

PIMCO COMMERCIAL MORTGAGE SECURITIES TRUST INC  
Form DEF 14A  
March 15, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials

“ Soliciting Material Pursuant to §240.14a-12

**PIMCO Commercial Mortgage Securities Trust, Inc.**

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(Name of Registrant as Specified In Its Charter)

**N/A**

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(1) Amount Previously Paid:

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(3) Filing Party:

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**PIMCO COMMERCIAL MORTGAGE SECURITIES TRUST, INC.**

**840 Newport Center Drive**

**Newport Beach, California 92660**

**(866) 746-2606**

Dear Shareholder:

On behalf of the Board of Directors of PIMCO Commercial Mortgage Securities Trust, Inc. (the Fund), we are pleased to invite you to the annual meeting of shareholders of the Fund to be held at 800 Newport Center Drive, Newport Beach, California 92660 on April 14, 2004 at 11:00 a.m., Pacific time.

As discussed in more detail in the enclosed proxy statement, at the meeting you will be asked to consider a proposal to elect two current Directors, E. Philip Cannon and William J. Popejoy, to serve on the Board until their new term expires in 2007. The Board unanimously recommends that you vote FOR the proposal to elect Mr. Cannon and Mr. Popejoy to continue their service on the Board.

As required by the Fund's prospectus dated August 27, 1993, the Board of Directors will also ask you to consider a proposal to provide for the liquidation of the Fund and the payment of net proceeds of that liquidation to shareholders. The Directors unanimously recommend that you vote AGAINST this liquidation proposal. In 1993, the year that the Fund began its investment operations, in light of the uncertainty as to how the Fund would perform, and the tendency of closed-end funds frequently to trade at a discount to their net asset value (NAV), the Board thought it necessary to undertake to submit a liquidation proposal in 2004 (and if not approved, again in the years 2007 and 2010) in order to assure potential investors in the Fund's initial public offering that they could eventually liquidate their shares at NAV if the Fund was not successful in meeting its investment objective.

The Fund has, however, been quite successful in terms of meeting its investment objective. Although past performance neither guarantees nor predicts future performance, the Fund has outperformed its benchmark index over time, and unlike many closed-end funds, has traded at a premium to its NAV for most of the past three years. As of March 4, 2004, the Fund traded at a 17.2% premium to its NAV. There can be no guarantee, however, that the Fund will continue to trade at a premium to its NAV. If the liquidation proposal is approved, and the Fund is trading at a premium to its NAV on the date of the liquidation, shareholders would receive less than the market value of their shares. Moreover, liquidation would eliminate the vehicle chosen by current shareholders for long-term investment in the commercial mortgage-backed securities market. It could also subject shareholders to applicable federal, state and local taxes just as if they had voluntarily sold their shares. For these reasons, the Directors unanimously recommend that you vote AGAINST the liquidation proposal.

Under the terms of the Fund's Articles of Incorporation, approval of the proposal to liquidate requires the affirmative vote of two-thirds of the Fund's shares outstanding and entitled to vote on the matter. If the proposal is not approved this year, then similar proposals will be submitted to shareholders in the years 2007 and 2010, and, if not then approved, thereafter at the discretion of the Board.

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No matter how many shares you own, your vote is important. Please take the time to review the proposals and vote. For more information about the proposals, please refer to the accompanying proxy statement. If you are not able to attend the meeting, then please complete, sign, date and mail the enclosed proxy card(s) promptly. If you have any questions regarding the proxy statement, please call 1-866-746-2606.

Thank you in advance for your participation.

Sincerely,

Brent R. Harris

*Chairman of the Board*

March 19, 2004

**PIMCO COMMERCIAL MORTGAGE SECURITIES TRUST, INC.**

**840 Newport Center Drive  
Newport Beach, California 92660  
(866) 746-2606**

**Notice of Annual Meeting of Shareholders**

**To be held April 14, 2004**

To the Shareholders of PIMCO Commercial Mortgage Securities Trust, Inc.:

**NOTICE IS HEREBY GIVEN** that the Annual Meeting (the Meeting ) of Shareholders of PIMCO Commercial Mortgage Securities Trust, Inc. (the Fund ) will be held at 800 Newport Center Drive, 6th Floor, Newport Beach, California 92660, on April 14, 2004 at 11:00 a.m., Pacific time, or as adjourned from time to time, for the following purposes:

- (1) To consider whether to liquidate the Fund;
- (2) To consider whether to elect the Nominees listed below to serve as members of the Fund's Board of Directors for terms expiring in 2007, and until their successors are elected and qualify; and
- (3) To transact such other business as may properly come before the Meeting or any adjournment thereof.

After careful consideration, the Directors of the Fund unanimously approved the proposals and recommend that shareholders vote **AGAINST** Proposal 1 and **FOR** Proposal 2. The matters referred to above are discussed in detail in the proxy statement attached to this notice. The Board of Directors has fixed the close of business on March 5, 2004 as the record date for determining shareholders entitled to notice of and to vote at the Meeting or any adjournment thereof.

Each share of the Fund is entitled to one vote, with fractional votes for fractional shares.

Regardless of whether you plan to attend the Meeting, **PLEASE COMPLETE, SIGN, DATE AND RETURN PROMPTLY THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED, SO THAT YOU WILL BE REPRESENTED AT THE MEETING.** If you have returned a

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proxy card and are present at the Meeting, you may change the vote specified in the proxy at that time. However, attendance in person at the Meeting, by itself, will not revoke a previously tendered proxy.

By Order of the Board of Directors,

Garlin G. Flynn

*Secretary*

Newport Beach, California

Dated: March 19, 2004

**YOUR VOTE IS IMPORTANT NO MATTER HOW LARGE OR SMALL YOUR HOLDINGS MAY BE. IN ORDER TO AVOID THE UNNECESSARY EXPENSE OF FURTHER SOLICITATION, WE URGE YOU TO INDICATE VOTING INSTRUCTIONS ON THE ENCLOSED PROXY CARD.**



**PROXY STATEMENT**

**PIMCO COMMERCIAL MORTGAGE SECURITIES TRUST, INC.**

**840 Newport Center Drive**

**Newport Beach, California 92660**

**(866) 746-2606**

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**Annual Meeting of Shareholders**

**To be held April 14, 2004**

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**INTRODUCTION**

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors (the **Board** or **Directors**) of PIMCO Commercial Mortgage Securities Trust, Inc. (the **Fund**), a Maryland corporation, for use at the annual meeting of shareholders of the Fund to be held at 800 Newport Center Drive, 6th Floor, Newport Beach, California 92660, on April 14, 2004 at 11:00 a.m., Pacific time, or as adjourned and reconvened from time to time (the **Meeting**), for the purposes set forth in the accompanying notice. It is anticipated that the first mailing of proxies and proxy statements to shareholders will be on or about March 19, 2004.

**Shareholder Reports.** Shareholders can find important information about the Fund in the annual report dated December 31, 2003 and the semi-annual report dated June 30, 2003, each of which previously has been furnished to shareholders. Shareholders may request another copy of these reports by writing to the Fund at the above address, or by calling the toll-free telephone number above.

**The Board is soliciting proxies from shareholders of the Fund with respect to the following:**

- I. A proposal to liquidate the Fund;**
- II. A proposal to elect Directors to the Board of Directors of the Fund; and**
- III. Such other business as may properly come before the Meeting.**

**PROPOSAL I: LIQUIDATION OF THE FUND**

As stated in the Fund's prospectus dated August 27, 1993, the Board of Directors must submit to shareholders at the annual meeting of shareholders in the year 2004 a proposal to provide for the orderly liquidation of the Fund and the payment of the net proceeds of liquidation to shareholders. Under the terms of the Fund's Articles of Incorporation, approval of such a proposal requires the affirmative vote of two-thirds (66 2/3%) of the Fund's shares outstanding and entitled to vote on the matter. If such proposal is not approved by shareholders in the year 2004, similar proposals will be submitted to shareholders in the years 2007 and 2010, and, if not then approved, thereafter at the discretion of the Board of Directors.

The Directors unanimously recommend that shareholders vote **AGAINST** this proposal. The Fund has outperformed its benchmark index over time, and unlike many closed-end funds, the Fund has traded at a premium to its net asset value (NAV) for most of the past three years. In a liquidation of the Fund, shareholders would receive as net proceeds from such liquidation an amount equal to the NAV of their shares. Therefore, if at the time of liquidation the Fund was still trading at a premium to its NAV, shareholders would receive less than the market value of their shares. As of March 4, 2004, the Fund's NAV per share was \$12.66, and its market value was \$14.84 per share, representing a 17.2% premium to NAV. There can be no guarantee, however, that the Fund will continue to trade at a premium to its NAV.

This proposal appears on the ballot because when the Fund commenced operations in 1993, the Board undertook to submit a proposal to shareholders to liquidate the Fund at this year's annual meeting, and again in 2007 and 2010. At the time, in light of the uncertainty as to how the Fund would perform, and the tendency of closed-end funds frequently to trade at a discount to NAV, this policy was deemed necessary to assure potential investors in the Fund's initial public offering that they could eventually liquidate their shares at NAV if the Fund was not successful in meeting its investment objective of achieving high current income.

The Fund has, however, been quite successful in terms of meeting its investment objective. The following chart shows performance of the Fund for periods ended December 31, 2003:

|   | <u>1 year</u> | <u>3 years*</u> | <u>5 years*</u> | <u>10 years*</u> |
|---|---------------|-----------------|-----------------|------------------|
| Net Asset Value (NAV) Performance of Fund | 7.03          | 9.55            | 8.27            | 8.69             |
| Market Value Performance of Fund (NYSE)   | 9.76          | 15.01           | 11.13           | 10.49            |
| Lehman Aggregate Bond Index               | 4.10          | 7.57            | 6.62            | 6.95             |

\* Annualized

Past performance is no guarantee of future results. The performance above represents the total return performance of the PIMCO Commercial Mortgage Securities Trust, Inc., as compared to the Lehman Aggregate Bond Index, an unmanaged market index considered to be representative of the bond market.

The Fund has traded at a premium to its NAV for most of the past three years, but has also traded at a discount to its NAV for significant periods of its operation. The chart below shows the Fund's NAV and market share price from its inception on September 2, 1993 to February 29, 2004.

#### Fund NAV vs. Share Price

September 2, 1993-February 29, 2004

The Fund's NAV is calculated as of the close of business on Thursday of every week, and on the last business day of each month. For the most recently determined NAV, market share price, and current premium or discount, you may call PIMCO at 866-746-2606. This information is also published in major financial newspapers, such as the Wall Street Journal, which generally reports such information every Monday.

Liquidation is an extraordinary action that would eliminate the vehicle chosen by current shareholders for long-term investment in the commercial mortgage-backed securities market. It could result in shareholders receiving less than the market value of their shares, if the Fund continues to trade at a premium to its NAV. It could also subject shareholders to applicable Federal, state and local income taxes on the difference between the proceeds of liquidation and their tax bases in shares of the Fund just as if they had voluntarily sold their shares. Finally, liquidation would cause the Fund to lose the potential benefits of capital loss carryforwards that otherwise could help the Fund reduce any future capital gains distributions that would be taxable to shareholders. In light of these factors, and the Fund's long-term performance, the Board recommends that shareholders vote **AGAINST** this proposal.

To assist shareholders in their consideration of this matter, attached as Appendix B is a form of a Plan of Liquidation for the Fund which sets forth the process by which liquidation would be effected. In the event that shareholders vote for this proposal, the Board could make such non-material amendments to the Plan as it deems necessary in its sole discretion. Although the Board strongly recommends that shareholders vote **AGAINST** this proposal, for the reasons stated above, the Board believes that providing this Plan is necessary to enable shareholders to make an informed decision.

Under the Plan, the Fund would cease its operations as an investment company. The Fund would conduct no business other than winding up its affairs, and would liquidate all of its assets and convert them to cash or cash equivalents. After paying or making provision to pay of the Fund's liabilities, the Fund would distribute pro rata all of the remaining assets of the Fund to each shareholder of record, and cancel all outstanding shares of the Fund.

**THE BOARD OF DIRECTORS, INCLUDING THE INDEPENDENT DIRECTORS, RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST LIQUIDATING THE FUND UNDER PROPOSAL I.**

#### **PROPOSAL II: ELECTION OF DIRECTORS**

The Fund's Articles of Incorporation provide that the Fund's Board of Directors shall be divided into three classes, as nearly equal in number as possible, which shall be designated as Class I, Class II and Class III. The current terms of the Class I Directors expire this year. The current terms of the Class II and Class III Directors will expire in 2005 and 2006, respectively, when their respective successors are elected and qualify. The effect of these staggered terms is to limit the ability of other entities or persons to acquire control of the Fund by delaying for up to two years the replacement of a majority of the Board of Directors. E. Philip Cannon and William J. Popejoy, the current Class I Directors, have been nominated for re-election by the Board to serve another term, which would expire in 2007 (Messrs. Cannon and Popejoy, collectively are the Nominees). The Nominees have indicated their willingness to serve as Directors. The Board knows of no reason why the Nominees would be unable to serve, but in the event of any such unavailability, the proxies received will be voted for such substituted nominee as the Board may recommend.

The persons named as proxies on the enclosed proxy card will vote your shares for the election of the Nominees unless you withhold authority to vote for the Nominees in your proxy. If elected by shareholders, the Nominees will continue to serve as Directors of the Fund until their term expires in 2007, unless sooner succeeded as provided in the Fund's Articles of Incorporation. It is proposed, and the Board recommends, that shareholders elect the Nominees.

The following table sets forth certain information concerning each of the Directors of the Fund, including the Nominees. However, only the Nominees are standing for election.

The Class I Directors are:

**Class I Directors (Term Expiring in 2004):**

| <b>Name and Age<sup>1</sup></b> | <b>Position Held With the Fund</b> | <b>Term of Office and Length of Time Served on the Board<sup>3</sup></b> | <b>Principal Occupation(s) During the Past 5 Years<sup>4</sup></b>  | <b>Number of Portfolios in Fund Complex Overseen by Director or Nominee for Director</b> | <b>Other Directorships Held by Director or Nominee for Director</b> | <b>Shares of Common Stock Beneficially Owned and % of Total Outstanding as of 3/5/04</b> |
|---------------------------------|------------------------------------|--|---|--|---|--|
| <b>Non-Interested Directors</b> |                                    |  |   |  |   |  |
| E. Philip Cannon<br>Age 63      | Director/Nominee                   | 3/00-Present   | Proprietor, Cannon & Company (a private investment firm); President, Houston Zoo (since 2002); Trustee, PIMCO Funds: Pacific Investment Management Series (since 2000); Trustee, PIMCO Variable Insurance Trust (since 2000); and Trustee, PIMCO Funds: Multi-Manager Series. | 115  | None  | 0  |
| William J. Popejoy<br>Age 65    | Director/Nominee                   | 7/93-2/95 and 8/95-Present   | Managing Director, Pacific Capital Investors (since 1999); Trustee, PIMCO Funds: Pacific Investment Management Series; and Trustee, PIMCO Variable Insurance Trust. Formerly, Director, Commonwealth Energy Corporation (until 2003).   | 77   | Director, New Century Financial Corporation                         | 0  |

The Class II Directors are:

**Class II (Term Expiring in 2005):**

| <b>Name and Age<sup>1</sup></b> | <b>Position Held With the Fund</b> | <b>Term of Office and Length of Time Served on the Board<sup>3</sup></b> | <b>Principal Occupation(s) During the Past 5 Years<sup>4</sup></b>  | <b>Number of Portfolios in Fund Complex Overseen by Director or Nominee for Director</b> | <b>Other Directorships Held by Director or Nominee for Director</b>  | <b>Shares of Common Stock Beneficially Owned and % of Total Outstanding as of 3/5/04</b> |
|---------------------------------|------------------------------------|--|---|--|--|--|
| <b>Non-Interested Directors</b> |                                    |  |   |  |  |  |
| J. Michael Hagan<br>Age 64      | Director                           | 3/00-Present   | Private Investor and Business Advisor, primarily to manufacturing companies (since 2000); Trustee, PIMCO Funds: Pacific Investment Management Series (since 2000); Trustee, PIMCO Variable Insurance Trust (since 2000); Director, Freedom Communications; Director, Remedy Temp (staffing). Formerly, Chairman and CEO, Furon Company (manufacturing) (since 1999); and Director, Saint Gobain Corporation (manufacturing) (since 2003). | 77   | Director, Ameron International (manufacturing); and Director, Fleetwood Enterprises (manufacturer of housing and recreational vehicles). | 0  |
| Vern O. Curtis<br>Age 69        | Director                           | 2/95-Present   | Private Investor; Trustee, PIMCO Funds: Pacific Investment Management Series; and Trustee, PIMCO Variable Insurance Trust.  | 77   | Director, PS Business Parks, Inc. (a Real Estate Investment Trust); and Director, Fresh Choice, Inc. (restaurant company).               | 7,500<br>(0.07%)   |

The Class III Directors (Nominees) are:

**Class III (Term Expiring in 2006):**

| <u>Name and Age<sup>1</sup></u>  | <u>Position Held With the Fund</u> | <u>Term of Office and Length of Time Served on the Board<sup>3</sup></u> | <u>Principal Occupation(s) During the Past 5 Years<sup>4</sup></u>  | <u>Number of Portfolios in Fund Complex Overseen by Director or Nominee for Director</u> | <u>Other Directorships Held by Director or Nominee for Director</u> | <u>Shares of Common Stock Beneficially Owned and % of Total Outstanding as of 3/7/03</u> |
|--|------------------------------------|--|---|--|---|--|
| <b>Interested Directors</b><br>Brent R. Harris <sup>2</sup><br>Age: 44 | Chairman of the Board and Director | 6/93-Present   | Managing Director, PIMCO; Chairman and Trustee, PIMCO Funds: Pacific Investment Management Series; Chairman and Trustee, PIMCO Variable Insurance Trust; Director, Chairman and President, PIMCO Strategic Global Government Fund, Inc (since 2002); Director and Vice President, StocksPLUS Management, Inc.; Director, PIMCO Luxembourg S.A. (since 2002); and Board of Governors and Executive Committee, Investment Company Institute.    | 78   | None  | 2,800<br>(0.03%)   |
| R. Wesley Burns <sup>2</sup><br>Age: 44                                | President and Director             | 11/97-Present (since 2/94 as President)                                  | Director, PIMCO (since 2003); President and Trustee, PIMCO Funds: Pacific Investment Management Series; President and Trustee, PIMCO Variable Insurance Trust; Senior Vice President, PIMCO Strategic Global Government Fund, Inc.; Director, PIMCO Funds: Global Investors Series plc; Director, PIMCO Global Advisors (Ireland) Limited; and Director, PIMCO Luxembourg S.A. (since 2002). Formerly, Managing Director, PIMCO (until 2002). | 77   | None  | 2,500<br>(0.02%)   |

<sup>1</sup> Directors can be reached at the Fund's address above.

<sup>2</sup> Mr. Burns and Mr. Harris are interested persons of the Fund (as that term is defined in the Investment Company Act of 1940, as amended (1940 Act)) because of their affiliations with the Fund's investment adviser, Pacific Investment Management Company LLC (PIMCO).

<sup>3</sup> The current terms of the Class I, Class II and Class III Directors will expire in 2004, 2005 and 2006, respectively.

<sup>4</sup> Unless otherwise indicated, each principal occupation has been held by the director or director/nominee for the entire past 5 years.

During the fiscal year ended December 31, 2003, there were four meetings of the Board.

Listed below for each Director is a dollar range of securities beneficially owned in the Fund together with the aggregate dollar range of equity securities in all registered investment companies overseen by each Director that are in the same family of investment companies as the Fund, as of December 31, 2003.

| Name of Director or<br>Nominee | Dollar Range of<br>Equity Securities<br>in the Fund | Aggregate<br>Dollar<br>Range of<br>Equity<br>Securities in All<br>Funds<br>Overseen by<br>Director<br>or Nominee in<br>Family<br>of Investment<br>Companies* |
|--------------------------------|---|--|
| R. Wesley Burns                | \$10,001-\$50,000                                   | Over \$100,000   |
| E. Philip Cannon               | -0-   | Over \$100,000   |
| Vern O. Curtis                 | Over \$100,000                                      | Over \$100,000   |
| J. Michael Hagan               | -0-   | Over \$100,000   |
| Brent R. Harris                | \$50,001-\$100,000                                  | Over \$100,000   |
| William J. Popejoy             | -0-   | Over \$100,000   |

\* Family of Investment Companies includes the Fund, PIMCO Funds: Pacific Investment Management Series, PIMCO Funds: Multi-Manager Series, PIMCO Variable Insurance Trust and PIMCO Strategic Global Government Fund, Inc.

Set forth in the table below is information regarding each non-interested Director's (and his or her immediate family members') share ownership in securities of the investment manager of the Fund, the principal underwriter of the Fund, and any entity controlling, controlled by or under common control with the investment manager or principal underwriter of the Fund (not including registered investment companies), as of December 31, 2003.

| Name of Director or<br>Nominee | Name of<br>Owners and<br>Relationships<br>to Director or<br>Nominee | Company | Title of Class | Value of<br>Securities | Percent of<br>Class |
|--------------------------------|---|---------|----------------|------------------------|---------------------|
| E. Philip Cannon               | None  | None    | None           | None                   | None                |
| Vern O. Curtis                 | None  | None    | None           | None                   | None                |
| J. Michael Hagan               | None  | None    | None           | None                   | None                |
| William J. Popejoy             | None  | None    | None           | None                   | None                |

As of December 31, 2003, the Directors and Officers of the Fund, as a group, owned less than one percent of the outstanding shares of the Fund in the aggregate.





## **Board of Directors Committees**

### *Audit Committee*

The Fund has a standing Audit Committee that consists of all of the independent Directors (Messrs. Cannon, Curtis, Hagan and Popejoy). The Audit Committee reviews both the audit and non-audit work of the Fund's independent public accountant, submits a recommendation to the Board as to the selection of the independent public accountant, and reviews generally the maintenance of the Fund's records and the safekeeping arrangements of the Fund's custodian. During the fiscal year ended December 31, 2003, the Audit Committee met four times. Each member of the Audit Committee attended 100% of such meetings during the period in which he was a member of the Audit Committee.

The Fund adopted an amended Audit Committee Charter on February 23, 2004, a copy of which is attached to this Proxy Statement as Appendix A. The Audit Committee has received written disclosures and the letter required by Independence Standards Board Standard No. 1 from its independent public accountant, and has discussed with its independent public accountant its independence. The Audit Committee has also reviewed and discussed the audited financial statements with Fund management and its independent public accountant, and discussed certain matters with its independent public accountant addressed by Statements on Auditing Standards No. 61. Based on the foregoing, the Audit Committee recommended to the Board that the Fund's audited financial statements be included in the Fund's Annual Report for the fiscal year ended December 31, 2003.

### *Valuation Committee*

The Fund has a standing Valuation Committee whose function is to monitor the valuation of portfolio securities and other investments and, as required by the Fund's valuation policies, when the Board is not in session it shall determine the fair value of portfolio holdings after consideration of all relevant factors, which determinations shall be reported to the full Board. The Valuation Committee consists of two directors of the Fund, Mr. Harris and Mr. Burns, and three officers of the Fund: John P. Hardaway (Treasurer), Erik C. Brown (Assistant Treasurer) and Stacie D. Anctil (Assistant Treasurer). Each member of the Valuation Committee is an interested person of the Fund as that term is defined in the 1940 Act. During the fiscal year ended December 31, 2003, there were no meetings of the Valuation Committee.

### *Nominating Committee; Consideration of Potential Director Nominees*

The Fund has a Nominating Committee, which makes recommendations to the Board regarding nominations for membership on the Board of Directors. It evaluates candidates' qualifications for Board membership and, with respect to nominees for positions as independent directors, their independence from the Fund's investment adviser and other principal service providers. The Committee is comprised solely of the Fund's Independent Directors (Messrs. Cannon, Curtis, Hagan and Popejoy). During the fiscal year ended December 31, 2003, there were no meetings of the Committee.

The Committee will consider potential director nominees recommended by Fund shareholders provided that the proposed nominees: (i) satisfy the director qualification requirements provided in the Fund's Bylaws; (ii) are not interested persons of the Fund or the Fund's investment adviser within the meaning of the 1940 Act; and (iii) are independent as defined in the New York Stock Exchange listing

standards. Before fiscal year 2004, the Committee did not have a formal process for the submission of potential candidates by shareholders except as part of a shareholder proposal in accordance with the Securities Exchange Act of 1934, as amended (the "1934 Act").

In determining procedures for the submission of potential candidates by shareholders and any eligibility requirements for such nominees and the shareholders submitting the nominations, the Committee has looked for guidance to recent promulgations by the Securities and Exchange Commission ("SEC") regarding director nominations. Accordingly, the Committee has determined that potential director candidates recommended by Fund shareholders must satisfy the nominee requirements proposed by the SEC in its proposed Rule 14a-11(c) under the 1934 Act, and shareholders making the recommendations must satisfy the requirements proposed by the SEC in its proposed Rule 14a-11(b) under the 1934 Act.

For potential director nominees recommended by shareholders, these requirements are as follows (terms should be interpreted in accordance with the 1934 Act unless otherwise specified):

(a) The nominee may not be the nominating shareholder, a member of the nominating shareholder group, or a member of the immediate family of the nominating shareholder or any member of the nominating shareholder group;

(b) Neither the nominee nor any member of the nominee's immediate family may be currently employed or employed within the last year by any nominating shareholder entity or entity in a nominating shareholder group;

(c) Neither the nominee nor any immediate family member of the nominee is permitted to have accepted directly or indirectly, during the year of the election for which the nominee's name was submitted, during the immediately preceding calendar year, or during the year when the nominee's name was submitted, any consulting, advisory, or other compensatory fee from the nominating shareholder or any member of a nominating shareholder group;

(d) The nominee may not be an executive officer or director (or person performing similar functions) of the nominating shareholder or any member of the nominating shareholder group, or of an affiliate of the nominating shareholder or any such member of the nominating shareholder group; and

(e) The nominee may not control (as "control" is defined in the 1940 Act) the nominating shareholder or any member of the nominating shareholder group (or in the case of a shareholder or member that is a fund, an interested person of such shareholder or member as defined by Section 2(a)(19) of the 1940 Act).

The nominating shareholder or shareholder group must meet the following requirements:

(a) Any shareholder or shareholder group submitting a proposed nominee must beneficially own, either individually or in the aggregate, more than 5% of the Fund's securities that are eligible to vote at the time of submission of the nominee and at the time of the annual meeting where the nominee may be elected. Each of the securities used for purposes of calculating this ownership must have been held continuously for at least two years as of the date of the nomination. In addition, such securities must continue to be held through the date of the meeting. The nominating shareholder or shareholder group must also bear the economic risk of the investment and the securities used for purposes of calculating the ownership cannot be held "short"; and



(b) The nominating shareholder or shareholder group must also submit a certification which provides the number of shares which the person or group has (i) sole power to vote or direct the vote; (ii) shared power to vote or direct the vote; (iii) sole power to dispose or direct the disposition of such shares; and (iv) shared power to dispose or direct the disposition of such shares. In addition, the certification shall provide that the shares have been held continuously for at least 2 years.

A shareholder or shareholder group may not submit for consideration a proposed nominee who has previously been considered by the Committee. A nominating shareholder or shareholder group may not submit more proposed nominees than the number of Board positions open each year. All shareholder recommended nominee submissions must be received by the Fund by the deadline for submission of any shareholder proposals which would be included in the Fund's proxy statement for its 2005 Annual Meeting.

Shareholders recommending potential director nominees must substantiate compliance with these requirements at the time of submitting their proposed director nominee to the attention of the Fund's Secretary. Notice to the Fund's Secretary should be provided in accordance with the deadline specified above and include, (i) the shareholder's contact information; (ii) the director nominee's contact information and the number of Fund shares owned by the proposed nominee; (iii) all information regarding the proposed nominee that would be required to be disclosed in solicitations of proxies for elections of directors required by Regulation 14A of the 1934 Act; and (iv) a notarized letter executed by the proposed nominee, stating his or her intention to serve as a nominee and be named in the Fund's proxy statement, if nominated by the Board of Directors, to be named as a director if so elected.

The Board of Directors has adopted a Charter for the Nominating Committee, a copy of which is attached as Appendix C. The Nominating Committee identifies prospective director nominees from any reasonable source and has the ability to engage third-party services for the identification and evaluation of potential nominees. The Charter of the Committee provides that each prospective director candidate have a college degree or equivalent business experience. In addition, it is the Board's policy that Directors on the Board may not serve in a similar capacity on the board of a registered investment company which is not sponsored or advised by the Fund's investment adviser or its affiliates. Although there are no minimum qualifications other than as described above, the Committee may take into account a wide variety of factors in considering prospective director nominees, including (but not limited to) the overall diversity of the Board's composition and the prospective nominee's: (i) availability and commitment to attend meetings and perform his or her responsibilities on the Board; (ii) relevant industry and related experience; (iii) educational background; (iv) financial expertise; and (v) ability, judgment and expertise.

The Committee may recommend that the Board modify any nominee qualifications from time to time. The Committee meets periodically to identify and evaluate nominees for director and makes its recommendations to the Board at the time of the Board's February meeting. Other than compliance with the requirements mentioned above for submission of a director candidate, the Nominating Committee does not otherwise evaluate potential director nominees recommended by shareholders in a different manner. The standard of the Nominating Committee is to treat all equally qualified potential nominees in the same manner.

No nominee recommendations have been received by shareholders.

## Communications with the Board of Directors

The Fund provides a means for shareholders to send communications to the Board of Directors. Shareholders may obtain information regarding the ability to communicate with the Board of Directors, as well as the Fund's policy concerning attendance by Directors at annual meetings of shareholders, by consulting the Fund's website at [www.pcmfund.com](http://www.pcmfund.com).

## Remuneration of Directors and Officers

The Fund pays each Director who is not an interested person of the Fund an annual retainer of \$6,000, plus \$1,000 for each regular Board meeting attended in person and \$500 for such each meeting attended telephonically. The Fund also reimburses each Director for reasonable expenses incurred in connection with such meetings. In addition, a Director serving as a Committee Chair, other than those affiliated with PIMCO or its affiliates, receives an additional annual retainer of \$500. For the fiscal year ended December 31, 2003, the Directors who are not interested persons of the Fund, as a group, received compensation in the amount of \$52,010.

The following table sets forth the compensation paid to each Director of the Fund for the fiscal year ended December 31, 2003. Directors who are interested persons of the Fund do not receive any compensation from the Fund.

| <u>Name</u>                      | <u>Aggregate<br/>Compensation<br/>from Fund</u> | <u>Total Compensation<br/>from<br/>Fund and Fund<br/>Complex<sup>1</sup></u> |
|----------------------------------|---|--|
| Guilford C. Babcock <sup>2</sup> | \$ 5,000  | \$ 46,000  |
| R. Wesley Burns                  | \$ 0  | \$ 0   |
| E. Philip Cannon                 | \$ 11,419                                       | \$ 189,384   |
| Vern O. Curtis                   | \$ 10,591                                       | \$ 97,068  |
| J. Michael Hagan                 | \$ 10,000                                       | \$ 92,950  |
| Brent R. Harris                  | \$ 0  | \$ 0   |
| Thomas P. Kemp <sup>2</sup>      | \$ 5,000  | \$ 46,000  |
| William J. Popejoy               | \$ 10,000                                       | \$ 92,750  |

<sup>1</sup> Fund Complex includes the Fund, PIMCO Funds: Pacific Investment Management Series, PIMCO Funds: Multi-Manager Series, PIMCO Variable Insurance Trust and PIMCO Strategic Global Government Fund, Inc. No compensation was paid to any Director of the Fund by PIMCO Strategic Global Government Fund, Inc.

For their services as Trustees of the PIMCO Funds: Pacific Investment Management Series, the Directors listed above received an annual retainer of \$60,000 plus \$3,000 for each Board of Trustees meeting attended in person (\$500 for each such meeting attended telephonically), plus reimbursement of related expenses. The Audit Committee Chairman receives annually an additional \$1,500. For the fiscal

year ended March 31, 2003, these Trustees, as a group, received compensation in the amount of \$444,917 from PIMCO Funds: Pacific Investment Management Series.

For his services as a Trustee of the PIMCO Funds: Multi-Manager Series, Mr. Cannon received an annual retainer of \$52,000 plus \$3,000 for each Board of Trustees meeting attended in person (\$1,500 for each such meeting attended telephonically), and \$1,500 for each Performance and Audit Committee meetings attended, plus reimbursement of related expenses. For the fiscal year ended June 30, 2003, Mr. Cannon received compensation in the amount of \$89,051 from PIMCO Funds: Multi-Manager Series.

For their services as Trustees of the PIMCO Variable Insurance Trust, the Directors listed above received an annual retainer of \$4,000 plus \$1,500 for each Board of Trustees meeting attended in person (\$250 for each such meeting attended telephonically), plus reimbursement of related expenses. The Audit Committee Chairman receives annually an additional \$500. For the fiscal year ended December 31, 2003, these Trustees, as a group, received compensation in the amount of \$53,010 from PIMCO Variable Insurance Trust.

<sup>2</sup> Messrs. Babcock and Kemp retired from the Board of Directors of the Fund and the Board of Trustees of the PIMCO Funds: Pacific Investment Management Series and PIMCO Variable Insurance Trust on May 27, 2003.

The following table shows the executive officers of the Fund, other than those shown above, their ages, positions with the Fund and principal occupations during the past five years.

| <u>Name and Age<sup>1</sup></u>    | <u>Position(s) Held with Fund</u>                | <u>Term of Office and Length of Time Served<sup>1</sup></u> | <u>Principal Occupation(s) During the Past Five Years</u>  |
|------------------------------------|--|---|--|
| Mohan V. Phansalkar<br>Age 40      | Chief Legal Officer                              | 8/03-present  | Managing Director, PIMCO. Formerly, Executive Vice President, PIMCO.                                     |
| Daniel J. Ivascyn<br>Age 34        | Senior Vice President                            | 11/01-present   | Senior Vice President, PIMCO. Formerly, Vice President, PIMCO.   |
| William C. Powers<br>Age 46        | Senior Vice President                            | 7/93-present  | Managing Director, PIMCO.  |
| Jeffrey M. Sargent<br>Age 41       | Senior Vice President. Formerly, Vice President. | 6/93-present (since 2/99 as Senior Vice President)          | Executive Vice President, PIMCO. Formerly, Senior Vice President, PIMCO (prior to that, Vice President). |
| William S. Thompson, Jr.<br>Age 58 | Senior Vice President. Formerly, Vice President. | 7/93-present (since 2/03 as Senior Vice President)          | Chief Executive Officer and Managing Director, PIMCO.  |
| Henrik P. Larsen<br>Age 34         | Vice President                                   | 2/99-present  | Vice President, PIMCO. Formerly, Manager, PIMCO.   |

Name and Age<sup>1</sup>

Position(s) Held  
with Fund