Closed-End Fund Market Update

Allianz Global Investors

Allianz Global Investors Fund Management Provides an Update on Auction Rate Preferred Shares issued by its Closed-End Funds

Since Tuesday, February 12, 2008, the market for auction-rate preferred shares issued by closed-end funds (ARPS) has experienced an unprecedented lack of liquidity that has affected the vast majority of closed-end fund ARPS and their shareholders.

What are ARPS?

Many closed-end funds, including some of those managed by Allianz Global Investors Fund Management LLC* and its affiliates (the "Allianz Closed-End Funds"), use ARPS to provide leverage to the closed-end funds with the goal of enhancing the yield available to common shareholders. ARPS are preferred shares that rank ahead of the common shares issued by the fund in priority for dividends and payments upon any liquidation. The closed-end fund hires an underwriter (typically one of the major investment banks) to help facilitate the initial public offering of the ARPS and broker-dealers to assist in the ongoing marketing of ARPS through the auction market. ARPS pay a dividend (on a weekly basis for Allianz Closed-End Funds) that is normally determined through an auction process.

How does the auction process work?

Since the Allianz Closed-End Funds have issued a fixed number of ARPS, the weekly auctions are designed to attract at least as many buyers as sellers for the outstanding shares by allowing the dividend rate, which the ARPS pay to the holders, to reset to a market determined level. While they had no legal obligation to do so, in the past, the underwriter that led the initial offering of the ARPS also acted as a broker-dealer and provided the necessary liquidity for the auction market by buying any outstanding ARPS that did not receive bids in the auctions. When most broker-dealers stopped buying these shares in mid-February 2008 and there weren't enough other bids in the market, the auctions "failed."

What's a "failed auction?"

A failed auction generally is an auction where there is insufficient demand (bids to buy shares) to meet the supply (shares offered for sale). Even if only one outstanding ARPS share does not attract a bid, the auction is deemed to have "failed." It is important to point out that a failed auction does not result in a default by the closed-end fund on payment of dividends to ARPS holders. After a failed auction, preferred shareholders continue to receive their dividend and there is no automatic change to the credit quality of the ARPS. In fact, all ARPS issued by the Allianz Closed-End Funds have received and continue to maintain a "AAA" rating by Moody's Investors Service and/or Fitch Ratings. However, other than in a successful auction where the market mechanism of supply and demand determines the dividend rate, in a failed auction, the dividend for ARPS shareholders resets to a previously defined dividend rate (the "Maximum Rate"). The Maximum Rate is described in the ARPS prospectus used in the particular fund's initial public offering and is typically a spread over a short-term interest rate like commercial paper or LIBOR. For a more detailed description of Maximum Rates for individual Allianz Closed-End Funds, please see below.

If an auction fails, the ARPS shareholders cannot sell all, and may not be able to sell any, of their shares during that auction. Depending on the number of shares interested buyers are willing to purchase, it may be possible for ARPS shareholders to sell some but not all of their ARPS in a failed auction (sell orders get fulfilled pro-rata). The unsold ARPS can be offered at the next weekly auction, but there is no guarantee that the next weekly auction will be successful. Failed auctions are not typical in a more normal market environment. In fact, up until the most recent market turmoil, to our knowledge there had been no case of a failed closed-end fund ARPS auction. However, under current market conditions, it appears that ARPS auctions will continue to fail on a regular basis.

(Revised May 12, 2008)

What's the impact on the leverage cost after a failed auction?

After a failed auction the cost of leverage (ARPS dividends and related expenses), which is borne by the common shareholders, will be reset at the Maximum Rate (which is a function of short-term interest rates as described above and is typically higher than the rate that would have otherwise been set through a successful auction). Currently, the Allianz Closed-End Funds have not experienced a substantial increase in leverage cost as a result of the failed auctions, as the current Maximum Rates are generally only slightly higher than the rates paid by the ARPS as determined through successful auctions that took place immediately prior to the first failed auction. Leverage costs could continue to rise if, for example, ARPS auctions continue to fail and short term interest rates (and thus the Maximum Rate) rise.

What's the impact on common shareholders?

The common shares of a closed-end fund are sold during an initial public offering (IPO) and are then listed on an exchange, like the New York Stock Exchange (NYSE). The failed ARPS auctions have no impact on the liquidity of common shares. Common shares of the Allianz Closed-End Funds will continue to trade on the NYSE. We have noticed, however, that the common shares of some Allianz Closed-End Funds, including those that do not use ARPS for leverage, have experienced some market price volatility since mid-February 2008 that may be attributable, in part, to the uncertainty caused by the news of the failed auctions and other negative press.

Which Allianz Closed-End Funds issue ARPS?

Currently, the following funds have ARPS outstanding:

PIMCO Municipal Income Fund (PMF)
PIMCO New York Municipal Income Fund (PNF)
PIMCO California Municipal Income Fund (PCQ)
PIMCO Municipal Income Fund II (PML)
PIMCO New York Municipal Income Fund II (PNI)
PIMCO California Municipal Income Fund II (PCK)
PIMCO Municipal Income Fund III (PMX)
PIMCO New York Municipal Income Fund III (PYN)
PIMCO California Municipal Income Fund III (PZC)
PIMCO Municipal Advantage Fund Inc. (MAF)
PIMCO Corporate Income Fund (PCN)
PIMCO Corporate Opportunity Fund (PTY)
PIMCO High Income Fund (PHK)
PIMCO Floating Rate Income Fund (PFL)
PIMCO Floating Rate Strategy Fund (PFN)
Nicholas-Applegate Convertible & Income Fund (NCV)
Nicholas-Applegate Convertible & Income Fund II (NCZ)

What are the Maximum Rates for the Allianz Closed-End Funds?

The ARPS prospectus used in the initial public offering of every applicable Allianz Closed-End Fund describes in detail how the Maximum Rate is determined in case of a failed auction. The following is designed to provide a quick overview and is not meant to be a complete description of the Maximum Rate calculation. For complete details, please refer to the applicable fund's ARPS prospectus used in the initial public offering, which is available at www.sec.gov or contact the Securities and Exchange Commission for information as to how to obtain a hard copy of such prospectus.

In general: Maximum Rate = Applicable Percentage x Reference Rate.

Fund	Applicable Percentage	X	Reference Rate	=	Max Rate
Municipal Funds (PMF, PML, PMX, MAF, PCQ, PCK, PZC, PNF, PNI, PYN)	110%*	X	The higher of 30-day "AA" Composite Commercial Paper Rates or The Taxable Equivalent of the Short-Term Municipal Obligation Rate**	=	Max Rate for Municipal Funds***
Taxable Funds (PCN, PTY, PHK, NCV, NCZ)	150%	X	7-day "AA" Composite Commercial Paper Rates	=	Max Rate for Taxable Funds***
Floating Rate Funds (PFL, PFN)	125%	X	The higher of 7-Day USD LIBOR	=	Max Rate for Floating Rate Funds***
			or		
	1.25%	+	7-day USD LIBOR		

* 150% if all or part of the dividend consists of taxable income or capital gain.

** "Taxable Equivalent of the Short-Term Municipal Obligations Rate" means 90% of the quotient of (A) the per annum rate expressed on an interest equivalent basis equal to the Kenny S&P 30 day High Grade Index divided by (B) 1.00 minus the Marginal Tax Rate (expressed as a decimal).

*** Please see updated information on Max Rates that is posted daily at www.allianzinvestors.com.

Is Allianz Global Investors considering other alternatives to the ARPS to leverage the closed-end funds?

We are actively exploring several alternatives to possibly restructure the leverage in the Allianz Closed-End Funds that have issued ARPS. While these possible solutions are specific to restoring liquidity in our own closed-end fund ARPS, we are also in communication with other market participants to develop workable long-term solutions to the liquidity freeze for ARPS shareholders.

What leverage alternatives are you considering for the closed-end funds?

In an effort to address the illiquidity of ARPS broadly across both taxable and municipal closed-end funds, we are exploring the feasibility of making ARPS of our municipal and/or taxable closed-end funds eligible for purchase by a broader institutional audience, in particular money market funds, via the addition of a "put" in the form of a demand feature. Currently, closed-end fund ARPS are not eligible investments for money market funds under Rule 2a-7 and therefore have been predominantly owned by other investors. Provided applicable SEC guidance is followed, adding stand-by liquidity in the form of a "demand feature" provided by a highly-rated financial institution would make these ARPS eligible investments for money market funds, and in turn could open them up to a much broader audience. The stand-by liquidity provider would essentially guarantee to purchase the ARPS at par if there is a failed auction. However this option may require relief from the SEC and potentially the IRS. In addition, the cost of obtaining stand-by liquidity may be prohibitive. We are actively discussing this possible alternative with the Investment Company Institute, the advocacy group for the mutual fund industry.

Another alternative being considered, targeted more narrowly at our taxable closed-end funds, is debt financing or other forms of leverage to replace all or a portion of the ARPS. However, while the use of debt financing may be a viable option for our taxable closed-end funds, it is not practical for our municipal closed-end funds because the use of taxable debt financing would greatly increase the leverage costs for those funds.

Why can't Allianz or its affiliates participate in the auctions to restore liquidity?

Absent regulatory relief from the SEC, there is concern that under the Investment Company Act, Allianz Global Investors or our affiliates would not be permitted to directly participate in auctions for ARPS of our closed-end funds. As we note above, while they had no legal obligation to do so, in the past, the broker-dealers that led the initial public offerings of the ARPS provided the necessary liquidity for the auction market by buying any outstanding ARPS that did not receive bids in the auctions.

When do you expect to implement a solution to restore liquidity to the ARPS?

We continue to believe that we can create innovative solutions and Allianz Global Investors remains committed to finding one or more solutions to restore liquidity for the ARPS shareholders.

Three principles are guiding our response to this problem. First, the credit quality of the funds' preferred shares is very high. We expect this fact ultimately may be a driving factor behind a solution to this problem.

Second, any step we take must take into account the interests of all common as well as auction-rate preferred shareholders in these funds.

Third, any solution we put into place must minimize the possibility of unintended consequences—especially the risk of a solution creating more problems for our investors than it solves.

Just as the overall contraction of liquidity was not within our control, our ability to restore liquidity to ARPS shareholders is contingent upon a variety of factors, many of which are also beyond our control. As a result, we cannot guarantee that we will implement any of the alternatives that we are exploring for any of the Allianz Closed-End Funds, or that we will do so in a timely manner.

We have examined a number of short-term solutions, but concluded they ultimately will not serve the overall interests of shareholders. Specifically, a shift in the funds' financing facilities would increase the future risk of short-term financing being withdrawn or re-priced at inopportune moments, thereby damaging the interest of some shareholders. Accordingly, we continue to explore the possibilities of more sustainable longer term solutions.

We are committed to finding solutions which serve the interests of all of our fund shareholders. We remain focused on achieving that and will keep you informed as our efforts proceed.

The Funds are closed-end investment companies with common shares that are traded on a stock exchange. This material is presented only to provide information and is not intended for trading purposes. These closed-end funds, unlike open-end funds, are not continuously offered. After the initial public offering, common shares of these closed-end funds are sold on the open market through a stock exchange. As described above, after the initial public offering of any ARPS, the ARPS of these closed-end funds are traded in an auction market and not on a stock exchange. For additional information, contact your financial advisor or call 1-800-331-1710. Investment policies, management fees and other matters of interest to prospective investors may be found in each closed-end fund prospectus used in its initial public offering.

The use of leverage in these closed-end funds may cause a fund to liquidate portfolio positions at a disadvantageous time to satisfy its obligations or to meet segregation requirements. Leverage, including borrowing, may cause a fund to be more volatile than if the fund had not been leveraged, which may increase the risk of investment loss. A fund may use derivative instruments for hedging purposes or as part of its investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that a fund could not close out a position when it would be most advantageous to do so. Funds investing in derivatives could lose more than the principal amount invested in those instruments.

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FORWARD LOOKING STATEMENTS

Statements made in this piece that look forward in time involve risks and uncertainties and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual future outcomes may differ from the results anticipated in the forward-looking statements. The following factors, among others, could cause actual results to differ materially from forward-looking statements or historical occurrences: (1) the ability of Allianz Closed-End Funds that have issued ARPS to develop and finalize fund-by-fund specific proposals to restructure the leverage of such funds; (2) the ability of such Allianz Closed-End Funds to negotiate and obtain from third parties the necessary debt facilities and other commitments and agreements necessary for the Allianz Closed-End Funds to refinance all or a portion of their leverage at an appropriate cost and on terms and conditions acceptable to the funds and in a timely manner; (3) the ability of such Allianz Closed-End Funds to negotiate and obtain from broker-dealers or other financial institutions the demand features necessary to make the ARPS eligible for purchase by money market funds on terms acceptable to the Allianz Closed-End Funds and in a timely manner; (4) the acceptance by the market, and demand for, ARPS with a demand feature in amounts sufficient for the Allianz Closed-End Funds to attract sufficient investors for the ARPS to avoid future failed auctions; (5) the need to obtain any necessary regulatory approvals to make the ARPS eligible for purchase by money market funds or for the implementation of such Allianz Closed-End Funds' plan to restructure their leverage; and (6) the ability of such Allianz Closed-End Funds to structure and create other forms of leverage for their portfolios.

*Allianz Global Investors Fund Management LLC, a wholly owned subsidiary of Allianz Global Investors U.S. Retail LLC, serves as the funds' investment manager.
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