

AGIC Convertible & Income Fund II

Form 497

December 05, 2012

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**PROSPECTUS SUPPLEMENT**

(To Prospectus dated December 4, 2012)

## **AGIC Convertible & Income Fund II**

### **Up to 9,600,000 Common Shares**

AGIC Convertible & Income Fund II (the Fund) has entered into a sales agreement (the Sales Agreement) with JonesTrading Institutional Services LLC (JonesTrading) relating to its common shares of beneficial interest (Common Shares) offered by this Prospectus Supplement and the accompanying Prospectus. In accordance with the terms of the Sales Agreement, the Fund may offer and sell up to 9,600,000 of its Common Shares, par value \$0.00001 per share, from time to time through JonesTrading as its agent for the offer and sales of the Common Shares, subject to an aggregate cap of \$100,000,000. Under the Investment Company Act of 1940, as amended (the 1940 Act), the Fund may not sell any Common Shares at a price below the current net asset value of such common shares, exclusive of any distributing commission or discount. The Fund's investment objective is to provide total return through a combination of capital appreciation and high current income.

The Fund's outstanding Common Shares are listed on the New York Stock Exchange (NYSE) under the symbol NCZ, as will be the Common Shares offered in this Prospectus Supplement and the accompanying Prospectus, subject to notice of issuance. The last reported sale price for the Common Shares on November 19, 2012 was \$8.17 per share. The net asset value of the Common Shares at the close of business on November 19, 2012 was \$7.40 per share.

Sales of the Common Shares, if any, under this Prospectus Supplement and the accompanying Prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act of 1933, as amended (the Securities Act), including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange.

JonesTrading will be entitled to compensation between 1.50% and 3.00% of the gross sales price per share for any Common Shares sold under the Sales Agreement. In connection with the sale of the Common Shares on our behalf, JonesTrading may be deemed to be an underwriter within the meaning of the Securities Act and the compensation of JonesTrading may be deemed to be underwriting commissions or discounts.

JonesTrading is not required to sell any specific number or dollar amount of common shares, but will use its commercially reasonable efforts to sell the Common Shares offered by this Prospectus Supplement and the accompanying Prospectus. There is no arrangement for Common Shares to be received in an escrow, trust or similar arrangement.

**You should review the information set forth under Principal Risks of the Fund on page 57 of the accompanying Prospectus before investing in the Common Shares.**

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

Prospectus Supplement dated December 4, 2012

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You should read this Prospectus Supplement and the accompanying Prospectus before deciding whether to invest in the Common Shares and retain them for future reference. This Prospectus Supplement and the accompanying Prospectus contain important information about the Fund. Material that has been incorporated by reference and other information about the Fund can be obtained by calling toll free (800) 254-5197 or by writing to the Fund at c/o Allianz Global Investors Fund Management LLC, 1633 Broadway, New York, New York 10019. You may also obtain a copy of the Statement of Additional Information (and other information regarding the Fund) from the SEC's Public Reference Room in Washington, D.C. by calling (202) 551-8090. The SEC charges a fee for copies. The Fund's Statement of Additional Information and most recent annual and semiannual reports are available, free of charge, on the Fund's website (<http://www.allianzinvestors.com>). You can obtain the same information, free of charge, from the SEC's web site (<http://www.sec.gov>).

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

**You should rely only on the information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The Fund has not, and JonesTrading has not, authorized anyone to provide you with inconsistent information. If anyone provides you with inconsistent information, you should not assume that the Fund or JonesTrading has authorized or verified it. The Fund is not, and the JonesTrading is 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 Supplement and the accompanying Prospectus is accurate as of any date other than the date on the front hereof or thereof. The Fund's business, financial condition, results of operations and prospects may have changed since those dates.**

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

**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus Supplement, the accompanying Prospectus and the Fund's Statement of Additional Information, including documents incorporated by reference, contain forward-looking statements. Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar terms and the negative of such terms. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Fund's actual results are the performance of the portfolio of securities held by the Fund, the conditions in the U.S. and international financial and other markets, the price at which the Fund's Common Shares will trade in the public markets and other factors discussed in the Fund's periodic filings with the SEC.

Although the Fund believes that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those expressed or implied in our forward-looking statements. The Fund's future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Principal Risks of the Fund section of the accompanying Prospectus. You are cautioned not to place undue reliance on these forward-looking statements. All forward-looking statements contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus are made as of the date of this Prospectus Supplement or the accompanying Prospectus, as the case may be. Except for the Fund's ongoing obligations under the federal securities laws, the Fund does not intend, and the Fund undertakes no obligation, to update any forward-looking statement. The forward-looking statements contained in this Prospectus Supplement, the accompanying Prospectus and the Fund's Statement of Additional Information are excluded from the safe harbor protection provided by section 27A of the Securities Act.

Currently known risk factors that could cause actual results to differ materially from the Fund's expectations include, but are not limited to, the factors described in the Principal Risks of the Fund section of the accompanying Prospectus. The Fund urges you to review carefully those sections for a more detailed discussion of the risks of an investment in our securities.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This is only a summary. This summary may not contain all of the information that you should consider before investing in the Fund's common shares of beneficial interest (the Common Shares). You should review the more detailed information contained in this Prospectus Supplement and in the accompanying Prospectus and in the Statement of Additional Information, especially the information set forth under the heading Principal Risks of the Fund beginning on page 57 of the accompanying Prospectus.*

**The Fund**

AGIC Convertible & Income Fund II (the Fund) is a diversified, closed-end management investment company. The Fund commenced operations on July 31, 2003, following the initial public offering of its Common Shares.

The Common Shares are listed on the New York Stock Exchange (NYSE) under the symbol NCZ. As of November 19, 2012, the net assets of the Fund attributable to Common Shares were \$467,429,590 and the Fund had outstanding 63,170,343 Common Shares and 10,960 auction rate preferred shares of beneficial interest (ARPS and, together with any other preferred shares issued by the Fund, Preferred Shares). On November 19, 2012, the last reported sale price of the Common Shares, as reported by the NYSE, was \$8.17 per Common Share. The net asset value of the Common Shares at the close of business on November 19, 2012, was \$7.40 per Common Share. See Description of Capital Structure in the accompanying Prospectus.

**Investment Objective**

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

**Risks**

**Investment in the Fund's Common Shares involves substantial risks arising from, among other strategies, the Fund's ability to invest in convertible securities and in debt instruments that are, at the time of purchase, rated below investment grade (below Baa3 by Moody's Investors Service, Inc. or below BBB- by either Standard & Poor's Ratings Services, a division of The McGraw-Hill Company, Inc. or Fitch, Inc.) or unrated but determined by Allianz Global Investors Capital LLC to be of comparable quality, and the Fund's use of leverage. Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal, and are commonly referred to as high yield securities or junk bonds. Because of the risks associated with investing in convertible securities and high yield securities and using leverage, an investment in the Fund should be considered speculative. Before investing in the**

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**Common Shares, you should read the discussion of the principal risks of investing in the Fund, including the risks of leverage and of investing in below investment grade/high yield securities, in Principal Risks of the Fund in the accompanying Prospectus. Certain of these risks are summarized in Prospectus Summary Principal Risks of the Fund in the accompanying Prospectus.**

**Investment Manager**

Allianz Global Investors Fund Management LLC (the Investment Manager ) serves as the investment manager of the Fund. Subject to the supervision of the Board of Trustees of the Fund (the Board ), the Investment Manager is responsible for managing, either directly or through others selected by it, the investment activities of the Fund and the Fund's business affairs and other administrative matters. The Investment Manager receives an annual fee from the Fund, payable monthly, in an amount equal to 0.70% of the Fund's average daily total managed assets. Total managed assets means the total assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding) minus accrued liabilities (other than liabilities representing leverage). The Investment Manager is located at 1633 Broadway, New York, New York 10019. Organized in 2000, the Investment Manager provides investment management and advisory services to a number of closed-end and open-end investment company clients. The Investment Manager is a wholly-owned indirect subsidiary of Allianz SE, a publicly-traded European insurance and financial services company. As of September 30, 2012, the Investment Manager had approximately \$49 billion in assets under management.

The Investment Manager has retained its affiliate, Allianz Global Investors Capital LLC ( AGIC ), as a sub-adviser to manage the Fund's portfolio investments. See Sub-Adviser below.

**Sub-Adviser**

AGIC serves as the Fund's sub-adviser responsible for managing the Fund's portfolio investments. Subject to the supervision of the Investment Manager, AGIC has full investment discretion and makes all determinations with respect to the investment of the Fund's assets.

AGIC is registered as an investment adviser with the SEC and is organized as a Delaware limited liability company. Its principal place of business is located at 600 West Broadway, San Diego, California 92101. AGIC also has an office located at 1633 Broadway, New York, New York 10019. AGIC provides investment management services across a broad class of assets including equity, fixed income, futures and options, convertibles and other securities and derivative instruments. AGIC's primary business is to provide discretionary advisory services to institutional clients through its separate account management services.

In addition, AGIC provides discretionary investment advisory services to a variety of commingled funds (including SEC registered open-end investment companies, SEC registered closed-end

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investment companies and other commingled funds that are not registered with the SEC), which may be sponsored or established by AGIC, its affiliates or by unaffiliated third parties. AGIC also participates as a non-discretionary investment adviser providing investment models to unaffiliated third parties. As of September 30, 2012, AGIC had assets under management of approximately \$16 billion.

**The Offering**

The Fund and the Investment Manager have entered into the Sales Agreement with JonesTrading relating to the Common Shares offered by this Prospectus Supplement and the accompanying Prospectus. In accordance with the terms of the Sales Agreement, the Fund may offer and sell up to 9,600,000 Common Shares, par value \$0.00001, through JonesTrading as its agent for the offer and sale of the Common Shares, subject to an aggregate cap of \$100,000,000.

The Fund's outstanding Common Shares are listed on the NYSE under the symbol NCZ, as will be the Common Shares offered in this Prospectus Supplement and the accompanying Prospectus, subject to notice of issuance. The last reported sale price for the Common Shares on November 19, 2012 was \$8.17 per share.

Sales of the Common Shares, if any, under this Prospectus Supplement and the accompanying Prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act of 1933, as amended (the Securities Act), including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange. See Plan of Distribution in this Prospectus Supplement. The Common Shares may not be sold through agents, underwriters or dealers without delivery or deemed delivery of a prospectus and a prospectus supplement describing the method and terms of the offering of the Fund's securities. Under the 1940 Act, the Fund may not sell any Common Shares at a price below the current net asset value of such Common Shares, exclusive of any distributing commission or discount.

**Use of Proceeds**

The net proceeds of this offering will be invested in accordance with the Fund's investment objective and policies as set forth in the accompanying Prospectus. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds of this offering in investments that meet its investment objective and policies within 30 days of receipt by the Fund. See Use of Proceeds.

**Table of Contents****SUMMARY OF FUND EXPENSES**

The following table is intended to assist investors in understanding the fees and expenses (annualized) that an investor in Common Shares of the Fund would bear, directly or indirectly, as a result of an offering. The table assumes the use of leverage attributable to the Fund's outstanding Preferred Shares in an amount equal to 36.41% of the Fund's total assets (taking into account the aggregate dollar amount (*i.e.*, the liquidation preference) of such Preferred Shares), which reflects approximately the percentage of the Fund's total assets attributable to such leverage as of August 31, 2012. The table and example below are based on the Fund's capital structure as of August 31, 2012. The extent of the Fund's assets attributable to leverage following an offering, and the Fund's associated expenses, are likely to vary (perhaps significantly) from these assumptions.

**Shareholder Transaction Expenses**

Sales load (as a percentage of offering price)	1.50% <sup>(1)</sup>
Offering Expenses Borne by Common Shareholders (as a percentage of offering price)	0.32%
Dividend Reinvestment Plan Fees	None <sup>(2)</sup>

	Percentage of Net Assets Attributable to Common Shares
<b>Annual Expenses</b>	
Management Fees <sup>(3)</sup>	1.11%
Dividend Expense on Preferred Shares <sup>(4)</sup>	0.14%
Other Expenses <sup>(5)</sup>	0.22%
<b>Total Annual Expenses</b>	<b>1.47%</b>

- (1) Represents the estimated commission with respect to the Common Shares being sold in this offering, which the Fund will pay to JonesTrading in connection with sales of Common Shares effected by JonesTrading in this offering. While JonesTrading is entitled to a commission of 1.50% to 3.00% of the gross sales price for Common Shares sold, with the exact amount to be agreed upon by the parties, the Fund has assumed, for purposes of this offering, that JonesTrading will receive a commission of 1.50% of such gross sales price. This is the only sales load to be paid in connection with this offering. There is no guarantee that there will be any sales of Common Shares pursuant to this Prospectus Supplement and the accompanying Prospectus. Actual sales of Common Shares under this Prospectus Supplement and the accompanying Prospectus, if any, may be less than as set forth in this table. In addition, the price per share of any such sale may be greater or less than the price set forth in this table, depending on the market price of the Common Shares at the time of any such sale.
- (2) You will pay brokerage charges if you direct your broker or the plan agent to sell your Common Shares that you acquired pursuant to a dividend reinvestment plan. You may also pay a pro rata share of brokerage commissions incurred in connection with open-market purchases pursuant to the Fund's Dividend Reinvestment Plan. See **Dividend Reinvestment Plan** in the accompanying Prospectus.
- (3) See **Management of the Fund Investment Manager** in the accompanying Prospectus.
- (4) Assumes Preferred Shares outstanding in an amount equal to 36.41% of the Fund's total assets (taking into account such outstanding Preferred Shares) at an annual dividend cost to the Fund of 0.24%, and assumes the Fund will continue to pay Preferred Share dividends at the maximum applicable rate called for under the Fund's Bylaws due to the ongoing failure of auctions for the ARPS. The actual dividend rate paid on the ARPS will vary over time in accordance with variations in market interest rates. In July 2012, Moody's downgraded its rating of the ARPS from Aaa to A1 pursuant to a revised ratings methodology adopted by Moody's. Under the Fund's Bylaws, this resulted in an increase in the multiple used to calculate the maximum applicable rate from 150% to 200%, thereby increasing the dividend rate payable to holders of the ARPS and increasing the expenses to Common Shareholders associated with the Fund's leverage. See **Use of**



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Leverage and Description of Capital Structure in the accompanying Prospectus.

- (5) Other expenses are estimated for the Fund's current fiscal year ending February 28, 2013.

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**Example**

The following example illustrates the expenses that you would pay on a \$1,000 investment in Common Shares of the Fund (including an assumed total sales load or commission of 1.50% and the other estimated costs of this offering to be borne by the Common Shareholders of 0.32%), assuming (1) that the Fund's net assets do not increase or decrease, (2) that the Fund incurs total annual expenses of 1.47% of net assets attributable to Common Shares in years 1 through 10 (assuming outstanding Preferred Shares representing 36.41% of the Fund's total assets) and (3) a 5% annual return<sup>(1)</sup>:

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Total Expenses Incurred	\$ 33	\$ 64	\$ 97	\$ 191

- (1) **The example above should not be considered a representation of future expenses. Actual expenses may be higher or lower than those shown.** The example assumes that the estimated Dividend Expenses on Preferred Shares and Other Expenses set forth in the Annual Expenses table are accurate, that the rate listed under Total Annual Expenses remains the same each year and that all dividends and distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% annual return shown in the example.

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**USE OF PROCEEDS**

Sales of the Common Shares, if any, under this Prospectus Supplement and the accompanying Prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange. There is no guarantee that there will be any sales of the Common Shares pursuant to this Prospectus Supplement and the accompanying Prospectus. Actual sales, if any, of the Common Shares under this Prospectus Supplement and the accompanying Prospectus may be less than as set forth in this paragraph. In addition, the price per share of any such sale may be greater or less than the price set forth in this paragraph, depending on the market price of the Common Shares at the time of any such sale. As a result, the actual net proceeds the Fund receives may be more or less than the amount of net proceeds estimated in this Prospectus Supplement. Assuming the sale of all of the Common Shares offered under this Prospectus Supplement and the accompanying Prospectus, at the last reported sale price of \$8.17 per share for the Common Shares on the NYSE as of November 19, 2012, the Fund estimates that the net proceeds of this offering will be approximately \$77,004,520 after deducting the estimated sales load and the estimated offering expenses payable by the Fund.

The net proceeds of this offering will be invested in accordance with the Fund's investment objective and policies as set forth in the accompanying Prospectus. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in investments that meet its investment objective and policies within 30 days of receipt by the Fund. Pending such investment, it is anticipated that the proceeds of this offering will be invested in high grade, short-term securities, credit-linked trust certificates, and/or high yield securities index futures contracts or similar derivative instruments designed to give the Fund exposure to the securities and markets in which it intends to invest while AGIC selects specific investments.

**Table of Contents****CAPITALIZATION**

Pursuant to the Sales Agreement, the Fund may offer and sell up to 9,600,000 of the Common Shares, par value \$0.00001 per share, from time to time through JonesTrading as its agent for the offer and sale of the Common Shares under this Prospectus Supplement and the accompanying Prospectus. There is no guarantee that there will be any sales of the Common Shares pursuant to this Prospectus Supplement and the accompanying Prospectus. The table below assumes that the Fund will sell 9,600,000 Common Shares at a price of \$8.17 per share (the last reported sale price for the Common Shares on the NYSE on November 19, 2012). Actual sales, if any, of the Common Shares, and the actual application of the proceeds thereof, under this Prospectus Supplement and the accompanying Prospectus may be different than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than \$8.17, depending on the market price of the Common Shares at the time of any such sale. To the extent that the market price per share of the Common Shares on any given day is less than the net asset value per share on such day, the Fund will instruct JonesTrading not to make any sales on such day.

The following table sets forth the Fund's capitalization at August 31, 2012:

on a historical basis, and

and on a pro forma basis as adjusted to reflect (i) the assumed sale of 9,600,000 Common Shares at \$8.17 per share (the last reported sale price per share of the Common Shares on the NYSE on November 19, 2012), in an offering under this Prospectus Supplement and the accompanying Prospectus, and (ii) the investment of net proceeds assumed from such offering in accordance with the Fund's investment objective and policies, after deducting the assumed commission of \$1,176,480 (representing an estimated commission paid to JonesTrading of 1.50% of the gross sales price per share in connection with sales of common shares effected by JonesTrading in this offering) and offering expenses payable by the Fund of \$251,000.

	As of August 31, 2012 (unaudited)	
	Actual	As Adjusted
Preferred Shares, (\$0.00001 par value and \$25,000 liquidation preference per share applicable to an aggregate of 10,960 shares issued and outstanding)	\$ 274,000,000	\$ 274,000,000
<b>Composition of Net Assets:</b>		
<b>Common Shares:</b>		
Common Shares, par value \$0.00001 per share, unlimited shares authorized (63,007,302 shares outstanding as of August 31, 2012, and 72,607,302 shares estimated issued and outstanding as adjusted)	\$ 630	\$ 726
Paid-in-capital in excess of par	\$ 873,669,224	\$ 950,673,648
Dividends in excess of net investment income	\$ (5,149,747)	\$ (5,149,747)
Accumulated net realized loss	\$ (414,195,163)	\$ (414,195,163)
Net unrealized appreciation of investments	\$ 18,284,265	\$ 18,284,265
<b>Net Assets Applicable to Common Shareholders</b>	<b>\$ 472,609,209</b>	<b>\$ 549,613,729</b>
<b>Capitalization</b>	<b>\$ 746,609,209</b>	<b>\$ 823,613,729</b>

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The following table sets forth, for each of the periods indicated, the high and low closing market prices of the Fund's Common Shares on the NYSE, the high and low Net Asset Value (NAV) per Common Share and the high and low premium/discount to NAV per Common Share. See "Net Asset Value" in the accompanying Prospectus for information as to how the Fund's NAV is determined.

Quarter	Common share market price <sup>(1)</sup>		Common share net asset value		Premium (discount) as a % of net asset value	
	High	Low	High	Low	High	Low
Quarter ended February 28, 2010	\$ 9.10	\$ 7.99	\$ 8.39	\$ 7.76	9.77%	(1.24)%
Quarter ended May 31, 2010	\$ 9.87	\$ 7.97	\$ 8.58	\$ 7.67	15.98%	2.57%
Quarter ended August 31, 2010	\$ 9.30	\$ 8.30	\$ 8.20	\$ 7.61	13.63%	5.20%
Quarter ended November 30, 2010	\$ 9.43	\$ 8.80	\$ 8.63	\$ 7.97	12.84%	6.83%
Quarter ended February 28, 2011	\$ 10.29	\$ 8.96	\$ 8.95	\$ 8.36	16.08%	6.29%
Quarter ended May 31, 2011	\$ 10.29	\$ 9.53	\$ 8.88	\$ 8.54	17.46%	11.59%
Quarter ended August 31, 2011	\$ 10.13	\$ 7.71	\$ 8.65	\$ 7.24	18.07%	4.44%
Quarter ended November 30, 2011	\$ 8.60	\$ 7.14	\$ 7.53	\$ 6.49	15.66%	8.32%
Quarter ended February 29, 2012	\$ 8.89	\$ 7.80	\$ 7.86	\$ 6.95	15.79%	9.61%
Quarter ended May 31, 2012	\$ 8.92	\$ 7.71	\$ 7.88	\$ 7.26	14.27%	6.20%
Quarter ended August 31, 2012	\$ 8.61	\$ 7.78	\$ 7.52	\$ 7.11	14.96%	9.38%
Quarter ended November 30, 2012	\$ 8.85	\$ 7.54	\$ 7.78	\$ 7.33	15.43%	2.17%

(1) Such prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. The last reported price for the Common Shares on November 19, 2012 was \$8.17 per share. As of November 19, 2012, the net assets of the Fund attributable to Common Shares were \$467,429,590 and the Fund had outstanding 63,170,343 Common Shares and 10,960 Preferred Shares.

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**PLAN OF DISTRIBUTION**

Under the Sales Agreement among the Fund, the Investment Manager and JonesTrading, upon written instructions from the Fund, JonesTrading will use its commercially reasonable efforts consistent with its normal sales and trading practices, to solicit offers to purchase the Fund's Common Shares, under the terms and subject to the conditions set forth in the Sales Agreement. JonesTrading's solicitation will continue until the Fund instructs JonesTrading to suspend the solicitations and offers or the solicitation is otherwise terminated in accordance with the Sales Agreement. The Fund will instruct JonesTrading as to the amount of Common Shares to be sold by JonesTrading. The Fund may instruct JonesTrading not to sell the Common Shares if the sales cannot be effected at or above the price designated by the Fund in any instruction. The Fund or JonesTrading may suspend the offering of Common Shares upon proper notice and subject to other conditions.

JonesTrading will provide written confirmation to the Fund not later than the opening of the trading day on the NYSE following the trading day on which the Common Shares are sold under the Sales Agreement. Each confirmation will include the number of shares sold on the preceding day, the net proceeds to the Fund and the compensation payable by the Fund to JonesTrading in connection with the sales.

The Fund will pay JonesTrading commissions for its services in acting as agent in the sale of the Common Shares. JonesTrading will be entitled to compensation of between 1.50% and 3.00% of the gross sales price per share of any Common Shares sold under the Sales Agreement. There is no guarantee that there will be any sales of the Common Shares pursuant to this Prospectus Supplement and the accompanying Prospectus.

Actual sales, if any, of the Common Shares under this Prospectus Supplement and the accompanying Prospectus may be less than as set forth in this paragraph. In addition, the price per share of any such sale may be greater or less than the price set forth in this paragraph, depending on the market price of the Shares at the time of any such sale. Assuming 9,600,000 Shares offered hereby are sold at a market price of \$8.17 per share (the last reported sale price for the Shares on the NYSE on November 19, 2012), we estimate that the total expenses for the offering, excluding compensation payable to JonesTrading under the terms of the Sales Agreement, would be approximately \$251,000.

Settlement for sales of any Common Shares will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by the Fund and JonesTrading in connection with a particular transaction, whereupon the net proceeds of the sales will be delivered to the Fund. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

In connection with the sale of the Common Shares on behalf of the Fund, JonesTrading may, and will with respect to sales effected in an at the market offering, be deemed to be an underwriter within the meaning of the Securities Act, and the compensation of JonesTrading may be deemed to be underwriting commissions or discounts. The Fund has agreed to provide indemnification and contribution to JonesTrading against certain civil liabilities, including liabilities under the Securities Act.

The offering of Common Shares pursuant to the Sales Agreement will terminate upon the earlier of (1) the sale of all Common Shares subject the Sales Agreement or (2) termination of the Sales Agreement. The Sales Agreement may be terminated by the Fund in its sole discretion at any time by giving notice to JonesTrading. In addition, JonesTrading may terminate the Sales Agreement under the circumstances specified in the Sales Agreement and in its sole discretion by giving notice to us at any time following the period of twelve (12) months after the date of the Sales Agreement.

The Fund may engage in brokerage and other dealings with JonesTrading in the ordinary course of business for which JonesTrading may receive customary fees and commissions for its services on these transactions.

The principal business address of JonesTrading is 780 Third Avenue, 3rd Floor, New York, New York 10017.

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**LEGAL MATTERS**

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

**ADDITIONAL INFORMATION**

This Prospectus Supplement and the accompanying Prospectus constitute part of a Registration Statement filed by the Fund with the SEC under the Securities Act and the 1940 Act. This Prospectus Supplement and the accompanying Prospectus omit certain of the information contained in the Registration Statement, and reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Fund and the Common Shares offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the SEC. Each such statement is qualified in its entirety by such reference. The complete Registration Statement may be obtained from the SEC upon payment of the fee prescribed by its rules and regulations or free of charge through the SEC's web site (<http://www.sec.gov>).

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**BASE PROSPECTUS**

**\$100,000,000**

**AGIC Convertible & Income Fund II**

**Common Shares of Beneficial Interest**

*Investment Objective.* AGIC Convertible & Income Fund II (the Fund) is a diversified, closed-end management investment company that commenced operations on July 31, 2003, following the initial public offering of its common shares. The Fund's investment objective is to provide total return through a combination of capital appreciation and high current income. The Fund cannot assure you that it will achieve its investment objective, and you could lose all of your investment in the Fund.

*Portfolio Contents.* Under normal circumstances, the Fund will invest at least 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities. The portion of the Fund's assets invested in convertible securities, on the one hand, and non-convertible income-producing securities, on the other, will vary from time to time consistent with the Fund's investment objective, although the Fund will normally invest at least 50% of its total assets in convertible securities. In making allocation decisions, Allianz Global Investors Capital LLC (AGIC) will consider factors such as changes in equity prices, changes in interest rates and other economic and market factors. The Fund may invest without limit in convertible securities and non-convertible income-producing securities that are rated below investment grade (below Baa3 by Moody's Investors Service, Inc. (Moody's)) or below BBB- by either Standard & Poor's Ratings Services, a division of The McGraw-Hill Company, Inc. (S&P) or Fitch, Inc. (Fitch)) or that are unrated but judged by AGIC to be of comparable quality, and expects that ordinarily AGIC's portfolio strategies will result in the Fund investing primarily in these securities. The Fund may invest without limit in securities of any rating. The Fund typically invests in securities with a broad range of maturities. The weighted average maturity of the Fund's portfolio will typically range from five to ten years, although the weighted average maturity of obligations held by the Fund may be shorter or longer at any time or from time to time depending on market conditions.

*(continued on following page)*

The Fund's common shares (the Common Shares) are listed on the New York Stock Exchange (NYSE) under the symbol NCZ. The last reported sale price of the Common Shares, as reported by the NYSE on November 19, 2012, was \$8.17 per Common Share. The net asset value of the Common Shares at the close of business on November 19, 2012, was \$7.40 per Common Share.

**Investment in the Fund's Common Shares involves substantial risks arising from, among other strategies, the Fund's ability to invest in convertible securities and in debt instruments that are, at the time of purchase, rated below investment grade (below Baa3 by Moody's or below BBB- by either S&P or Fitch) or unrated but determined by AGIC to be of comparable quality, and the Fund's use of leverage. Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal, and are commonly referred to as high yield securities or junk bonds. Because of the risks associated with investing in convertible securities and high yield securities and using leverage, an investment in the Fund should be considered speculative. Before investing in the Common Shares, you should read the discussion of the principal risks of investing in the Fund, including the risks of leverage and of investing in below investment grade/high yield securities, in Principal Risks of the Fund. Certain of these risks are summarized in Prospectus Summary Principal Risks of the Fund.**

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



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(continued from previous page)

The Fund may invest up to 20% of its total assets in securities other than convertible securities and non-convertible income-producing securities. The Fund may invest up to 5% of its total assets in illiquid securities (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). The Fund may hold or have exposure to equity securities. The Fund may invest in securities of other open- or closed-end investment companies, including, but not limited to, exchange-traded funds. The Fund may invest in securities of companies with small and medium market capitalizations.

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

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward contracts, call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements and other derivative instruments for investment purposes, leveraging purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may purchase and sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

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

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

*Leverage.* The Fund currently utilizes leverage through its outstanding auction rate preferred shares. The Fund may issue additional preferred shares to add leverage to its portfolio. The Fund may also add leverage to its portfolio by utilizing reverse repurchase agreements, dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities, although these forms of leverage will generally be used, if at all, as a substitute for, rather than in addition to, the leverage obtained through the issuance of preferred shares. The Fund may also enter into transactions other than those noted above that may give rise to a form of leverage including, among others, futures and forward contracts, credit default swaps, total return swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions. Depending upon market conditions and other factors, the Fund may or may not determine to add leverage following an offering to maintain or increase the total amount of leverage (as a percentage of the Fund's total assets) that the Fund currently maintains, taking into account the additional assets

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raised through the issuance of Common Shares in such offering. The Fund utilizes leverage opportunistically and may choose to increase or decrease, or eliminate entirely, its use of leverage over time and from time to time based on AGIC's assessment of the yield curve environment, interest rate trends, market conditions and other factors. If the Fund determines to add leverage following an offering, it is not possible to predict with accuracy the precise amount of leverage that would be added, in part because it is not possible to predict the number of Common Shares that ultimately will be sold in an offering or series of offerings. To the extent that the Fund does not add additional leverage following an offering, the Fund's total amount of leverage as a percentage of its total assets will decrease, which could result in a reduction of investment income available for distribution to common shareholders. Leveraging is a speculative technique and there are special risks and costs involved. There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is employed. See "Use of Leverage" and "Principal Risks of the Fund - Leverage Risk."

This prospectus is part of a registration statement that the Fund has filed with the Securities and Exchange Commission, using the shelf registration process. The Fund may offer, from time to time, in one or more offerings, including through rights offerings, up to \$100,000,000 of the Common Shares on terms to be determined at the time of the offering. This prospectus provides you with a general description of the Common Shares that the Fund may offer. Each time the Fund uses this prospectus to offer Common Shares, the Fund will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement, which contains important information about the Fund, carefully before you invest in the Common Shares. Common Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents, underwriters or dealers involved in the sale of Common Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund's underwriters, on the basis upon which such amount may be calculated. See "Plan of Distribution." The Fund may not sell any Common Shares through agents, underwriters or dealers without delivery or deemed delivery of a prospectus supplement describing the method and terms of the particular offering of the Common Shares.

You should retain this prospectus and any prospectus supplement for future reference. A Statement of Additional Information, dated December 4, 2012, containing additional information about the Fund has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page 96 of this prospectus. You may request a free copy of the Statement of Additional Information, request the Fund's most recent annual and semiannual reports, request information about the Fund and make shareholder inquiries by calling toll free (800) 254-5197 or by writing to the Fund at c/o Allianz Global Investors Fund Management LLC, 1633 Broadway, New York, New York 10019. You may also obtain a copy of the Statement of Additional Information (and other information regarding the Fund) from the Securities and Exchange Commission's Public Reference Room in Washington, D.C. by calling (202) 551-8090. The Securities and Exchange Commission charges a fee for copies. The Fund's Statement of Additional Information and most recent annual and semiannual reports are available, free of charge, on the Fund's website (<http://www.allianzinvestors.com>). You can obtain the same information, free of charge, from the Securities and Exchange Commission's web site (<http://www.sec.gov>).

The 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.

Prospectus dated December 4, 2012

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

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**PROSPECTUS SUMMARY**

*This is only a summary. This summary may not contain all of the information that you should consider before investing in the Fund's common shares of beneficial interest (the Common Shares). You should review the more detailed information contained in this prospectus and in any related prospectus supplement and in the Statement of Additional Information, especially the information set forth under the heading Principal Risks of the Fund.*

**The Fund**

AGIC Convertible & Income Fund II (the Fund) is a diversified, closed-end management investment company. The Fund commenced operations on July 31, 2003, following the initial public offering of its Common Shares.

The Common Shares are listed on the New York Stock Exchange (NYSE) under the symbol NCZ. As of November 19, 2012, the net assets of the Fund attributable to Common Shares were \$467,429,590 and the Fund had outstanding 63,170,343 Common Shares and 10,960 auction rate preferred shares of beneficial interest (ARPS and, together with any other preferred shares issued by the Fund, Preferred Shares). The last reported sale price of the Common Shares, as reported by the NYSE on November 19, 2012, was \$8.17 per Common Share. The net asset value of the Common Shares at the close of business on November 19, 2012, was \$7.40 per Common Share. See Description of Capital Structure.

**The Offering**

The Fund may offer, from time to time, in one or more offerings, including through rights offerings, up to \$100,000,000 of the Common Shares on terms to be determined at the time of the offering. The Common Shares may be offered at prices and on terms to be set forth in one or more prospectus supplements. You should read this prospectus and the applicable prospectus supplement carefully before you invest in the Common Shares. Common Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents, underwriters or dealers involved in the sale of Common Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund's underwriters, or the basis upon which such amount may be calculated. See Plan of Distribution. The Fund may not sell any Common Shares through agents, underwriters or dealers without delivery or deemed delivery of a prospectus supplement describing the method and terms of the particular offering of the Common Shares.

**Use of Proceeds**

The net proceeds of an offering will be invested in accordance with the Fund's investment objective and policies as set forth below. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds of an offering in investments that meet its investment objective and policies within 30 days of receipt by the Fund. See Use of Proceeds.

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### **Investment Objective**

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

### **Portfolio Management Strategies**

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

In selecting convertible securities for investment by the Fund, AGIC evaluates each convertible security's investment characteristics as an income-producing security, using the techniques described above, as well as its potential for capital appreciation, using techniques that focus on the security's equity characteristics. AGIC seeks to capture approximately 60-80% of any increase in the market price of the underlying equities (upside potential) and 50% or less of any decrease in the market price of the underlying equities (downside exposure). In analyzing specific companies for possible investment, AGIC 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. AGIC will consider selling a particular convertible security when any of those factors materially changes.

### **Independent Credit Analysis**

AGIC relies heavily on its own analysis of the credit quality and risks associated with individual securities considered for the Fund, rather than relying exclusively on rating agencies or third-party research. The Fund's portfolio managers utilize this information in an attempt to minimize credit risk and identify issuers, industries or sectors that are undervalued or that offer attractive capital appreciation potential

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or high current income relative to AGIC's assessment of their credit characteristics. This aspect of AGIC's capabilities will be particularly important to the extent that the Fund invests in high yield securities.

**Portfolio Contents**

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

The Fund may invest up to 20% of its total assets in securities other than convertible securities and non-convertible income-producing securities. The Fund may invest up to 5% of its total assets in illiquid securities (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). The Fund may hold or have exposure to equity securities. The Fund may invest in securities of other open- or closed-end investment companies, including, but not limited to, exchange-traded funds (ETFs). The Fund may invest in securities of companies with small and medium market capitalizations.

The Fund may utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward contracts, call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements and other derivative instruments for investment purposes, leveraging purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may purchase and sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

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**Table of Contents****Convertible Securities**

The Fund may invest without limit in convertible securities, and these securities will ordinarily constitute a principal component of the Fund's investment program. Under normal circumstances, the Fund will invest at least 50% of its total assets in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted or exchanged at either a stated price or stated rate into underlying shares of common stock. Convertible securities have general characteristics similar to both debt securities and equity securities. Although to a lesser extent than with debt obligations, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stocks and, therefore, also will react to variations in the general market for equity securities. Convertible securities are investments that provide for a stable stream of income with generally higher yields than common stocks. There can be no assurance of current income because the issuers of the convertible securities may default on their obligations. Convertible securities, however, generally offer lower interest or dividend yields than non-convertible debt securities of similar credit quality because of the potential for equity-related capital appreciation. A convertible security, in addition to providing current income, offers the potential for capital appreciation through the conversion feature, which enables the holder to benefit from increases in the market price of the underlying common stock. See Investment Objective and Strategies Portfolio Contents Convertible Securities.

**Synthetic Convertible Securities**

The Fund also may invest without limit in synthetic convertible securities, which will be selected based on the similarity of their economic characteristics to those of a traditional convertible security due to the combination of separate securities that possess the two principal characteristics of a traditional convertible security, *i.e.*, an income-producing security ( income-producing component ) and the right to acquire an equity security ( convertible component ). The income-producing component is achieved by investing in non-convertible, income-producing securities such as bonds, preferred stocks and money market instruments. The convertible component is achieved by purchasing warrants or options to buy common stock at a certain exercise price, or options on a stock index. The Fund may also purchase synthetic securities created by other parties, typically investment banks, including convertible structured notes. The income-producing and convertible components of a synthetic convertible security may be issued separately by different issuers and at different times. The values of synthetic convertible securities will respond differently to market fluctuations than a traditional convertible security because a synthetic convertible is composed of two or more separate securities or instruments, each with its own market value. Synthetic convertible securities are also

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subject to the risks associated with derivatives. See Principal Risks of the Fund Derivatives Risk. In addition, if the value of the underlying common stock or the level of the index involved in the convertible element falls below the strike price of the warrant or option, the warrant or option may lose all value. The Fund's holdings of synthetic convertible securities are considered convertible securities for purposes of the Fund's policy to normally invest at least 50% of its total assets in convertible securities and 80% of its total assets in a diversified portfolio of convertible securities and non-convertible income-producing securities. See Investment Objective and Strategies Portfolio Contents Synthetic Convertible Securities.

**Non-Convertible Income-Producing Securities**

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

**High Yield Securities**

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



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greater potential opportunity for capital appreciation and higher yields, high yield securities typically entail greater potential price volatility and may be less liquid than higher-rated securities. High yield securities may be regarded as predominantly speculative with respect to the issuer's continuing ability to make timely principal and interest payments. They also may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain ratings agencies. See Investment Objective and Strategies Portfolio Contents High Yield Securities.

**Foreign (Non-U.S.) Investments**

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

**Restricted Securities**

The Fund may invest without limit in securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdiction, including, without limitation, securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act ), or relevant provisions of applicable non-U.S. law, and other securities issued in private placements. Rule 144A under the Securities Act provides a non-exclusive safe harbor exemption from the registration requirements of the Securities Act for the resale of certain restricted securities to certain qualified institutional buyers, such as the Fund. Restricted securities may be deemed illiquid and thus may be subject to the Fund's limit on investments in illiquid securities, although the Fund may determine that certain restricted securities are liquid in accordance with procedures adopted by the Board of Trustees.

**Leverage**

The Fund currently utilizes leverage through its outstanding ARPS. As of August 31, 2012, the aggregate dollar amount (*i.e.*, liquidation preference) of the Fund's outstanding ARPS was \$274,000,000, which then represented approximately 36.41% of the Fund's total assets (including assets attributable to the ARPS). Information regarding the terms and features of the ARPS is provided under Description of Capital Structure in this prospectus.

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The Fund may issue additional preferred shares to add leverage to its portfolio. The Fund may also add leverage to its portfolio by utilizing reverse repurchase agreements, dollar rolls or other forms of borrowings, such as bank loans or commercial paper or other credit facilities, although these forms of leverage will generally be used, if at all, as a substitute for, rather than in addition to, the leverage obtained through the issuance of Preferred Shares. The Fund may also enter into transactions other than those noted above that may give rise to a form of leverage including, among others, futures and forward contracts, credit default swaps, total return swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions.

Depending upon market conditions and other factors, the Fund may or may not determine to add leverage following an offering to maintain or increase the total amount of leverage (as a percentage of the Fund's total assets) that the Fund currently maintains, taking into account the additional assets raised through the issuance of Common Shares in such offering. The Fund utilizes leverage opportunistically and may choose to increase or decrease, or eliminate entirely, its use of leverage over time and from time to time based on AGIC's assessment of the yield curve environment, interest rate trends, market conditions and other factors. If the Fund determines to add leverage following an offering, it is not possible to predict with accuracy the precise amount of leverage that would be added, in part because it is not possible to predict the number of Common Shares that ultimately will be sold in an offering or series of offerings. To the extent that the Fund does not add additional leverage following an offering, the Fund's total amount of leverage as a percentage of its total assets will decrease, which could result in a reduction of investment income available for distribution to holders of the Common Shares (Common Shareholders).

The Fund's net assets attributable to its Preferred Shares and the net proceeds the Fund obtains from reverse repurchase agreements or other forms of leverage utilized, if any, will be invested in accordance with the Fund's investment objective and policies as described in this prospectus and any Prospectus Supplement. So long as the rate of return, net of applicable Fund expenses, on the debt obligations and other investments purchased by the Fund exceeds the dividend rates payable on the Preferred Shares together with the costs to the Fund of other leverage it utilizes, the investment of the Fund's net assets attributable to leverage will generate more income than will be needed to pay the costs of the leverage. If so, and all other things being equal, the excess may be used to pay higher dividends to Common Shareholders than if the Fund were not so leveraged.

Regarding the expenses associated with the Fund's leverage, the terms of the ARPS provide that they would ordinarily pay dividends at a rate set at auctions held every seven days, subject to a maximum applicable rate calculated as a function of the ARPS then-current rating and a reference interest rate. However, the weekly auctions for

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the ARPS, as well as auctions for similar preferred shares of other closed-end funds in the U.S., have failed since February 2008, and the dividend rates on the ARPS since that time have been paid at the maximum applicable rate (*i.e.* a multiple of a reference rate, which is the applicable AA Financial Composite Commercial Paper Rate (for a dividend period of fewer than 184 days) or the applicable Treasury Index Rate (for a dividend period of 184 days or more)). In July 2012, Moody's, one of the two ratings agencies that provides ratings for the Fund's ARPS, downgraded its rating of the ARPS from Aaa to A1 pursuant to a revised ratings methodology adopted by Moody's. Under the Fund's Bylaws, this resulted in an increase in the multiple used to calculate the maximum applicable rate from 150% to 200%, thereby increasing the dividend rate payable to ARPS holders and increasing the expenses to Common Shareholders associated with the Fund's leverage. See [Use of Leverage](#) and [Description of Capital Structure](#). The Fund expects that the ARPS will continue to pay dividends at the maximum applicable rate for the foreseeable future and cannot predict whether or when the auction markets for the ARPS may resume normal functioning. See [Principal Risks of the Fund Leverage Risk](#), [Principal Risks of the Fund Additional Risks Associated with the Fund's Preferred Shares](#) and [Description of Capital Structure](#) for more information.

Leveraging is a speculative technique and there are special risks and costs involved. The Fund cannot assure you that its Preferred Shares and use of any other forms of leverage (such as the use of reverse repurchase agreements or derivatives strategies), if any, will result in a higher yield on your Common Shares. When leverage is used, the net asset value and market price of the Common Shares and the yield to Common Shareholders will be more volatile. See [Principal Risks of the Fund Leverage Risk](#). In addition, dividend, interest and other expenses borne by the Fund with respect to its Preferred Shares and its use any other forms of leverage are borne by the Common Shareholders (and not by the holders of Preferred Shares) and result in a reduction of the net asset value of the Common Shares. In addition, because the fees received by the Investment Manager (defined below) and by the Sub-Adviser are based on the total managed assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding), the Investment Manager and the Sub-Adviser have a financial incentive for the Fund to have preferred shares outstanding and to use certain other forms of leverage (*e.g.*, reverse repurchase agreements and other borrowings), which may create a conflict of interest between the Investment Manager and the Sub-Adviser, on the one hand, and the Common Shareholders, on the other hand.

Under the 1940 Act, the Fund is not permitted to issue new preferred shares unless immediately after such issuance the value of the Fund's total net assets (as defined below) is at least 200% of the liquidation value of the outstanding Preferred Shares and the newly issued preferred shares plus the aggregate amount of any senior securities of

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the Fund representing indebtedness (*i.e.*, such liquidation value plus the aggregate amount of senior securities representing indebtedness may not exceed 50% of the Fund's total net assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the value of the Fund's total net assets satisfies the above-referenced 200% coverage requirement.

The 1940 Act also generally prohibits the Fund from engaging in most forms of leverage representing indebtedness other than preferred shares (including the use of reverse repurchase agreements, dollar rolls, bank loans, commercial paper or other credit facilities, credit default swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions, to the extent that these instruments are not covered as described below) unless immediately after the issuance of the leverage the Fund has satisfied the asset coverage test with respect to senior securities representing indebtedness prescribed by the 1940 Act; that is, the value of the Fund's total assets less all liabilities and indebtedness not represented by senior securities (for these purposes, total net assets) is at least 300% of the senior securities representing indebtedness (effectively limiting the use of leverage through senior securities representing indebtedness to 33 1/3% of the Fund's total net assets, including assets attributable to such leverage). The Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the 300% asset coverage requirement described above is satisfied. The Fund may (but is not required to) cover its commitments under reverse repurchase agreements, dollar rolls, derivatives and certain other instruments by the segregation of liquid assets, or by entering into offsetting transactions or owning positions covering its obligations. For instance, the Fund may cover its position in a reverse repurchase agreement by segregating liquid assets at least equal in amount to its forward purchase commitment. To the extent that certain of these instruments are so covered, they will not be considered senior securities under the 1940 Act and therefore will not be subject to the 300% asset coverage requirement otherwise applicable to forms of leverage used by the Fund. However, reverse repurchase agreements and other such instruments, even if covered, may represent a form of economic leverage and create special risks. The use of these forms of leverage increases the volatility of the Fund's investment portfolio and could result in larger losses to Common Shareholders than if these strategies were not used. See Principal Risks of the Fund Leverage Risk. Failure to maintain certain asset coverage requirements could result in an event of default under certain borrowings that may be used by the Fund.

The Fund's ability to utilize leverage is also limited by asset coverage requirements and other guidelines imposed by rating agencies (currently Moody's and Fitch) that provide ratings for the Preferred Shares, which may be more restrictive than the limitations imposed

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by the 1940 Act noted above. See Description of Capital Structure for more information.

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

**Investment Manager**

Allianz Global Investors Fund Management LLC (the Investment Manager) serves as the investment manager of the Fund. Subject to the supervision of the Board of Trustees of the Fund (the Board), the Investment Manager is responsible for managing, either directly or through others selected by it, the investment activities of the Fund and the Fund's business affairs and other administrative matters. The Investment Manager receives an annual fee from the Fund, payable monthly, in an amount equal to 0.70% of the Fund's average daily total managed assets. Total managed assets means the total assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding) minus accrued liabilities (other than liabilities representing leverage). The Investment Manager is located at 1633 Broadway, New York, New York 10019. Organized in 2000, the Investment Manager provides investment management and advisory services to a number of closed-end and open-end investment company clients. The Investment Manager is a wholly-owned indirect subsidiary of Allianz SE, a publicly-traded European insurance and financial services company. As of September 30, 2012, the Investment Manager had approximately \$49 billion in assets under management.

The Investment Manager has retained its affiliate, AGIC, as a sub-adviser to manage the Fund's portfolio investments. See Sub-Adviser below.

**Sub-Adviser**

AGIC serves as the Fund's sub-adviser responsible for managing the Fund's portfolio investments. Subject to the supervision of the Investment Manager, AGIC has full investment discretion and makes all determinations with respect to the investment of the Fund's assets.

AGIC is registered as an investment adviser with the Securities and Exchange Commission (SEC) and is organized as a Delaware limited liability company. Its principal place of business is located at 600 West Broadway, San Diego, California 92101. AGIC also has an office located at 1633 Broadway, New York, New York 10019. AGIC provides investment management services across a broad class of assets including equity, fixed income, futures and options, convertibles and other securities and derivative instruments. AGIC's primary business is to provide discretionary advisory services to institutional clients through its separate account management services.

In addition, AGIC provides discretionary investment advisory services to a variety of commingled funds (including SEC registered

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open-end investment companies, SEC registered closed-end investment companies and other commingled funds that are not registered with the SEC), which may be sponsored or established by AGIC, its affiliates or by unaffiliated third parties. AGIC also participates as a non-discretionary investment adviser providing investment models to unaffiliated third parties. As of September 30, 2012, AGIC had assets under management of approximately \$16 billion.

**Dividends and Distributions**

The Fund makes regular monthly cash distributions to Common Shareholders at a rate based upon the projected performance of the Fund. Distributions can only be made from net investment income after paying any accrued dividends to holders of the Preferred Shares. The dividend rate that the Fund pays depends on a number of factors, including dividends payable on the Preferred Shares and the expenses of any other leveraging transactions. The net income of the Fund consists of all income paid or accrued on portfolio assets less all expenses of the Fund. Expenses of the Fund are accrued each day. Over time, substantially all the net investment income of the Fund will be distributed. At least annually, the Fund also intends to distribute to you your pro rata share of any available net capital gain. Although it does not now intend to do so, the Board of Trustees may change the Fund's dividend 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 historical and projected investment income and the amount of the expenses and dividend rates on any outstanding Preferred Shares.

To permit the Fund to maintain a more stable monthly distribution, the Fund may distribute less than the entire amount of net investment income earned in a particular period. The undistributed net investment income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of net investment income actually earned by the Fund during the period. Undistributed net investment income will be added to the Fund's net asset value and, correspondingly, distributions from undistributed net investment income will be deducted from the Fund's net asset value.

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. To the extent required by the 1940 Act and other applicable laws, absent an exemption, a notice will accompany each monthly distribution with respect to the estimated source (as between net income and gains) of the distribution made. The tax characterization of the Fund's distributions made in a taxable year cannot finally be determined until at or after the end of the 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 the relevant year (including as reduced by any capital loss carry-forwards). For example, the Fund may distribute amounts early in the year that are

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derived 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 a shareholder's tax basis in his or her Common Shares, with any amounts exceeding such basis treated as gain from the sale of Common Shares. In general terms, a return of capital would occur where a Fund distribution (or portion thereof) represents a return of a portion of your investment, rather than net income or capital gains generated from your investment during a particular period. Although return of capital distributions may not be taxable, such distributions would reduce the basis of a shareholder's Common Shares and therefore may increase a shareholder's tax liability for capital gains upon a sale of Common Shares. See "Tax Matters." The Fund will send shareholders detailed tax information with respect to Fund distributions annually.

The 1940 Act currently limits the number of times the Fund may distribute long-term capital gains in any tax year, which may increase the variability of the Fund's distributions and result in certain distributions being comprised more or less heavily than others of long-term capital gains eligible for favorable income tax rates.

Unless a Common Shareholder elects to receive distributions in cash, all distributions of Common Shareholders whose shares are registered with the plan agent will be automatically reinvested in additional Common Shares of the Fund under the Fund's Dividend Reinvestment Plan. See "Distributions" and "Dividend Reinvestment Plan."

**Shareholder Servicing Agent, Custodian and Transfer Agent**

The Investment Manager, at its own expense, has retained UBS Securities LLC to serve as a shareholder servicing agent for the Fund. Brown Brothers Harriman & Co. serves as custodian of the Fund's assets and also provides certain fund accounting, sub-administrative and compliance services to the Investment Manager on behalf of the Fund. American Stock Transfer and Trust Company, LLC serves as the Fund's transfer agent and dividend disbursement agent. See "Shareholder Servicing Agent, Custodian and Transfer Agent."

**Listing**

The Fund's outstanding Common Shares are listed on the New York Stock Exchange ( "NYSE" ) under the symbol "NCZ," as will be the Common Shares offered in this prospectus, subject to notice of issuance.

**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

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trade at a price equal to or higher than net asset value in the future. Net asset value will be reduced immediately following an offering by any sales load and/or commissions 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 Fund expenses, including dividends paid on the Fund's Preferred Shares and the costs of any other leverage used by the Fund, levels of interest payments by the Fund's portfolio holdings, levels of appreciation/depreciation of the Fund's portfolio holdings, regulation affecting the timing and character of Fund distributions and other factors), portfolio credit quality, liquidity, call protection, market supply and demand and similar factors relating to the Fund's portfolio holdings. See *Use of Leverage*, *Principal Risks of the Fund*, *Description of Shares* and *Repurchase of Common Shares; Conversion to Open-End Fund* in this prospectus, and see *Repurchase of Common Shares; Conversion to Open-End Fund* in the Statement of Additional Information. The Common Shares are designed for long-term investors and should not be treated as trading vehicles.

**Principal Risks of the Fund**

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

*Market Discount Risk.* As with any stock, the price of the Fund's Common Shares will fluctuate with market conditions and other factors. If you sell your Common Shares, the price received may be more or less than your original investment. Net asset value of the Fund's Common Shares will be reduced immediately following an offering by any sales load and/or commissions and offering expenses paid or reimbursed by the Fund in connection with such offering. The completion of an offering may result in an immediate dilution of the net asset value per Common Share for all existing Common Shareholders. 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 Common Shares may trade at a price that is less than the offering price for Common Shares issued pursuant to an offering. This risk may be greater for investors who sell their Common Shares relatively shortly after completion of an offering.

*Market Risk.* The market price of securities owned by the Fund may go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets. The value of a security may decline due to general market conditions that are not specifically related to a particular company, such as real or



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perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

*Issuer Risk.* The value of securities may decline for a number of reasons that directly relate to the issuer, such as its financial strength, management performance, financial leverage and reduced demand for the issuer's goods and services, as well as the historical and prospective earnings of the issuer and the value of its assets.

*Convertible Securities Risk.* The Fund may invest without limit in convertible securities, which may include, among others, bonds, debentures, notes, preferred stocks or other securities. Convertible securities will ordinarily constitute a principal component of the Fund's investment program. Under normal circumstances, the Fund will invest at least 50% of its total assets in convertible securities. Convertible securities generally offer lower interest or dividend yields than non-convertible debt securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, a convertible security's market value tends to reflect the market price of the common stock of the issuing company when that stock price approaches or is greater than the convertible security's conversion price. The conversion price is defined as the predetermined price at which the convertible security could be exchanged for the associated stock. As the market price of the underlying common stock declines, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, it may not decline in price to the same extent as the underlying common stock. However, securities that are convertible other than at the option of the holder generally do not limit the potential for loss to the same extent as securities convertible at the option of the holder. In the event of a liquidation of the issuing company, holders of convertible securities would be paid before the company's common stockholders but after holders of any senior debt obligations of the company. Consequently, the issuer's convertible securities generally entail less risk than its common stock but more risk than its debt obligations. Convertible securities are often rated below investment grade or not rated because they fall below debt obligations and just above common equity in order of preference or priority on the issuer's balance sheet. See *High Yield Risk*.

*Synthetic Convertible Securities Risk.* The Fund may invest without limit in synthetic convertible securities, which are created through a combination of separate securities that possess the two principal characteristics of a traditional convertible security, *i.e.*, an income-producing security ( income-producing component ) and the right to

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acquire an equity security ( convertible component ). The income-producing component is achieved by investing in non-convertible, income-producing securities such as bonds, preferred stocks and money market instruments. The convertible component is achieved by purchasing warrants or options to buy common stock at a certain exercise price, or options on a stock index. The values of synthetic convertible securities will respond differently to market fluctuations than a traditional convertible security because a synthetic convertible is composed of two or more separate securities or instruments, each with its own market value. Synthetic convertible securities are also subject to the risks associated with derivatives. See Principal Risks of the Fund Derivatives Risk. In addition, if the value of the underlying common stock or the level of the index involved in the convertible element falls below the strike price of the warrant or option, the warrant or option may lose all value.

*Credit Risk.* Credit risk is the risk that one or more of the Fund's investments in debt securities or other instruments will decline in price, or fail to pay interest, liquidation value or principal when due, because the issuer of the obligation or the issuer of a reference security experiences an actual or perceived decline in its financial status.

*High Yield Risk.* The Fund may invest without limit in debt instruments that are, at the time of purchase, rated below investment grade or unrated but determined by AGIC to be of comparable quality, and may invest without limit in securities of any rating.

In general, lower rated debt securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative effect on the net asset value of the Fund's Common Shares or Common Share dividends. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as high yield securities or junk bonds. High yield securities involve a greater risk of default and their prices are generally more volatile and sensitive to actual or perceived negative developments, such as a decline in the issuer's revenues or revenues of underlying borrowers or a general economic downturn, than are the prices of higher grade securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain rating agencies. The Fund may purchase distressed securities that are in default or the issuers of which are in bankruptcy, which involve heightened risks. See Principal Risks of the Fund Distressed and Defaulted Securities Risk. An economic downturn could severely affect the ability of issuers (particularly those that are highly leveraged) to service their debt obligations or to repay their obligations upon maturity. Lower-rated securities are generally less liquid than higher-rated securities, which may have an adverse effect on the Fund's ability to dispose of a particular security. For example, under adverse market or economic conditions, the secondary market

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for below investment grade securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and certain securities in the Fund's portfolio may become illiquid or less liquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell these securities only at prices lower than if such securities were widely traded. See *Principal Risks of the Fund* *Liquidity Risk*. To the extent the Fund focuses on below investment grade debt obligations, AGIC's capabilities in analyzing credit quality and associated risks will be particularly important, and there can be no assurance that AGIC will be successful in this regard. See *Portfolio Contents* *High Yield Securities ( Junk Bonds )* for additional information. Due to the risks involved in investing in high yield securities, an investment in the Fund should be considered speculative.

The Fund's credit quality policies, if any, apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a rating agency or AGIC downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, AGIC may consider factors including, but not limited to, AGIC's assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other rating agencies. Analysis of creditworthiness may be more complex for issuers of high yield securities than for issuers of higher quality debt securities.

*Distressed and Defaulted Securities Risk.* The Fund may invest in the debt securities of financially distressed issuers, including those that are in default or the issuers of which are in bankruptcy. Investments in the securities of financially distressed issuers involve substantial risks. These securities may present a substantial risk of default or may be in default at the time of investment. The Fund may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings. In any reorganization or liquidation proceeding relating to an investment, the Fund may lose its entire investment or may be required to accept cash or securities with a value substantially less than its original investment. Among the risks inherent in investments in a troubled issuer is that it frequently may be difficult to obtain information as to the true financial condition of such issuer. AGIC's judgments about the credit quality of a financially distressed issuer and the relative value of its securities may prove to be wrong.

*Interest Rate Risk.* Generally, when market interest rates rise, the prices of debt obligations fall, and vice versa. Interest rate risk is the risk that debt obligations and other instruments in the Fund's portfolio will decline in value because of increases in market interest rates. This risk may be particularly acute because market interest rates are currently at historically low levels. The prices of long-term debt obligations generally fluctuate more than prices of short-term debt

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obligations as interest rates change. Because the weighted average maturity of the Fund's portfolio will typically range from five to ten years, the Fund's net asset value and market price per Common Share will tend to fluctuate more in response to changes in market interest rates than if the Fund invested mainly in short-term debt securities. During periods of rising interest rates, the average life of certain types of securities may be extended due to lower than expected rates of prepayments, which could cause the securities' durations to extend and expose the securities to more price volatility. This may lock in a below market yield, increase the security's duration and reduce the security's value. In addition to directly affecting debt securities, rising interest rates may also have an adverse effect on the value of any equity securities held by the Fund. The Fund's use of leverage will tend to increase Common Share interest rate risk. AGIC may utilize certain strategies, including without limitation investments in structured notes or interest rate futures contracts or swap, cap, floor or collar transactions, for the purpose of reducing the interest rate sensitivity of the Fund's portfolio, although there is no assurance that it will do so or that, if used, such strategies will be successful.

The Fund may invest in variable- and floating-rate debt instruments, which generally are less sensitive to interest rate changes than longer duration fixed-rate instruments, but may decline in value in response to rising interest rates if, for example, the rates at which they pay interest do not rise as much, or as quickly, as market interest rates in general. Conversely, variable- and floating-rate instruments generally will not increase in value if interest rates decline. The Fund also may invest in inverse floating-rate debt securities, which may decrease in value if interest rates increase, and which also may exhibit greater price volatility than fixed-rate debt obligations with similar credit quality. To the extent the Fund holds variable- or floating-rate instruments, a decrease (or, in the case of inverse floating-rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the net asset value of the Fund's Common Shares.

*Equity Securities and Related Market Risk.* The Fund will often have substantial exposure to equity securities by virtue of the equity component of the convertible securities in which the Fund invests. The Fund may also hold equity securities in its portfolio upon conversion of a convertible security or through direct investments in preferred stocks. The market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. See *Principal Risks of the Fund* Issuer Risk. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally.

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They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater price volatility than bonds and other debt securities.

*Preferred Securities Risk.* In addition to equity securities risk (see *Principal Risks of the Fund Equity Securities and Related Market Risk* ), credit risk (see *Principal Risks of the Fund Credit Risk* ) and possibly high yield risk (see *Principal Risks of the Fund High Yield Risk* ), investment in preferred securities involves certain other risks. Certain preferred securities contain provisions that allow an issuer under certain conditions to skip or defer distributions. If the Fund owns a preferred security that is deferring its distribution, the Fund may be required to include the amount of the deferred distribution in its taxable income for tax purposes despite the fact that it does not currently receive such amount. In order to receive the special treatment accorded to regulated investment companies ( RICs ) and their shareholders under the Internal Revenue Code of 1986, as amended (the Code ), and to avoid U.S. federal income and/or excise taxes at the Fund level, the Fund may be required to distribute this income to shareholders in the tax year in which the income is recognized (without a corresponding receipt of cash). Therefore, the Fund may be required to pay out as an income distribution in any such tax year an amount greater than the total amount of cash income the Fund actually received, and to sell portfolio securities, including at potentially disadvantageous times or prices, to obtain cash needed for these income distributions. Preferred securities often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer's call. In the event of redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities are subordinated to bonds and other debt securities in an issuer's capital structure in terms of priority for corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt securities. Preferred securities may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than many other securities, such as common stocks, corporate debt securities and U.S. Government securities. The Fund may invest in convertible preferred securities, which are subject to the same risks as convertible securities generally. See *Principal Risks of the Fund Convertible Securities Risk* . In addition, convertible preferred securities may generate lower rates of income than other preferred securities, and the conversion option of a convertible preferred security may cause it to trade more like an equity security than a typical debt instrument.

*Leverage Risk.* The Fund's use of leverage (as described under *Use of Leverage* in the body of this prospectus) creates the opportunity for increased Common Share net income, but also creates special risks for Common Shareholders. To the extent used, there is no

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assurance that the Fund's outstanding Preferred Shares or any other leverage strategies will be successful. Leverage is a speculative technique that may expose the Fund to greater risk and increased costs. The Fund's assets attributable to its outstanding Preferred Shares or the net proceeds the Fund obtains from its use of reverse repurchase agreements, dollar rolls and/or borrowings, if any, will be invested in accordance with the Fund's investment objective and policies as described in this prospectus. Dividends payable with respect to the Preferred Shares and interest expense payable by the Fund with respect to any reverse repurchase agreements, dollar rolls and borrowings will generally be based on shorter-term interest rates that would be periodically reset. So long as the Fund's portfolio investments provide a higher rate of return (net of applicable Fund expenses) than the dividend rate on the Preferred Shares and the interest expenses and other costs to the Fund of such other leverage, the investment of the proceeds thereof will generate more income than will be needed to pay the costs of the leverage. If so, and all other things being equal, the excess may be used to pay higher dividends to Common Shareholders than if the Fund were not so leveraged. If, however, shorter-term interest rates rise relative to the rate of return on the Fund's portfolio, the interest and other costs to the Fund of leverage (including the dividend rate on the Preferred Shares and interest expenses on any reverse repurchase agreements, dollar rolls and borrowings) could exceed the rate of return on the debt obligations and other investments held by the Fund, thereby reducing return to Common Shareholders. In addition, fees and expenses of any form of le