vi) requirements to provide local agents with power of attorney to facilitate the voting instructions. Such proxies are voted on a best-efforts basis.

AllianzGI US typically votes proxies as part of its discretionary authority to manage Wrap Program accounts, unless a client has indicated to the Sponsor that it has explicitly reserved the authority to vote proxies for itself. AllianzGI US will generally vote all proxies sent to it by the Sponsor on an aggregate basis. When AllianzGI US votes proxies on an aggregate basis, the proxy voting records are generally available only on an aggregate level and are not maintained on an individual account basis.

If a client has decided to participate in a securities lending program, AllianzGI US will defer to the client s determination and not attempt to recall securities on loan solely for the purpose of voting routine proxies as this could impact the returns received from securities lending and make the client a less desirable lender in the marketplace. If the participating client requests, AllianzGI US will use reasonable efforts to notify the client of proxy measures that AllianzGI US deems material.

The ability to timely identify material events and recommend recall of shares for proxy voting purposes is not within the control of AllianzGI US and requires the cooperation of the client and its other service providers. Efforts to recall loaned securities are not always effective and there can be no guarantee that any such securities can be retrieved in a timely manner for purposes of voting the securities.