AllianzGI Convertible & Income Fund II
Form N-2/A
August 15, 2018
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As filed with the Securities and Exchange Commission on August 15, 2018

1933 Act File No. 333-225290

1940 Act File No. 811-21338

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. 2

Post-Effective Amendment No.

and

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 15

AllianzGI Convertible & Income Fund II

(Exact Name of Registrant as Specified in Charter)

1633 Broadway, New York, NY 10019

(Address of principal executive offices) (Zip code)

(888) 852-3922

(Registrant s telephone number, including area code)

Thomas J. Fuccillo, Esq.

c/o Allianz Global Investors U.S. LLC

1633 Broadway

New York, NY 10019

(Name and address of agent for service)

Copies of Communications to:

David C. Sullivan, Esq.

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, MA 02199

Approximate Date of Proposed Public Offering: From time to time after the effective date of this Registration Statement.

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

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

when declared effective pursuant to section 8(c).

If appropriate, check the following box:

This [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].

This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration number of the earlier effective registration statement for the same offering is __________.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price[1]	Amount of Registration Fee[1]
Cumulative Preferred Shares	$254,000,000	$31,623[2]

(1) Estimated solely for purposes of calculating the registration fee.

(2) A $124.50 registration fee was previously paid in connection with the initial Cumulative Preferred Shares filing on May 30, 2018.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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

SUBJECT TO COMPLETION

Preliminary Prospectus dated August 15, 2018

BASE PROSPECTUS

Up to $254,000,000

AllianzGI Convertible & Income Fund II

Cumulative Preferred Shares

Liquidation Preference $25.00 Per Share

Offering. AllianzGI Convertible & Income Fund II (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 July 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 NCZ. The last reported sale price of the Common Shares, as reported by the NYSE on August 3, 2018, was $6.08 per Common Share. The net asset value of the Common Shares at the close of business on August 3, 2018, was $5.76 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 $254,000,000 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 [ ], 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 [ ], 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 II (the Fund) is a diversified, closed-end management investment company. The Fund commenced operations on July 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 NCZ. As of August 3, 2018, the net assets of the Fund attributable to Common Shares were $433,138,288 and the Fund had outstanding 75,220,257 Common Shares and 6,501 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 $6.08 per Common Share. The net asset value of the Common Shares at the close of business on August 3, 2018 was $5.76 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 $254,000,000 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 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.
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, with any balance used to purchase additional portfolio securities. 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 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.

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

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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 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

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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 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.

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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. 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 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

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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 $162,525,000, which then represented approximately 23.2% of the Fund s total assets (including assets attributable to the Fund s leverage), while the amount outstanding under the SSB Facility was $104,786,500, which then represented approximately 15.0% 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 38.2% 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 $274,000,000 (representing 38.9% 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 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.

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 and a Fitch rating of AAA, 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 $210,000,000 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.

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

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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 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 Fitch) and, if

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	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.
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

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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 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

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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 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 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 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.

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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 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

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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.

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

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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.

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

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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 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.

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 and Fitch), with the multiple generally increasing as the ratings decline. As of the date hereof, the Fund s ARPS have a Moody s rating of Aa3 and a Fitch rating of AAA, meaning the multiple used to calculate the maximum applicable rate is 150%, subject to upward adjustment in the event of

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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 agencies that rate the ARPS currently Moody s and Fitch. 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 agencies downgrading their 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

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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 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 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 to the loan, nor any rights of set-off against the borrower, and the Fund may not directly benefit from any collateral supporting the loan in which it has purchased the loan participation. As a result, the Fund may be subject to the credit risk of both the borrower and the lender that is selling the participation. In the event of the insolvency of the lender selling a participation, the Fund may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower. Certain loan participations may be structured in a manner designed to prevent purchasers of participations from being subject to the credit risk of the lender with respect to the participation, but even under such a structure, in the event of the lender s insolvency, the lender s servicing of the participation may be delayed and the assignability of the participation impaired.

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

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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

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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 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 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

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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

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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 Union partially or completely dissolves, the world s securities

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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 Second Amended and Restated Agreement and Declaration of Trust (the Declaration) includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or 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.

	February 28, 2018	February 28, 2017	Year ended February 29, 2016	February 28, 2015	February 28, 2014
Net asset value, beginning of year	$ 6.14	$ 4.89	$ 7.56	$ 8.53	$ 7.97
Investment Operations:					
Net investment income	0.62	0.66	0.75	0.80	0.95[1]
Net realized and change in unrealized gain (loss)	(0.14)	1.30	(2.55)	(0.75)	0.62
Total from investment operations	0.48	1.96	(1.80)	0.05	1.57
Dividends on Preferred Shares from Net Investment Income[1]	(0.06)	(0.02)	(0.01)	(0.00)[2]	(0.01)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	0.42	1.94	(1.81)	0.05	1.56
Dividends and Distributions to Common Shareholders from:					
Net investment income	(0.61)	(0.69)	(0.86)	(1.02)	(1.02)
Return of capital	(0.08)				
Total dividends and distributions to common shareholders	(0.69)	(0.69)	(0.86)	(1.02)	(1.02)
Common Share Transactions:					
Accretion to net asset value, resulting from offerings					0.02
Capital charge resulting from issuance of common shares and related offering costs					(0.00)[2]
Total common share transactions					0.02
Net asset value, end of year	$ 5.87	$ 6.14	$ 4.89	$ 7.56[3]	$ 8.53
Market price, end of year	$ 6.10	$ 6.17	$ 4.46	$ 8.58	$ 9.71
Total Investment Return[4]	10.84%	56.31%	(40.34)%	(0.81)%	28.50%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, applicable to common shareholders, end of year (000s)	$ 440,106	$ 456,985	$ 363,991	$ 559,342	$ 627,112
Ratio of expenses to average net assets[5]	1.32%	1.37%	1.28%	1.19%	1.18%[6]
Ratio of net investment income to average net assets[5]	10.31%	11.46%	11.58%	9.87%	11.50%[6]
Preferred shares asset coverage per share	$ 65,147	$ 66,691	$ 58,208	$ 76,034	$ 82,218
Portfolio turnover rate	33%	28%	51%	57%	93%

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	Year ended February 28, 2013	February 29, 2012	February 28, 2011	February 28, 2010	February 28, 2009
Net asset value, beginning of year	$ 7.86	$ 8.89	$ 8.02	$ 4.39	$ 12.38
Investment Operations:					
Net investment income	0.93	0.97	1.09	0.98	1.55
Net realized and change in unrealized gain (loss)	0.20	(0.98)	0.95	3.80	(8.05)
Total from investment operations	1.13	(0.01)	2.04	4.78	(6.50)
Dividends on Preferred Shares from Net Investment Income	(0.01)	(0.00)(2)	(0.01)	(0.01)	(0.20)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	1.12	(0.01)	2.03	4.77	(6.70)
Dividends to Common Shareholders from Net Investment Income	(1.02)	(1.02)	(1.16)	(1.14)	(1.29)
Common Share Transactions:					
Accretion to net asset value, resulting from offerings	0.01				
Capital charge resulting from issuance of common shares and related offering costs	(0.00)(2)				
Total common share transactions	0.01				
Net asset value, end of year	$ 7.97	$ 7.86	$ 8.89	$ 8.02	$ 4.39
Market price, end of year	$ 8.52	$ 8.84	$ 10.21	$ 8.76	$ 3.73
Total Investment Return(4)	9.35%	(2.27)%	32.85%	174.62%	(63.34)%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, applicable to common shareholders, end of year (000s)	$ 518,277	$ 493,139	$ 549,130	$ 487,130	$ 263,220
Ratio of expenses to average net assets(5)	1.31%	1.31%	1.29%	1.42%	1.71%(7)
Ratio of net investment income to average net assets(5)	12.20%	12.39%	13.20%	14.20%	17.26%
Preferred shares asset coverage per share	$ 72,287	$ 69,994	$ 75,102	$ 69,445	$ 49,015
Portfolio turnover rate	41%	32%	54%	58%	57%

(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.

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(6) Inclusive of expense reimbursement from Investment Manager of 0.02%.

(7) Ratio of expenses to average net assets of common shareholders, excluding excise tax expense, was 1.63%.

The following table sets forth certain unaudited information regarding the Fund s outstanding ARPS as of the end of each of the Fund s last ten 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	$ 274,000,000	$ 65,147	$ 25,000	N/A
February 28, 2017	$ 274,000,000	$ 66,691	$ 25,000	N/A
February 29, 2016	$ 274,000,000	$ 58,208	$ 25,000	N/A
February 28, 2015	$ 274,000,000	$ 76,034	$ 25,000	N/A
February 28, 2014	$ 274,000,000	$ 82,218	$ 25,000	N/A
February 28, 2013	$ 274,000,000	$ 72,287	$ 25,000	N/A
February 29, 2012	$ 274,000,000	$ 69,994	$ 25,000	N/A
February 28, 2011	$ 274,000,000	$ 75,102	$ 25,000	N/A
February 28, 2010	$ 274,000,000	$ 69,445	$ 25,000	N/A
February 28, 2009	$ 274,000,000	$ 49,015	$ 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 II is a diversified, closed-end management investment company. The Fund was organized as a Massachusetts business trust on April 22, 2003, pursuant to an Agreement and Declaration of Trust governed by the laws of the Commonwealth of Massachusetts. The Fund commenced operations on July 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, with any balance used to purchase additional portfolio securities. 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 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 accrued daily (offset against any amounts owing to the Fund). 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), on a daily marked-to-market basis. 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 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 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.

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

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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 $162,525,000, which then represented approximately 23.20% of the Fund s total assets (including assets attributable to the Fund s leverage), while the amount outstanding under the SSB Facility was $104,786,500, which then represented approximately 14.95% 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 38.15% 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 $274,000,000 (representing 38.85% 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 $210,000,000 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 Fitch) 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.

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 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 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

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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.

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 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.

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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 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 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 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.

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 and Fitch), with the multiple generally increasing as the ratings decline. As of the date hereof, the Fund s ARPS have a Moody s rating of Aa3 and a Fitch rating of AAA, 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 agencies that rate 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

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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.

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 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 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.

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.

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.

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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 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, 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 Second Amended and Restated Agreement and Declaration of Trust (the Declaration) includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or 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.

Additional Information

The Board of Trustees of the Trust 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 and Fitch 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, seven 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 63% of Board members that are Independent Trustees. Two additional Trustees who will not be treated as Independent Trustees 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 are expected to qualify as fully Independent Trustees 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.

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 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	75,220,257
ARPS		
Series A	4,040	1,296
Series B	4,040	1,512
Series C	4,040	1,239
Series D	4,040	1,156
Series E	4,040	1,298
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 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 if the Board determines that such amendments or modifications are necessary to prevent a reduction in, or the withdrawal of, a rating of the Cumulative Preferred Shares and are in the aggregate in the best interests of the holders of the 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 adopted pursuant to rating agency guidelines if the Board determines that such amendments or modifications will not in the aggregate adversely affect the rights and preferences of the holders of any series of the Preferred Shares, provided that the Fund has received confirmation from each applicable rating agency that such amendment or modification is not expected to adversely affect such rating agency s then-current rating of such series of the Fund s 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 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. The number of Preferred Shares that will be redeemed in the case of a mandatory redemption will equal the minimum number of outstanding Preferred Shares, the redemption of which, if such redemption had occurred immediately prior to the opening of business on the applicable cure date, would have resulted in the relevant asset coverage requirement having 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.

If fewer than all of the Fund s outstanding Preferred Shares are to be redeemed, the Fund, subject to the limitations of its governing documents, the 1940 Act and applicable law, will select the one or more series of preferred from which shares will be redeemed and the amount of preferred to be redeemed from each such series 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. If fewer than all shares of a series of Preferred Shares are to be redeemed, such redemption will be made as among the holders of that series pro rata in accordance with the respective number of shares of such series held by each such holder on the record date for such redemption (or by such other equitable method as the Fund may determine). If fewer than all Preferred Shares held by any holder are to be redeemed, the notice of redemption mailed to such holder will specify the number of shares to be redeemed from such holder, which may be expressed as a percentage of shares held on the applicable record date.

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.

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 September 2003, in the amount of 4,040 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 1,848 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 6,501 ARPS outstanding (1,296 Series A shares, 1,512 Series B shares, 1,239 Series C shares, 1,156 Series D shares, and 1,298 Series E shares), with a total liquidation value of $162,525,000.

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 both Moody s Ratings Agency ARPS Asset Coverage and Fitch Ratings Agency Preferred Shares 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 and a Fitch rating of AAA, 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 Fitch) 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 and Fitch on the auction date for such period (as set forth in the table below).

Moody s Credit Rating	Fitch Rating Credit Rating	Applicable Percentage
Aa3 or above	AA- or higher	150%
A3 to A1	A- to A+	200%
Baa3 to Baa1	BBB- to BBB+	225%
Below Baa3	Below BBB-	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:

$$\frac{\text{Value of the Fund s total assets less all liabilities and indebtedness not represented by senior securities}}{\text{Senior securities representing indebtedness plus liquidation value of the Preferred Shares}} = 262.0\%$$

Ratings Agency ARPS Asset Coverage

The Fund is required under the Bylaws to satisfy separate asset coverage tests specific to each rating agency (with respect to each ratings 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.

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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.

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.

Fitch Ratings Agency Preferred Shares Asset Coverage

The Fitch Preferred Shares ratings criteria applicable under the Fund s Bylaws (the Fitch Criteria) are attached as Exhibit 1 to the Bylaws and are incorporated therein by reference.

Generally, the Fitch Criteria include two separate asset coverage tests which differ from the single Preferred Shares Basic Maintenance Amount test currently applicable to Moody s ratings of the ARPS. Under the Fitch Criteria, the Fund must satisfy both a Fitch Total Overcollateralization Test (Fitch Total OC) and a Fitch Net Overcollateralization Test (Fitch Net OC), in each case to be consistent with a AAA rating from Fitch, to satisfy Fitch Ratings Agency Preferred Shares Asset Coverage.

The Fitch Criteria define Fitch Total OC and Fitch Net OC as follows:

$$\underline{\text{Fitch Total OC}} = \frac{\text{Total Net Discounted Assets at MV*}}{\text{Fitch Rated Liability + Other Liabilities Pari Passu and Senior to Rated Liability}}$$

* Total net discounted assets at market value (MV) equal total portfolio assets at MV and accrued income, including assets held as collateral for other Fund liabilities, less nonleverage liabilities that are not part of a rolling leverage strategy (such as to-be-announced (TBA) securities, futures and forwards, among others), then discounted and adjusted pursuant to factors specified in the Fitch Criteria.

$$\underline{\text{Fitch Net OC}} = \frac{\text{Available Net Discounted Assets*}}{\text{Fitch Rated Liability + Other Liabilities That Are Pari Passu}}$$

* Available net discounted assets equals total portfolio assets at MV and accrued income minus all assets that are either held as collateral for other Fund liabilities and/or subject to a first claim of a senior liability in the capital structure minus nonleverage liabilities that are not part of a rolling leverage strategy (such as TBA security rolls, futures and forwards, among others), then discounted and adjusted pursuant to factors specified in the Fitch Criteria.

Under the Bylaws, Fitch Ratings Agency Preferred Shares Asset Coverage is satisfied if, as of a particular date or time, the Fund has sufficient asset coverage with respect to the Preferred Shares such that the Fund satisfies both the (i) Fitch Total OC test and the (ii) Fitch Net OC test as of such date or time. The Fitch Total OC test and the Fitch Net OC test are satisfied if the Fund has Fitch Total OC or Fitch Net OC, as the case may be, in excess of one-hundred percent (100%) pursuant to the applicable formula above.

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In the event the Fund does not timely cure a failure to maintain (a) Moody s Ratings Agency ARPS Asset Coverage or Fitch Ratings Agency Preferred Shares Asset Coverage (as applicable) 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 and Fitch 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 and/or Fitch with respect to their ratings of the ARPS. Failure to adopt any such modifications, however, may result in a reduction in the ratings described above or a withdrawal of ratings 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 Fitch (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 and Fitch 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 Share