

NFJ DIVIDEND, INTEREST & PREMIUM STRATEGY FUND

Form N-2/A

February 18, 2005

As filed with the Securities and Exchange Commission on February 18, 2005

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1933 Act File No. 333-108137

1940 Act File No. 811-21417

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form N-2

- REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

- Pre-Effective Amendment No. 4

- Post-Effective Amendment No.
and
- REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

- Amendment No. 4

NFJ Dividend, Interest & Premium Strategy Fund
(Exact Name of Registrant as Specified in Declaration of Trust)

c/o PA Fund Management LLC
1345 Avenue of the Americas
New York, New York 10105
(Address of Principal Executive Offices)
(Number, Street, City, State, Zip Code)

(212) 739-3369
(Registrant's Telephone Number, including Area Code)

Newton B. Schott, Jr.
c/o PA Distributors LLC
2187 Atlantic Street
Stamford, Connecticut 06902
(Name and Address (Number, Street, City, State, Zip Code) of Agent for Service)

Copies of Communications to:

Joseph B. Kittredge, Jr., Esq.
Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110

Approximate Date of Proposed Public Offering:

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

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

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

[X] when declared effective pursuant to section 8(c)

 CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price
Common Shares, par value \$0.00001	1,000 Shares	\$ 25.00	\$ 25,000

/1/ Estimated solely for the purpose of calculating the registration fee.

/2/ \$2.03 of which was previously paid.

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 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 dates as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this 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 prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED _____, 2005

PROSPECTUS
 [LOGO] Allianz
 Global Investors

Shares

NFJ Dividend, Interest & Premium Strategy Fund

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Common Shares

\$25.00 per share

Investment Objectives. The Fund is a newly organized, diversified, closed-end management investment company. The Fund's primary investment objective is to seek current income and gains, with a secondary objective of long-term capital appreciation.

Portfolio Management Strategies. The Fund will pursue its investment objectives by investing in a diversified portfolio of dividend-paying common stocks (the "Equity Component") and income-producing convertible securities (the "Convertible Component"). The Fund will also employ a strategy of writing (selling) call options on equity indexes in an attempt to generate gains from option premiums (the "Index Option Strategy").

The Equity Component is initially expected to represent approximately 75%, and the Convertible Component approximately 25%, of the net proceeds of this offering. Thereafter, the percentage of the Fund's assets represented by each component is expected to vary based on relative investment performance, market fluctuations and other factors, but the Fund's entire portfolio will be rebalanced on an annual basis (so that the Equity Component will represent approximately 75% and the Convertible Component approximately 25% of the portfolio immediately after each rebalancing). The first rebalancing will take place in January, 2006.

The Fund cannot assure you that it will achieve its investment objectives.
(continued on following page)

Investing in the Fund's common shares involves certain risks. See "Risks" beginning on page 37 of this prospectus. Certain of these risks are summarized in "Prospectus Summary--Special Risk Considerations" beginning on page 12.

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

	Per Share Total(2)	
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Public Offering Price	\$ 25.00	\$
Sales Load	\$ 1.125	\$
Estimated Offering Expenses(1) (2)	\$.05	\$
Proceeds to the Fund	\$23.825	\$

- (1) The Fund will pay or reimburse offering expenses estimated at \$ from the proceeds of the offering. PA Fund Management LLC has agreed to pay the amount by which the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of \$.005 per

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share) exceed \$.05 per share. PA Fund Management LLC has agreed to pay all of the Fund's organizational expenses.

- (2) The Underwriters may also purchase up to an additional common shares at the public offering price, less the sales load, within 45 days from the date of this prospectus to cover over-allotments, if any. If such option is exercised in full, the total public offering price, sales load, estimated offering expenses and proceeds to the Fund will be , , and , respectively.

The Underwriters expect to deliver the common shares to purchasers on or about , 2005.

Citigroup	Merrill Lynch & Co.	UBS Investment Bank
A.G. Edwards	Wachovia Securities	Deutsche Bank Securities
Advest, Inc.	Robert W. Baird & Co.	H&R Block Financial Advisors, Inc.

Banc of America Securities LLC	Crowell, Weedon & Co.	Ferris, Baker Watts Incorporated
J.J.B. Hilliard, W.L. Lyons, Inc.	Janney Montgomery Scott LLC	KeyBanc Capital Markets
Legg Mason Wood Walker Incorporated	Oppenheimer & Co.	Raymond James
RBC Capital Markets	Ryan Beck & Co.	Stifel, Nicolaus & Company Incorporated

SunTrust Robinson Humphrey	Wedbush Morgan Securities Inc.	Wells Fargo Securities
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PA Fund Management LLC (the "Manager") serves as the investment manager of the Fund. The Fund utilizes three affiliated sub-advisers to manage different elements of the Fund's portfolio. NFJ Investment Group L.P. ("NFJ") manages the Equity Component by focusing on undervalued common stocks with relatively high dividend yields. Nicholas-Applegate Capital Management LLC ("NACM") manages the Convertible Component by using traditional credit analysis combined with a disciplined, fundamental bottom-up research process. PEA Capital LLC ("PEA") implements the Fund's Index Option Strategy using quantitative and statistical analysis designed to produce gains from index option premiums.

No Prior History. Because the Fund is newly organized, its common shares have no history of public trading. Shares of closed-end investment companies frequently trade at a discount from their net asset value, which creates a risk of loss for investors purchasing shares in the initial public offering. The common shares have been authorized for listing on the New York Stock Exchange, subject to notice of issuance, under the trading or "ticker" symbol "NFJ."

Portfolio Contents. Under normal circumstances, the Fund will invest at

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least 80% of its net assets (plus any borrowings for investment purposes) in securities and other instruments that provide dividends, interest or option premiums.

The Equity Component will ordinarily consist principally of dividend-paying common stocks, but may also include preferred stocks and dividend-paying real estate investment trusts. The assets of the Equity Component will be invested principally in securities of U.S. issuers, but may also include American Depository Receipts ("ADRs"). Up to 10% of the component's assets may be invested in foreign securities other than ADRs, including emerging market securities.

The Convertible Component will ordinarily consist of convertible securities, including synthetic convertible securities, and may include convertible securities that are of below investment grade quality. Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as "high yield" securities or "junk bonds." They involve greater risk of loss, are subject to greater price volatility and are less liquid, especially during periods of economic uncertainty or change, than higher rated debt securities. The risks involved in investing in high yield securities are such that an investment in the Fund should be considered speculative. Up to 20% of the Convertible Component may consist of U.S. dollar-denominated securities of foreign issuers based in developed countries.

The Fund will employ its Index Option Strategy by writing (selling) call options on equity indexes such that the underlying value of the indexes are approximately equal to and do not exceed the value of the Equity Component of the Fund--i.e., approximately 75% of the Fund's net assets, subject to future fluctuations in the assets attributable to the Equity Component and annual rebalancings. For these purposes, the Fund treats options on indexes as being written on securities held by the Fund having an aggregate value equal to the face or notional amount of the index subject to the options. Most of the options written by the Fund will be exchange-traded, although the Fund may utilize over-the-counter options. The Fund may also utilize other derivative strategies involving call and put options, futures and forward contracts, swap agreements, short sales and other derivative instruments in an attempt to hedge against market and other risks in the portfolio. The Fund may invest up to 15% of its total assets in illiquid securities.

Although it has no current intention to do so, the Fund may in the future determine to issue preferred shares, borrow money or issue debt securities to add leverage to its portfolio, provided that the leverage does not represent more than 38% of the Fund's total assets. See "Leverage and Borrowings." The Fund may enter into derivatives transactions that may in certain circumstances produce effects similar to leverage. See "The Fund's Investment Objectives and Strategies--Portfolio Contents and Other Information--Other Derivatives."

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest, and retain it for future reference. A Statement of Additional Information, dated _____, 2005 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, which means that it is part of the prospectus for legal purposes. You can review the table of contents of the Statement of Additional Information on page 66 of this prospectus. You may request a free copy of the Statement of Additional Information by calling (877) 819-2224 or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's Web site (<http://www.sec.gov>).

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The Fund's common shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not, and the Underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not, and the Underwriters are not, making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus. The Fund's business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This is only a summary. This summary may not contain all of the information that you should consider before investing in the common shares. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information.

The Fund..... NFJ Dividend, Interest & Premium Strategy Fund (the "Fund") is a newly organized, diversified, closed-end management investment company. See "The Fund."

The Offering..... The Fund is offering common shares of beneficial interest, with a par value of \$.00001 per share, at \$25.00 per share through a group of underwriters (the "Underwriters") led by Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, UBS Securities LLC, A.G. Edwards & Sons, Inc., Wachovia Capital Markets, LLC, Deutsche Bank Securities Inc., Advest, Inc., Robert W. Baird & Co. Incorporated, Banc of America Securities LLC, H&R Block Financial Advisors, Inc., Crowell, Weedon & Co., Ferris, Baker Watts, Incorporated, J.J.B. Hilliard, W.L. Lyons, Inc., Janney Montgomery Scott LLC, KeyBanc Capital Markets, a Division of McDonald Investments Inc., Legg Mason Wood Walker, Incorporated, Oppenheimer & Co. Inc., Raymond James & Associates, Inc., RBC Capital Markets Corporation, Ryan Beck & Co., Inc., Stifel, Nicolaus & Company, Incorporated, SunTrust Capital Markets, Inc., Wedbush Morgan Securities Inc., and Wells Fargo Securities, LLC. The common shares of beneficial interest are called "Common Shares" in the rest of this prospectus. You must purchase at least 100 Common Shares. The Fund has given the Underwriters an option to purchase up to additional Common Shares to cover orders in excess of Common Shares. See "Underwriting." PA Fund Management LLC (the "Manager") has agreed to pay the amount by which the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of \$.005 per share) exceed \$.05 per share. The Manager has agreed to pay all of the Fund's organizational expenses.

Investment Objectives and
Strategies.....

The Fund's primary investment objective is to seek current income and gains, with a secondary objective of long-term capital appreciation. The Fund cannot assure you that it will achieve its investment objectives.

The Fund will pursue its investment objectives by investing in a diversified portfolio of dividend-paying common stocks (the "Equity Component") and income-producing convertible securities (the "Convertible Component"). The Fund will also employ a strategy of writing (selling) call options on equity indexes in an attempt to generate gains from option premiums (the "Index Option Strategy"). The types of investments that will ordinarily comprise the Equity Component and the Convertible Component, and the

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instruments used to implement the Index Option Strategy, are summarized under "--Portfolio Contents" below.

The Manager serves as the investment manager of the Fund. The Fund utilizes three affiliated sub-advisers (the "Sub-Advisers") to manage the Fund's portfolio. NFJ Investment Group L.P. ("NFJ") manages the Equity Component, Nicholas-Applegate Capital Management LLC ("NACM") manages the Convertible Component and PEA Capital LLC ("PEA") implements the Index Option Strategy. See "Sub-Advisers" below. The portfolio management strategies and techniques utilized by each Sub-Adviser are described below.

Asset Allocation and Annual Rebalancing. The Equity Component is initially expected to represent approximately 75%, and the Convertible Component approximately 25%, of the net proceeds of the offering. The Manager will cause the Fund's entire portfolio to be rebalanced annually to this initial asset allocation between the Equity Component and the Convertible Component. The first rebalancing will take place in January, 2006. These annual rebalancings may result in additional transaction costs for the Fund and may increase the amount of capital gains (and, in particular, short-term gains) realized by the Fund on which shareholders may pay tax. Although the portfolio will be rebalanced annually, it is expected that the relative percentage of the Fund's assets represented by the Equity and Convertible Components will vary

during interim periods in relation to the relative investment performance of each Component, as well as market fluctuations and other factors. Therefore, the Fund's assets attributable to each Component from time to time may be significantly higher or lower than the initial 75%/25% allocation described above, and the risk/return profile of the Fund (taken as a whole) will vary accordingly.

Investment Selection

Strategies.....

Equity Component. In selecting common stocks for the Equity Component, NFJ considers an initial selection universe consisting of the 1,000 largest publicly traded companies (in terms of market capitalization) in the U.S. to identify 150 to 200 companies that exhibit the best fundamental characteristics. NFJ classifies the universe by industry, and then identifies the most undervalued stocks in each industry based mainly on relative price-to-earnings (P/E) ratios, calculated both with respect to trailing operating earnings and forward earnings estimates. From this group of common stocks, NFJ buys a number of stocks with the highest dividend yields. NFJ then screens the most undervalued companies in each industry by dividend yield to identify the highest yielding common stocks in each industry. From this group, NFJ buys an approximately equal number of additional stocks with the lowest P/E ratios. In selecting individual stocks, NFJ also considers quantitative factors such as price momentum (based on analysts' earnings per share estimates and revisions to those estimates), relative dividend yields, valuations relative to the overall market and trading liquidity. NFJ will ordinarily replace an investment when a similar investment opportunity within the same industry

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group has a considerably higher dividend yield or lower valuation than the current holding. The Equity Component may include common stocks outside of the selection universe described above, consistent with the Fund's investment objectives and policies.

To the extent that NFJ invests in preferred stocks or real estate investment trusts for the Equity Component, NFJ considers quantitative factors similar to those used for common stocks as described above, and also uses traditional credit analysis, taking into account factors such as changes in credit fundamentals, changes in attractiveness relative to other securities and changes in industry fundamentals.

NFJ will also manage the Equity Component with a view toward reducing the portion of Fund distributions that are taxed as ordinary income by focusing investments in common stocks that pay dividends that may qualify for taxation to individual Common Shareholders as "qualified dividend income," and thus be eligible for taxation at favorable rates applicable to long-term capital gains. See "Tax Matters." However, it is expected that a substantial portion of the Fund's net investment income (including income derived from the Convertible Component and a portion of the gains received from index option premiums) will be taxed to Common Shareholders at ordinary income tax rates. Therefore, the Fund should not be viewed as a vehicle designed to maximize after-tax returns. See "Tax Risk."

Convertible Component. In selecting convertible securities for the Convertible Component, NACM attempts to identify issuers that successfully adapt to change. NACM evaluates each convertible security's investment characteristics as an income-producing security, using the credit analysis techniques described below, as well as its potential for capital appreciation, using techniques that focus on the security's equity characteristics. NACM seeks to capture approximately 70-80% 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, NACM 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.

NACM also 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. NACM attempts to identify potential investments that it expects will exceed minimum credit statistics and exhibit the highest visibility of future expected

operating performance. NACM relies heavily on its own analysis of the credit quality and risks associated with individual securities considered for the Convertible Component, rather than relying exclusively on rating agencies or third-party research. The team managing the Convertible Component utilizes this information in an attempt to minimize credit risk and identify issuers, industries or sectors that are undervalued or that offer high current income or attractive capital appreciation relative to NACM's assessment of their credit characteristics.

NACM's discipline in selling investments that have become less attractive is clearly defined and designed to drive the Convertible Component 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.

Index Option Strategy. In implementing the Fund's Index Option Strategy, PEA will "sell" or "write" call options on equity indexes such that the underlying value of the indexes are approximately equal to (and do not exceed) the net asset value of the Fund's Equity Component--i.e., approximately 75% of the Fund's net assets, subject to future fluctuations in the assets attributable to the Equity Component and annual rebalancings as described above. For these purposes, the Fund treats options on indexes as being written on securities having an aggregate value equal to the face or notional amount of the index subject to the option. This index option writing strategy is designed to produce gains from index option premiums.

Index call options are contracts representing the right to purchase the cash value of an index at a specified price (the "strike price") at or until a specified future date (the "expiration date"). The Fund will sell index options that are "European style," meaning that the options may be exercised only on the expiration date. For conventional listed call options, the option's expiration date can be up to nine months from the date the call options are first listed for trading. Longer-term call options can have expiration dates up to three years from the date of listing. The Fund expects that it will normally write options whose terms to expiration range from two months to one year, although the Fund may write options with both longer and shorter terms. PEA will not write call options on individual equity securities,

but may write options on exchange-traded funds and other similar instruments designed to correlate with the performance of an equity index or market segment.

As the writer (seller) of an equity index call option, the Fund would receive cash (the premium) from the purchaser of the option, and the purchaser would have the right to receive from the Fund any appreciation in the cash value of the index over the strike price on the expiration date. If, at expiration, the purchaser exercises the index option sold by the Fund, the Fund would pay the purchaser the difference between the cash value of the index and the strike price. In effect, the Fund sells the potential appreciation in the value of the index above the strike price in exchange for the

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premium. PEA may cause the Fund to repurchase an index call option prior to its expiration date, extinguishing the Fund's obligation, in which case the cost of repurchasing the option (net of any premiums received) will determine the gain or loss realized by the Fund.

Equity index options differ from options on individual securities in that (i) the exercise of an index option requires cash payments and does not involve the actual purchase or sale of securities, (ii) the holder of an index option has the right to receive cash upon exercise of the option if the level of the index upon which the option is based is greater than the strike price of the option and (iii) index options reflect price fluctuations in a group of securities or segments of the securities market rather than price fluctuations in a single common stock.

In pursuing the Index Option Strategy, PEA may cause the Fund to sell call options on "broad-based" equity indexes, such as the Standard & Poor's 500 Index, as well as narrower market indexes, such as the Standard & Poor's 100 Index, or on indexes of securities of companies in a particular industry or sector, including (but not limited to) financial services, technology, pharmaceuticals and consumer products. An equity index assigns relative values to the securities included in the index (which change periodically), and the index fluctuates with changes in the market values of these securities. PEA will actively manage the Fund's index options positions using

quantitative and statistical analysis that focuses on relative value and risk/return. In determining which equity index options to utilize, PEA will consider market factors, such as current market levels and volatility, and options specific factors, such as premium/cost, strike price and time to expiration. PEA will attempt to create a portfolio of equity index call options that is diversified across multiple strike prices and expiration dates.

PEA will attempt to maintain for the Fund written call options positions on equity indexes whose price movements, taken in the aggregate, are correlated with the price movements of the common stocks and other securities held in the Fund's Equity Component. In doing so, PEA will take into account periodic data provided by NFJ with respect to the Equity Component, including net assets, industry and sector weightings, historic volatility as well as periodic (typically 30 days after month-end) reports detailing portfolio holdings. However, other than through periodic holdings reports, PEA will not have access to the actual securities purchased, sold or held by or for the Equity Component due to informational barriers in place between NFJ and PEA. Therefore, the Index Option Strategy involves significant risk that the changes in value of the indexes underlying the Fund's written call options positions will not correlate closely with changes in the market value of securities held by the Equity Component. To the extent that there is a lack of correlation, movements in the indexes underlying the options positions may result in losses to the Fund, which may more than offset any gains received by the Fund from options premiums. See "Risks - Index Options Risk."

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PEA does not intend to write call options on equity indexes where the underlying value of the indexes exceed the net asset value of the Equity Component (i.e., write "naked" positions). The Fund will "cover" its written equity index call positions by segregating liquid assets in an amount equal to the contract value of the index and/or by entering into offsetting positions (e.g., by holding a call option on the same index as the call written where the strike price of the call held is equal to or less than the strike price of the call written).

The Fund will generally sell index call options which are "out-of-the-money" or "at-the-money" at the time of sale. Out-of-the-money call

options are options with a strike price above the current cash value of the index and at-the-money call options are options with a strike price equal to the cash value of the index. In addition to providing possible gains through premiums, out-of-the-money index call options allow the Fund to potentially benefit from appreciation in the equity securities held by the Fund with respect to which the option was written (to the extent correlated with the index) up to the strike price. The Fund will generally write out-of-the-money call options where the strike price is not more than 10% higher than the cash value of the index at the time of sale, although PEA reserves the flexibility to utilize written call options that are more deeply out-of-the-money if it deems appropriate depending upon market conditions and other factors. The Fund also reserves the flexibility to sell index call options that are "in-the-money" - i.e., those with a strike price below the cash value of the index at the time of sale, and will generally limit these to options where the strike price is not more than 5% lower than the cash value of the index (although the Fund may utilize options that are more deeply in-the-money depending upon market conditions and other factors). When the prices of the equity index upon which a call option is written rise, call options that were out-of-the-money when written may become in-the-money (i.e., the cash value of the index rises above the strike price of the option), thereby increasing the likelihood that the options could be exercised and the Fund forced to pay the amount of appreciation over the strike price of the option upon expiration.

Most option contracts are originated and standardized by an independent entity called the Options Clearing Corporation (the "OCC"). The Fund will write (sell) call options that are generally issued, guaranteed and cleared by the OCC. Listed call options are currently traded on the American Stock Exchange, Chicago Board Options Exchange, International Securities Exchange, New York Stock Exchange, Pacific Stock Exchange, Philadelphia Stock Exchange and various other U.S. options exchanges. The Fund may also write unlisted (or "over-the counter") call options.

Diversification. Subject to the availability of suitable investment opportunities and subject to the Fund's limitations, NFJ and NACM will attempt to diversify the investments in their respective Components broadly in an attempt to minimize the Component's sensitivity to market risk, credit risk and/or other risks associated

with a particular issuer, industry or sector, or to the impact of a single economic, political or regulatory occurrence.

Portfolio Contents. Under normal circumstances, the Fund will invest at least 80% of its net assets (plus any borrowings for investment purposes) in securities and other instruments that provide dividends, interest or option premiums.

The Equity Component will ordinarily consist principally of dividend-paying common stocks, but may also include preferred stocks and dividend-paying real estate investment trusts. The assets of the Equity Component will be invested principally in securities of U.S. issuers, but may include American Depository Receipts ("ADRs") without limit. Up to 10% of the Component's assets may be invested in foreign securities other than ADRs, including emerging market securities.

The Convertible Component will ordinarily consist of convertible securities, including synthetic convertible securities, and may include convertible securities that are of below investment grade quality (i.e., rated, at the time of investment, below Baa by Moody's or below BBB by S&P, or unrated but judged by NACM to be of comparable quality). NACM may invest in distressed securities on behalf of the Convertible Component, but will not invest in securities which are in default (rated "D" by Moody's or S&P) at the time of purchase (but may hold securities which have gone into default after they have been purchased). Up to 20% of the Convertible Component may consist of U.S. dollar-denominated securities of foreign issuers based in developed countries. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted or exchanged (by the holder or by the issuer) into shares of the underlying common stock (or cash or securities of equivalent value) at a stated exchange ratio or predetermined price. A synthetic convertible security represents the combination of separate securities that possess the two principal characteristics of a traditional convertible security, i.e., an income-producing security and the right to acquire an equity security, such as the combination of a traditional corporate bond with a warrant to purchase equity securities of the issuer of the bond.

The Fund will employ its Index Option Strategy by writing (selling) call options on equity indexes such that the underlying value of the indexes are approximately equal to and do not exceed the value of the Equity Component of the Fund - i.e., approximately 75% of the Fund's net assets, subject to future fluctuations in the assets attributable to the Equity Component and annual rebalancings. For these purposes, the Fund treats options on indexes as being written on securities held by the Fund having an aggregate value equal to the face or notional amount of the index subject to the options. Most of the options written by the Fund will be exchange-traded, although the Fund may utilize over-the-counter options.

In addition to the use of written options under the Index Option Strategy, the Fund may utilize other derivative strategies involving

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call and put options, futures and forward contracts, swap agreements, short sales and other derivative instruments in an attempt to hedge against market and other risks in the portfolio.

The Fund may invest in securities of issuers with small market capitalizations. The Fund may invest up to 15% of its total assets in illiquid securities.

As a diversified fund, the Fund generally may not, with respect to 75% of its 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 will not concentrate its investments in a particular "industry" by investing more than 25% of its total assets in that industry. See "How the Fund Manages Risk--Investment Limitations." The Fund's industry concentration policy does not preclude it from focusing investments in issuers in a group of related industrial sectors (such as different types of utilities).

Leverage and Borrowings...

Although it has no current intention to do so, the Fund reserves the flexibility to issue preferred shares or debt securities or engage in borrowings to add leverage to its portfolio. The Fund may also enter into derivative

transactions that may in some circumstances give rise to a form of financial leverage. Any leverage used by the Fund would be limited to 38% of the Fund's total assets (including the proceeds of the leverage). See "Leverage and Borrowings." To the extent that the Fund uses leverage, it would seek to obtain a higher return for shareholders than if the Fund did not use leverage. Leveraging is a speculative technique and there are special risks involved. See "Risks--Leverage Risk."

Investment Manager..... The Manager serves as the investment manager of the Fund. Subject to the supervision of the Board of Trustees, the 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 Manager will receive an annual fee, payable monthly, in an amount equal to 0.90% of the Fund's average daily total managed assets. "Total managed assets" means the total assets of the Fund (including assets attributable to any borrowings that may be outstanding) minus accrued liabilities (other than liabilities representing borrowings). The Manager is located at 1345 Avenue of the Americas, New York, New York 10105. Organized in 2000 as a subsidiary successor of a business originally organized in 1987, the Manager provides investment management and advisory services to several closed-end and open-end investment company clients. As of December 31, 2004, the Manager had approximately \$37.5 billion in assets under management. Allianz Global Investors of America L.P. is the direct parent company of PA Retail Holdings LLC, of which the Manager is a wholly-owned subsidiary. As of December 31, 2004, Allianz

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Global Investors of America L.P. and its subsidiaries, including NFJ, NACM and PEA, had approximately \$564.8 billion in assets under management.

The Manager has retained its affiliates, NFJ, NACM and PEA (each a "Sub-Adviser" and collectively, the "Sub-Advisers"), as sub-advisers to manage the Fund's portfolio investments. See "--Sub-Advisers" below.

Sub-Advisers..... NFJ will serve as the Fund's Sub-Adviser responsible for managing the Fund's Equity Component. Subject to the supervision of the Manager and pursuant to the terms of its portfolio management agreement, NFJ has full

investment discretion and makes all determinations with respect to the investment of the Equity Component's assets. NFJ is located at 2121 San Jacinto, Suite 1840, Dallas, Texas 75201. NFJ is the successor investment adviser to NFJ Investment Group, Inc., which commenced operations in 1989. NFJ provides investment management services to a number of institutional accounts, including investment companies, employee benefit plans, college endowment funds and foundations. As of December 31, 2004, NFJ had approximately \$9.3 billion in assets under management.

NACM will serve as the Fund's Sub-Adviser responsible for managing the Convertible Component. Subject to the supervision of the Manager and pursuant to the terms of its portfolio management agreement, NACM has full investment discretion and makes all determinations with respect to the investment of the Convertible Component's assets. NACM is located at 600 West Broadway, 30th Floor, San Diego, California 92101. Founded in 1984, NACM currently manages discretionary assets for numerous clients, including investment companies, employee benefit plans, corporations, public retirement systems and unions, university endowments, foundations, and other institutional investors and individuals. As of December 31, 2004, NACM had approximately \$14.5 billion in assets under management.

PEA will serve as the Fund's Sub-Adviser responsible for implementing the Index Option Strategy. Subject to the supervision of the Manager and pursuant to the terms of its portfolio management agreement, PEA has full investment discretion and makes all determinations with respect to the implementation of the Index Option Strategy. PEA is located at 1345 Avenue of the Americas, 50th Floor, New York, New York 10105. PEA provides equity-related advisory services to mutual funds and institutional accounts. As of February 15, 2005, PEA had approximately \$3.1 billion in assets under management.

The Manager (and not the Fund) will pay a portion of the fees it receives from the Fund to the Sub-Advisers in return for their services.

Distributions..... Commencing with the Fund's first dividend, the Fund intends to make quarterly cash distributions to Common Shareholders at a rate that reflects the past and projected

performance of the Fund. The Fund

expects to receive substantially all of its current income and gains from the following sources: (i) capital gains (short-term and long-term) from net index option premiums and the sale of portfolio securities; (ii) dividends received by the Fund that are paid on the common stocks and other equity securities held in the Equity Component; and (iii) interest income received by the Fund from the securities held in the Convertible Component. Distributions are likely to be variable, and the Fund's distribution rate will depend on a number of factors, including the net earnings on the Fund's portfolio investments and the rate at which such net earnings change as a result of changes in the timing of and rates at which the Fund receives income from the sources described above. The net investment income of the Fund consists of all income (other than net short-term and long-term capital gains) less all expenses of the Fund.

The Fund's quarterly distributions will be made from the Fund's net investment income and net gains from index option premiums and the sale of portfolio securities. The tax treatment and characterization of the Fund's distributions may vary significantly from time to time because of the varied nature of the Fund's investments. Pursuant to the requirements of the Investment Company Act of 1940, as amended (the "1940 Act") and other applicable laws, absent an exemption, a notice will accompany each quarterly distribution with respect to the estimated source (as between net income and gains) of the distribution made. (The Fund will indicate the proportion of its capital gains distributions that constitute long-term and short-term gains annually.) The ultimate tax characterization of the Fund's distributions made in a calendar or fiscal year cannot finally be determined until after the end of the fiscal year. As a result, there is a possibility that the Fund may make total distributions during a calendar or fiscal year in an amount that exceeds the Fund's net investment income and net realized capital gains for the relevant fiscal year. For example, the Fund may distribute amounts early in the calendar or fiscal year that derive from short-term capital gains, but incur net short-term capital losses later in the year, thereby offsetting short-term capital gains out of which distributions have already been made by the Fund. In such a situation, the amount by which the Fund's total distributions exceed net investment income and net realized capital gains would generally be treated as a tax-free

return of capital up to the amount of your tax basis in your shares, with any amounts exceeding such basis treated as gain from the sale of shares.

As portfolio and market conditions change, the rate of dividends on the Common Shares and the Fund's dividend policy could change. Over time, the Fund will distribute all of its net investment income and net short-term capital gains. In addition, at least annually, the Fund intends to distribute net realized long-term capital gains not previously distributed, if any. The 1940 Act currently limits the number of times the Fund may distribute long-term capital gains in

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any tax year, which may increase the variability of the Fund's distributions and result in certain dividends being comprised more heavily of long-term capital gains eligible for favorable income tax rates. The Fund intends to apply for exemptive relief from the Securities and Exchange Commission to allow it to distribute long-term capital gains more frequently, and if granted would intend to regularly include long-term capital gains in Fund distributions, subject to approval by the Board of Trustees. However, there is no assurance that any such exemptive relief will be granted. During periods in which the Index Option Strategy does not generate sufficient option premiums or results in net losses, a substantial portion of the Fund's dividends may be comprised of capital gains from the sale of equity securities held in the Equity Component, which would involve transaction costs borne by the Fund and may also result in realization of taxable short-term capital gains taxed at ordinary income tax rates (particularly during the initial year of the Fund's operations when all of the Fund's portfolio securities will have been held for less than one year). See "Tax Matters."

Your initial distribution is expected to be declared approximately 75 days, and paid approximately 120 days, from the completion of this offering, depending on market conditions. Unless you elect to receive distributions in cash, all of your distributions will be automatically reinvested in additional Common Shares under the Fund's Dividend Reinvestment Plan. See "Distributions" and "Dividend Reinvestment Plan." Although it does not now

intend to do so, the Board of Trustees may change the Fund's distribution policy and the amount or timing of the distributions, based on a number of factors, including the amount of the Fund's undistributed net investment income and net short- and long-term capital gains and historical and projected net investment income and net short- and long-term capital gains.

Listing..... The Common Shares have been authorized for listing on the New York Stock Exchange, subject to notice of issuance, under the trading or "ticker" symbol "NFJ." See "Description of Shares."

Custodian and Transfer Agent..... Brown Brothers Harriman & Co. will serve as custodian of the Fund's assets and will also provide certain compliance services to the Manager on behalf of the Fund. PFPC Inc. will serve as the Fund's transfer and dividend disbursement agent. See "Custodian and Transfer Agent."

Market Price of Shares.... Shares of closed-end investment companies frequently trade at prices lower than net asset value. Shares of closed-end investment companies have during some periods traded at prices higher than net asset value and during other periods traded at prices lower than net asset value. The Fund cannot assure you that Common Shares will trade at a price higher than net asset value in the future. Net asset value will be reduced immediately following the offering by the sales load and the amount of offering expenses paid or reimbursed by the Fund. See "Use of Proceeds." In addition to net asset value, market price may be affected by factors relating to the Fund such as dividend levels and stability (which will in turn be

affected by levels of dividend and interest payments by the Fund's portfolio holdings, the timing and success of the Fund's Index Option Strategy, regulation affecting the timing and character of Fund distributions, Fund expenses and other factors), portfolio credit quality, liquidity, call protection, market supply and demand, and similar factors relating to the Fund's portfolio holdings. See "Risks," "Description of Shares" and "Repurchase of Common Shares; Conversion to Open-End Fund" in

this prospectus, and the Statement of Additional Information under "Repurchase of Common Shares; Conversion to Open-End Fund." The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

Special Risk Considerations The following describes various principal risks of investing in the Fund. A more detailed description of these and other risks of investing in the Fund are described under "Risks" in this prospectus and under "Investment Objectives and Policies" in the Fund's Statement of Additional Information.

No Prior History. The Fund is a newly organized, diversified, closed-end management investment company with no history of operations.

Market Discount Risk. As with any stock, the price of the Fund's Common Shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Net asset value will be reduced immediately following the initial offering by a sales load and offering expenses paid or reimbursed by the Fund. The Common Shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Fund's shares may trade at a price that is less than their initial offering price. This risk may be greater for investors who sell their shares relatively shortly after completion of the initial public offering.

Equity Securities and Related Market Risk. The Fund will ordinarily have substantial exposure to common stocks and other equity securities in pursuing its investment objectives and policies. The market price of common stocks and other equity securities in which the Fund invests 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, including the historical and prospective earnings of the issuer and the value of its assets. The values of equity securities may decline due to general market conditions which 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.

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Equity securities generally have greater price volatility than bonds and other debt securities.

Issuer Risk. The value of securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

Dividend and Income Risk. The income shareholders receive from the Fund is based primarily on the dividends and interest it earns from its investments as well as the gains the Fund receives from writing options and selling portfolio securities, each of which can vary widely over the short and long term. The dividend income from the Fund's investments in equity securities will be influenced by both general economic activity and issuer-specific factors. In the event of a recession or adverse events affecting a specific industry or issuer, the issuers of the equity securities held by the Fund may reduce the dividends paid on such securities. If prevailing market interest rates decline, interest rates on convertible securities and other debt instruments held by the Fund, and shareholders' income from the Fund, would likely decline as well. Please see "Distributions" above for a description of other risks associated with the level, timing and character of the Fund's distributions.

Convertible Securities Risk. Convertible securities generally offer lower interest or dividend yields than non-convertible debt securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, a convertible security's market value tends to reflect the market price of the common stock of the issuing company when that stock price approaches or is greater than the convertible security's "conversion price." The conversion price is defined as the predetermined price at which the convertible security could be exchanged for the associated stock. As the market price of the underlying common stock declines, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, it may not decline in price to the same

extent as the underlying common stock. In the event of a liquidation of the issuing company, holders of convertible securities would be paid before the company's common stockholders but after holders of any senior debt obligations of the company. Consequently, the issuer's convertible securities generally entail less risk than its common stock but more risk than its debt obligations.

Synthetic Convertible Securities Risk. The value of a synthetic convertible security 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. Because the convertible element of the security is typically achieved by investing in warrants or options to buy common stock at a certain exercise price, or options on a stock index, synthetic convertible securities are subject to the risks associated with derivatives. See

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"Risks - Other Derivatives Risks." 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/High Yield Risk. Credit risk is the risk that one or more investments in convertible securities, preferred stocks or other debt instruments in the Fund's portfolio will decline in price, or fail to pay dividends, 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. The Convertible Component may invest in debt securities rated below investment grade (i.e., rated, at the time of investment, below Baa by Moody's or below BBB by S&P, or unrated but determined by NACM to be of comparable quality). NACM may invest in distressed securities on behalf of the Convertible Component, but will not invest in securities which are in default (rated "D" by Moody's or S&P) at the time of purchase (but may hold securities which have gone into default after they have been purchased). Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly

referred to as "high yield" securities or "junk bonds." Securities in the lowest investment grade category may also be considered to possess some speculative characteristics by certain rating agencies. The prices of these lower grade debt securities are generally more volatile and sensitive to actual or perceived negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade debt securities.

Index Options Risk. There are various risks associated with the Fund's Index Option Strategy. The purchaser of an index option written by the Fund has the right to any appreciation in the cash value of the index over the strike price on the expiration date. Therefore, as the writer of an index call option, the Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the equity securities held by the Fund with respect to which the option was written (to the extent that their performance is correlated with that of the index) above the sum of the premium and the strike price of the call. However, the Fund has retained the risk of loss (net of premiums received) should the price of the Fund's portfolio securities decline.

In addition, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. PEA will attempt to maintain for the Fund written call options positions on equity indexes whose price movements, taken in the aggregate, are

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correlated with the price movements of the common stocks and other securities held in the Fund's Equity Component. In doing so, PEA will take into account periodic data provided by NFJ with respect to the Equity Component, including net assets, industry and sector weightings, historic volatility as well as periodic (typically 30 days after month-end) reports detailing portfolio holdings. However, other than through periodic holdings reports, PEA will not have access to the actual securities purchased, sold or held by or for the Equity

Component due to informational barriers in place between NFJ and PEA. Therefore, the Index Option Strategy involves significant risk that the changes in value of the indexes underlying the Fund's written call options positions will not correlate closely with changes in the market value of securities held by the Equity Component. To the extent that there is a lack of correlation, movements in the indexes underlying the options positions may result in losses to the Fund, which may more than offset any gains received by the Fund from options premiums. In these and other circumstances, the Fund may be required to sell portfolio securities to satisfy its obligations as the writer of an index call option when it would not otherwise choose to do so, or may choose to sell portfolio securities to realize gains to supplement Fund distributions. Such sales would involve transaction costs borne by the Fund and may also result in realization of taxable capital gains, including short-term capital gains taxed at ordinary income tax rates, and may adversely impact the Fund's after-tax returns.

There can be no assurance that a liquid market will exist when the Fund seeks to close out an option position. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the OCC may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options). If trading were discontinued, the secondary market on that exchange (or in that class or series of options) would cease to exist. However, outstanding options on that exchange that had been issued by the OCC as a result of trades on that exchange would continue to be exercisable in accordance with their terms. The Fund's ability to terminate over-the-counter options is more limited than with exchange-traded options and may involve the risk that broker-dealers participating in such transactions will not fulfill their obligations.

The hours of trading for options may not conform to the hours during which securities held by the Fund are traded. To the extent that the

options markets close before the markets for underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the options markets. Call options are marked to market daily and their value will be affected by changes in the value of and dividend rates of securities represented in an index, an increase in interest rates, changes in the actual or perceived volatility of the stock market and underlying securities represented in an index, and the remaining term to the option's expiration. The value of options also may be adversely affected if the market for options is reduced or becomes illiquid.

The Fund's options transactions will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities on which the options are traded. These limitations govern the maximum number of options in each class which may be written by a single investor or group of investors acting in concert, regardless of whether the options are written on the same or different exchanges, boards of trade or other trading facilities or are written in one or more accounts or through one or more brokers. Thus, the number of options which the Fund may write may be affected by options written by other investment advisory clients of the Manager, PEA, NFJ, NACM or their affiliates. An exchange, board of trade or other trading facility may order the liquidation of positions found to be in excess of these limits, and it may impose other sanctions.

Other Derivatives Risk. In addition to writing index call options, PEA may write call options on behalf of the Fund with respect to exchange traded funds (ETFs) and similar products, which involves many of the risks associated with index option writing as discussed above. However, PEA will not write call options on individual securities. NACM may buy and sell put and call options on individual securities and indexes in creating synthetic convertible securities for the Convertible Component. The Fund may otherwise use a variety of derivative instruments for hedging or risk management purposes, including purchased call options, purchased or written put options, futures contracts, options on futures contracts, forward contracts and swap agreements. The Fund also may use derivatives

to gain exposure to equity and other securities in which the Fund may invest (e.g., pending investment of the proceeds of this offering).

Derivatives are subject to a number of risks described elsewhere in this prospectus, such as liquidity risk, issuer risk, interest rate risk, credit risk, counterparty risk, and management risk. They also involve the risk of mispricing or improper valuation, the risk of ambiguous documentation and the risk that changes in the value of a derivative may not correlate perfectly with an underlying asset, interest rate or index. 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.

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The Fund may enter into derivatives transactions that may in certain circumstances produce effects similar to leverage and expose the Fund to related risks. See "Leverage Risk" below.

Tax Risk. Call option premiums received by the Fund on many equity index call options will be subject to mark-to-market treatment, and gains will be recognized based on the fair market value of the options on October 31st and at the end of the Fund's taxable year (or, if disposed of, upon disposition). Under this system, 60% of the gains or losses from such equity index call options will be treated as long-term capital gains or losses and 40% will be treated as short-term capital gains or losses. Such short-term gains will be subject to ordinary income tax rates to the extent not offset by short-term capital losses. Other call option premiums received by the Fund will be recognized upon exercise, lapse or other disposition of the option and generally will be treated by the Fund as short-term capital gain or loss. Some of the call options and other devices employed by the Fund reduce risk to the Fund by substantially diminishing its risk of loss in offsetting positions in substantially similar or related property, thereby giving rise to "straddles" under the federal income tax rules. The straddle rules require the Fund to defer certain losses on positions within a straddle, and terminate or suspend the holding period for certain securities in which the Fund does not yet have a long-term holding period or has not yet satisfied the holding period required for qualified dividend income. Thus, the Fund cannot assure you as to any level of

regular quarterly net investment income (income other than net long-term capital gain) that will be treated as ordinary income, cannot assure you as to any level of short-term or long-term capital gains distributions and cannot assure you as to any ratio of regular quarterly distributions to capital gain distributions. In addition, certain of the Fund's call writing activities and investment in certain debt obligations may affect the character, timing and recognition of income and could cause the Fund to liquidate other investments in order to satisfy its distributions requirements. See "Tax Matters."

While the Equity Component will be managed with a view toward reducing the portion of Fund distributions that are taxed as ordinary income, there can be no assurance as to the percentage (if any) of the Fund's distributions that will qualify for taxation to individual Common Shareholders as "qualified dividend income," and thus be eligible for taxation at favorable rates applicable to long-term capital gains. The portion of the Fund's net investment income (including net income from the Convertible Component and portions of the gains received from the Index Option Strategy) that will be taxed to Common Shareholders at ordinary income tax rates is unknown at this time and cannot be predicted with any certainty. Therefore, the Fund should not be viewed as a vehicle designed to maximize after-tax returns. In addition, the tax treatment of Fund distributions of income generated by the Equity Component may be adversely affected as a result of the "sunset" provisions that will

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eliminate the favorable tax treatment of any tax-favored dividend income unless Congress acts to eliminate the "sunset" provisions, and may be adversely affected by future changes in tax laws and regulations. See "Tax Matters."

The tax treatment and characterization of the Fund's distributions may vary significantly from time to time because of the varied nature of the Fund's investments. The ultimate tax characterization of the Fund's distributions made in a taxable year cannot finally be determined until after the end of that taxable year. As a result, there is a possibility that the Fund may make total distributions during a

taxable year in an amount that exceeds the Fund's net investment income and net realized capital gains for that year, in which case the excess would generally be treated as a tax-free return of capital up to the amount of the shareholder's tax basis in the applicable Common Shares, with any amounts exceeding such basis treated as gain from the sale of the shares. See "Tax Matters."

Preferred Stock Risk. In addition to equity securities risk (see "--Equity Securities and Related Market Risk" above) and credit risk (see "--Credit Risk/High Yield Risk" below), investment in preferred stocks involves certain other risks. Certain preferred stocks contain provisions that allow an issuer under certain conditions to skip or defer distributions. If the Fund owns a preferred stock that is deferring its distribution, the Fund may be required to report income for tax purposes despite the fact that it is not receiving current income on this position. Preferred stocks 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 stocks 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 stocks 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.

Foreign (Non-U.S.) Investment Risk. The Fund's investments in ADRs and other securities of foreign issuers, securities denominated in foreign currencies and/or securities traded principally in securities markets outside the United States 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. The value of securities denominated in foreign currencies may fluctuate based on changes in the value of those currencies relative to the U.S. dollar, and a decline in applicable foreign exchange rates could reduce the value of such securities held by the Fund. Although the Sub-Advisers have the flexibility to hedge against this foreign currency risk, they may determine not to do so or to do so only in unusual circumstances or

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conditions. Foreign settlement procedures may involve additional risks. Foreign investment risk may be particularly high to the extent that the Fund invests in securities of issuers based in or securities denominated in the currencies of developing or "emerging market" countries.

Value Securities Risk. The Equity Component will tend to focus its investments in companies that may not be expected to experience significant earnings growth, but whose securities NFJ believes are selling at a price lower than their true value. These so-called "value" securities may be issued by companies that have experienced adverse business developments or may be subject to special risks that have caused their securities to be out of favor. If NFJ's assessment of a company's prospects is wrong, or if the market does not recognize the value of the company, the price of its securities may decline or may not approach the value anticipated.

Smaller Company Risk. The general risks associated with the types of securities in which the Fund invests are particularly pronounced for securities issued by companies with smaller market capitalizations. These companies may have limited product lines, markets or financial resources or they may depend on a few key employees. As a result, they may be subject to greater levels of credit, market and issuer risk. 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. Companies with medium-sized market capitalizations may have risks similar to those of smaller companies.

Interest Rate Risk. Generally, when market interest rates rise, the prices of convertible securities, preferred stocks paying fixed dividend rates, REITs and debt obligations fall, and vice versa. Interest rate risk is the risk that securities in the Fund's portfolio will decline in value because of increases in market interest rates. During periods of declining interest rates, an issuer of convertible securities or other debt securities may exercise an option to redeem securities prior to maturity, forcing the Fund to invest in lower-yielding securities. During periods of rising interest rates, the average life of certain types of securities may be

extended due to slower than expected payments. This may lock in a below market yield, increase the security's duration and reduce the security's value. Rising interest rates may also have an adverse impact on the equity markets. Because market interest rates are currently near their lowest levels in many years, there is a greater risk that the Fund's portfolio will decline in value as market interest rates rise.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. NFJ, NACM, PEA and the individual portfolio managers will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results. Management risk is particularly significant for the Fund because the Fund involves three separately managed components. In particular, the Index Option Strategy includes sophisticated

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investment strategies to be implemented by PEA and there can be no guarantee that these strategies will be successful. As described above under "Index Options Risk," PEA's ability to implement the Index Option Strategy successfully may be hindered due to informational barriers between NFJ and PEA with respect to specific portfolio holdings and trading data relating to the Equity Component.

Component Weighting Risk. As noted under "Investment Objectives and Strategies--Asset Allocation and Annual Rebalancing" above, the Manager will cause the Fund's entire portfolio to be rebalanced annually to the initial approximate 75%/25% asset allocation between the Equity Component and the Convertible Component. These annual rebalancings may result in additional transaction costs for the Fund and may increase the amount of capital gains (and, in particular, short-term gains) realized by the Fund, on which shareholders may pay tax. Although the portfolio will be rebalanced annually, it is expected that the relative percentage of the Fund's assets represented by the Equity and Convertible Components will vary during interim periods in relation to the relative investment performance of each Component, as well as market fluctuations and other factors. Therefore, the Fund's assets attributable to each Component may from time to

time be significantly higher or lower than the initial 75%/25% allocation described above, and the risk/return profile of the Fund (taken as a whole) will vary accordingly. For instance, an investment in the Fund would be more susceptible to interest rate, high yield and other risks associated with convertible securities if the Convertible Component were to appreciate in value more or depreciate less (in relative terms) than the Equity Component.

Leverage Risk. Although it has no current intention to do so, the Fund reserves the flexibility to issue preferred shares or debt securities or to engage in borrowings to add leverage to its portfolio. The Fund may also enter into derivative transactions that may in some circumstances give rise to a form of financial leverage. However, the Fund ordinarily will cover its positions in these derivative transactions so that there is no resulting leverage. Any leverage used by the Fund would be limited to 38% of the Fund's total assets (including the proceeds of the leverage).

The Fund manages some of its derivative positions by segregating an amount of cash or liquid securities equal to the face value 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 the Fund does not segregate liquid assets or otherwise cover its obligations under such transactions (e.g., through offsetting positions), such transactions will be treated as senior securities representing indebtedness ("borrowings") for purposes of the requirement under the 1940 Act that the Fund may not enter into any such transactions if the Fund's borrowings would thereby exceed 33 1/3% of its total assets. See "Leverage and Borrowings."

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In addition, 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. The Fund's use of leverage would create the opportunity for increased Common Share net income, but also