Simpson Thacher

Registered Funds Alert

September 2017

Table of Contents

The latest edition of Simpson Thacher's Registered Funds Alert discusses: the SEC's latest steps toward a uniform fiduciary rule; the argument for the SEC to expand confidential filing reviews to registered funds; issues arising under a new European Union reform that impacts soft dollar practices in the U.S.; and the possibility that the SEC is becoming more focused on BDCs.

SEC Taking Steps Toward Fiduciary Rule

Securities and Exchange Commission ("SEC") Chairman Jay Clayton announced in June that the SEC is seeking comment from the public regarding standards of conduct for investment advisers and broker-dealers. The call for comments is a preliminary step in restarting the SEC's consideration of a fiduciary rule that would establish a uniform standard of conduct for investment advisers and broker-dealers. It also indicates a new effort to revisit the fiduciary regulations adopted by the Department of Labor ("DOL") and coordinate better the regulatory agencies' requirements for conduct by market participants.

If done correctly, adopting an enhanced conduct standards rule, in particular for broker-dealers, could better protect investors and enable greater access to affordable financial advice. It certainly would be a signature accomplishment for Chairman Clayton. If done incorrectly, as has been the case with the DOL's fiduciary rule, implementing an overly burdensome fiduciary rule could dampen innovation and the industry's growth, hurting investors and service providers alike.

The Dodd-Frank Act granted the SEC the authority to promulgate a unified investment advice rule, and though the SEC requested comments from the public in 2013 on such an initiative, the rule-making process has never proceeded beyond preliminary stages.

There were significant developments since 2013, of course, that may have finally pushed the SEC to take action. The DOL has now finalized and partially enacted its own fiduciary rule that requires financial advisers to act in the best interest of their clients in commission-based retirement accounts and to operate under a "best interest contract exemption" that creates private rights of action, including class actions. The DOL rule went into effect on June 9th, albeit without enforcement, as the implementation of its enforcement provisions has been proposed to be postponed until July 1, 2019 to facilitate further review called for by President Trump. Still, its current applicability and impending enforcement have further underscored the need for strong action from the SEC in this arena.

Chairman Clayton's call for comments lists seventeen topics that commenters may address, some of which include specific requests for views on whether the definitions of "investment advice" and "retail investor" should be modified, as well as how regulations might be crafted to address retail investor confusion about the standard of conduct and category of professional or firm providing them advice. Chairman Clayton said that he intends for the SEC to collaborate closely with the DOL in drafting its own rule. This particular call for comments is less formal than the statutory comment period that will precede the adoption of a rule, but offers interested parties a chance to help shape the policy discussion from the start. The rulemaking process is expected to be long, and a final rule is, on an optimistic timeline, years away.

The million-dollar question, though, is what the uniform standard might look like when the process is complete. In answering that question, the perceived problems with the current, dual-standard system may inform the types of reforms that are likely to be proposed.

In 2008, the SEC commissioned the RAND Institute for Civil Justice to conduct a study of investor and industry understanding of the businesses of investment advisers and broker-dealers. In the study, investors were asked to distinguish between the products, service, duties, and obligations of investment advisers relative to those of broker-dealers, and it was apparent from the responses that investors overwhelmingly do not appreciate that there is a meaningful difference between the two. The study also found that investors were commonly unaware of their rights and failed to grasp the significance of conflicts of interest disclosed to them. Furthermore, financial service providers were also found to be unclear about the duties and obligations they owe investors.

The general confusion found in the RAND study is understandable given the complicated statutory regime regulating the two types of service providers. While the Investment Advisers Act of 1940 (the "Advisers Act") imposes a "fiduciary" standard on investment advisers, meaning that the investment advisers must act in the best interest of their customers, the statutory language explicitly exempts broker-dealers from the same requirement. Broker-dealers are instead subject to a lower "suitability" standard under the Securities Exchange Act of 1934 (the "Exchange Act"). This requires that broker-dealers merely make investment recommendations that fall within the range of what is "suitable" in light of a customer's stated investment goals and overall financial situation, a notably less onerous standard than the fiduciary standard for investment advisers.

There are two substantive differences between these standards. First, each standard allows for a different range of investment advice that is appropriate for a given customer. Both investment advisers and broker-dealers are required to collect "know your customer" information, which focuses on the customer's financial situation and investment objectives. This information then forms the basis for investment advice. Under a fiduciary standard, there is only one acceptable recommendation; the one that serves the customer's best interest. The suitability standard differs in that it allows for a range of possible recommendations, as even though only one recommendation can be the "best" alternative, a whole host of recommendations, some worse than others, will be "suitable."

Second, the fiduciary and suitability standards require different amounts of disclosure with respect to conflicts of interest that might bias investment advice. Fiduciaries are required to disclose all material facts and conflicts of interest that may influence their advice, but under the lesser suitability standard, broker-dealers are not required to disclose all conflicts of interest when they recommend an investment. The practical result is that if there are multiple suitable options for a client, a broker-dealer need not recommend the "best" option, and instead can recommend whichever "suitable" option is most profitable to the broker-dealer. Further, the broker-dealer is not required to disclose fully the conflicts of interest underlying a profit-maximizing recommendation.

The fact that the fiduciary standard for investment advisers is principles-based also adds some confusion, at least if applied to broker-dealers. The Advisers Act does not explicitly state duties and obligations that arise under a fiduciary standard. Instead, common law principles dictate the extent of an investment adviser's obligations to its client. This results in those standards occasionally being unnecessarily mysterious to investors and financial service providers alike.

A uniform standard of conduct would remedy much of the confusion simply by making everyone who is providing investment advice subject to the same rules. Investors likely would have a clearer understanding of their rights and financial service providers would have a more complete picture of the duties and obligations they owe to their customers.

The SEC may also codify many of the well accepted common law principles that investment advisers abide by. For example, the rule might state that:

- Fiduciaries have an affirmative duty to disclose all material facts related to conflicts of interest that might influence the investment advice being provided;
- Fiduciaries have an affirmative duty to employ reasonable care to avoid misleading clients; and/or
- Fiduciaries are prohibited from imposing a fee when a customer terminates the advisory relationship.

The SEC may also consider codifying some additional principles to address the broader problem of investors being unable to understand and evaluate conflicts of interest. For example, the rule might state:

- Fiduciaries have an affirmative duty to explain investment risks to the customer;
- Fiduciaries have an affirmative duty to explain whether and why certain investment risks are appropriate based on that customer's circumstances; and/or
- Fiduciaries have an affirmative duty to test customer comprehension of investment risks and conflicts of interest.

Adding explicit affirmative duties such as these to a uniform standard of conduct rule may be particularly attractive to the SEC but create some new risks for market participants. This is because they would create new avenues for enforcement through which the SEC may curtail practices the SEC alleges to be abusive. Under the current regulatory regime, virtually every enforcement action related to fraudulent practices is predicated on an error, omission, or misstatement with respect to disclosure. There is a serious question among some of the SEC staff as to whether disclosure-based enforcement is serving investors effectively, and the SEC may take this opportunity to change that paradigm.

The SEC's Expanded Confidential Filing Review Process Should Include Investment Companies (and BDCs)

As noted in a recent Alert, earlier this summer the SEC expanded the range of issuers who can avail themselves of a confidential filing review process so that any issuer filing with the Division of Corporation Finance is entitled to confidential review by the SEC of the registration statement for an initial public offering, spin-off or follow-on offering. Notably, the SEC's announcement does not appear to apply

to filings made with the Division of Investment Management. As registered investment companies do not file with the Division of Corporation Finance, it appears that they cannot utilize the expanded confidential review process. In this Alert, we suggest that investment companies and business development companies ("BDCs") be granted a similar confidential review process for registration statements related to new offerings, and that the Division of Investment Management also accept confidential submissions of exemptive applications tied to such offerings. Extending confidential review to investment companies would further the stated policy goal of SEC Chairman Jay Clayton to facilitate capital formation.

Some BDCs Already Can Utilize the Confidential Review Process

When Congress enacted the Jumpstart Our Business Startups Act ("JOBS Act") in 2012, it allowed "emerging growth companies" ("EGCs") to submit registration statements, and related revisions, on a nonpublic basis for confidential SEC review. The opportunity to obtain non-public SEC review quickly became one of the most popular capital access modifications in the JOBS Act. Prior to the SEC's recent announcement, the confidential review process was limited to EGCs. The SEC has issued guidance that investment companies do not qualify as EGCs, but BDCs may qualify as EGCs provided they meet general EGC criteria, including having less than $1.07 billion in annual revenue. In determining that investment companies could not qualify as EGCs, the SEC focused on the fact that investment companies have different disclosure requirements than typical EGCs. BDCs, on the other hand, are subject to similar disclosure requirements under the Exchange Act as other issuers submitting filings with the Division of Corporation Finance, which supported the SEC's determination that BDCs could qualify as EGCs.

The SEC did not cite the confidential review process in considering whether investment companies should be able to qualify as EGCs, which suggests that the SEC did not have a specific view on whether investment companies should be able to file confidentially. As the SEC is no longer limiting confidential filings to EGCs, there is no obvious rationale for continuing to exclude investment companies and non-EGC BDCs from this process, especially when they would benefit from confidential review in a similar manner as other issuers.

The Division of Investment Management Should Review Certain Exemptive Applications on a Confidential Basis

If the Division of Investment Management expands the confidential review process of registration statements to investment companies and BDCs, it should similarly allow for confidential review of exemptive applications related to the same offering.

Akin to other issuers, the registration statements of investment companies and BDCs can contain sensitive information about the issuer or its sponsor, and the prospect of immediate public disclosure of an offering can discourage an issuer from going to market or delay an offering. In some cases, the success and/or day-to-day operations of a new product or offering will require exemptive relief from the SEC, and the application for such relief could contain similar sensitive information. Given the amount of time that it can take to navigate the exemptive application process and receive an exemptive order, an exemptive application might be filed contemporaneously with a registration statement (for example, for co-investment relief). If the exemptive application does not receive confidential treatment, it could defeat the purpose of reviewing the registration statement on a confidential basis.

The Division of Investment Management Should Follow the Example of the Division of Corporation Finance

It is a logical step for the Division of Investment Management to follow the Division of Corporation Finance and embrace confidential filings for registration statements tied to new offerings. Under the confidential review process, an issuer can take the initial steps towards going public or beginning a follow-on offering without revealing sensitive information to the public (or competitors). This provides issuers with greater flexibility to plan their offerings to account for changes in market conditions, regulatory considerations or investor demand, allowing offerings to become public at a time the issuer believes is appropriate. Further, an issuer might not want to announce that it is pursuing entering the public markets until that offering is more certain to take place in order to keep its business and financial information confidential from copycat investors or other opportunistic actors. These benefits apply to investment companies and BDCs just as much as any other corporate issuers, and would be particularly helpful for investment companies and BDCs that may have novel investment strategies or offering structures.

European Union Reforms Could Disrupt U.S. Soft Dollar Practices; Industry Anxiously Waiting for the SEC to Act

The Council of the European Union, through its Markets in Financial Instruments Directive ("MiFID II"), is changing how investment advisers can use client commissions to pay for securities research. These changes are far reaching and are poised to have a ripple effect in the United States and throughout the world.

Significantly, MiFID will ban the very common practice of an investment adviser using bundled client trading commissions to pay for securities research. That ban is scheduled to become effective in the European Economic Area ("EEA") on January 3, 2018. Under MiFID II, an investment adviser located in the EEA must pay the costs for research directly or pay for that research with "unbundled" client commissions deposited into a new kind of account, called a research payment account ("RPA").

RPAs are similar to the currently-used client commission arrangement ("CCA"), but there are a few differences. The RPA would be funded with payments for research that are charged separately from payments for execution. In addition, the investment adviser – not a broker-dealer – would control the RPA. MiFID II also requires the investment adviser to negotiate a research budget with the client and regularly assess that budget and annually disclose to the client the total cost of research. While research payments can be made in connection with a transaction, the total amount must be based on the set budget and cannot be linked to trading volume or the value of transactions. Investment advisers must also have a process in place to rebate any surplus budget in the following period and provide a written policy to clients describing all necessary information, including how the investment adviser intends to allocate costs fairly across various clients' RPAs.

MiFID II applies to investment personnel exercising investment discretion from offices located in the EEA regardless of whether they are managing accounts located in the United States, including for U.S. registered investment companies. Under these circumstances, an investment adviser or subadviser located in, or with personnel located in, the EEA exercising investment discretion over an account located in the United States would be subject to compliance with rules governing payments for securities research under both the EEA and U.S. regulatory regimes.

Unfortunately, the unbundled approach permitted by MiFID II does not align with the current U.S. regulatory regime and the safe harbor investment advisers rely on under Section 28(e) of the Exchange Act. This article discusses this issue, but MiFID II also raises other questions outside the scope of this article. For example, a broker-dealer's offering of unbundled commissions raises the question of whether the broker-dealer must register as an investment adviser under the Advisers Act. For registered investment companies, variations in the total transaction cost of aggregated trades may raise joint transaction concerns under Section 17(d) of the 1940 Act because they could be construed to be participating on a basis different from, or less advantageous, than other clients.

Turning to the impact of MiFID II on soft dollar practices in the United States under the Section 28(e) safe harbor, an investment adviser that satisfies the conditions of the statute is permitted to use client commissions to pay a broker-dealer more than the lowest available commission rate for a bundle of products and services provided by the broker-dealer (*i.e.*, more than "pure execution"). Historical SEC guidance in this area has been premised on the protections of Section 28(e) being available only when an investment adviser pays a bundled "commission" for both brokerage and research services.

> *"The implementation of MiFID II creates a severe problem for investment advisers in the U.S. with operations in the EEA."*

The implementation of MiFID II creates a severe problem for investment advisers in the United States with operations in the EEA. The question is how such an investment adviser can comply with MiFID II's requirement for unbundled research payments when, in the United States, the law and guidance has to date presumed a bundled commission.

An investment adviser has a fiduciary duty to invest client assets prudently and seek best execution when executing trades, which includes engaging in a balancing act weighing the costs of executing a transaction with the amount being charged for research. Providing a mechanism to support the unbundling of research and execution costs likely will require additional disclosure to investors, giving investors the benefit of increased transparency. The heightened transparency provided by the unbundling of research from execution costs may ultimately lead to increased fairness to investors and stronger investor protection – two of the cornerstones upon which the SEC was founded. Moreover, those who deal with the European trading environment may begin to question why they cannot obtain the same level of transparency regarding the cost of research when conducting transactions in the United States. The SEC needs to act to address these concerns, or explain why it does not support transparency in the execution of brokerage transactions in U.S. financial markets.

Guidance to facilitate MiFID II-compliant research payments within the Section 28(e) safe harbor also is fully consistent with the enacting spirit of Section 28(e), which strove to protect the market for research services. One of the concerns that led to the enactment of Section 28(e)'s safe harbor was that research services could have dried up or the cost of such services could have been unfairly passed on to investment advisers. To the extent relief is not provided, there may be a decline in the amount of research used by investment advisers who must comply with MiFID II, with a potential collateral negative impact on investment performance. This result clearly would be contrary to Congressional intent.

The U.S. and MiFID II approaches are both predicated on ensuring that clients of investment advisers have transparency into the costs of receiving valuable services and best execution standards are met. Broadening the scope of the Section 28(e) safe harbor is imperative to provide the financial markets with cost-efficient options for complying with multiple and conflicting extraterritorial compliance regimes. Fortunately, the SEC and its staff have a long history of responding to market participants' concerns with the impact of new developments on the availability of Section 28(e) for investment advisers. We have every confidence that the SEC staff is taking this matter very seriously and is seeking to take steps that will better facilitate implementation of MiFID II and also retain the ability of investment advisers to rely on the Section 28(e) safe harbor.

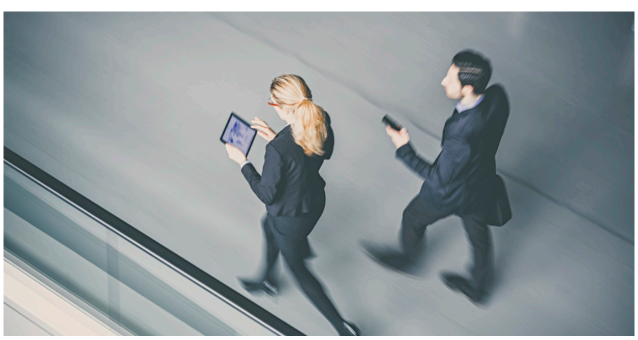
SEC Focus on BDCs Appears to be Increasing: OCIE Issues Examination Requests to Investment Advisers of BDCs

In June 2017, the SEC's Office of Compliance Inspections and Examinations ("OCIE") began issuing examination requests to investment advisers of BDCs requesting certain information pertaining to BDC operations (the "BDC Request Letters"). Among other things, the BDC Request Letters request a significant amount of information related to the role of BDC investment advisers and associated fees and payments. The BDC Request Letters also indicate potential increased interest on the part of the SEC Staff in BDCs which, for the most part, generally have steered clear of involvement in SEC enforcement matters. As the market share of BDCs continues to grow, and the SEC continues to shift examination and enforcement resources to investment sectors with a heavy retail nexus, we expect that the SEC's interest in BDCs and their investment advisers will continue to grow as well.

As is the case with many request letters, the BDC Request Letters are broad, and request varying levels of information. For example, one letter requests information in the following categories: general information; fund compliance, risk management, and internal controls; fund corporate governance; conflicts of interest/insider trading; fund investment activities; compensation arrangements; fee and expense reimbursement; valuation of fund portfolio assets; capital structure; financial records; and other records that pertain to the adviser. In contrast, another letter simply seeks information categorized with respect to the BDC and its adviser. In addition, one letter has nearly 100 itemized requests, while another letter has approximately half that number.

Much of the information requested in the BDC Request Letters is typical of examination document requests – information about directors/trustees and officers, information about service providers, and general compliance information. Notably, however, one of the letters requests trade blotter and holdings information in Excel format, indicating that the SEC may be using data analytics to assess, and perhaps compare, BDCs. Another request letter also asks for information about trade blotters, but broadens the scope of earlier letters by requesting in a separate attachment information about former clients and proprietary and/or trading accounts and access persons.

A notable characteristic of these request letters is that they request information about fee and expense reimbursement calculations. Unlike other types of registered funds, BDC investment advisers typically charge incentive fees in addition to management fees. While externally managed BDCs must include extensive disclosure regarding the calculation of incentive fees in their registration statements, to date, the SEC Staff has not taken a formal position regarding how they believe incentive fees should be calculated. One of the letters specifically asks for written policies and procedures addressing the calculation of fees and reimbursement of fund expenses, Excel spreadsheets supporting the calculation of management fees and incentive fees, a schedule of all expense reimbursements made to a BDC, and an Excel spreadsheet with quarterly NAV calculations. This may signal that the SEC is gathering information in advance of a more thorough review of incentive fee calculations in the future. Given the SEC's prior interest in private equity fee matters, coupled with a focus on retail investors, this development may be viewed as a natural progression – as private equity "goes retail," the examiners follow.



Another focus area of the BDC Request Letters is investments in eligible portfolio companies ("EPCs"), an investment requirement unique to BDCs. BDCs were established as a means of making capital more readily available to small, developing, and financially troubled companies that would not otherwise have access to capital markets or conventional financing. As such, BDCs typically cannot acquire other assets unless at least 70% of a BDC's total assets are invested in securities of EPCs. The BDC Request Letters ask for a list of a BDC's holdings for each quarter and an indication as to whether the security is an EPC. They also request a list of portfolio companies to which the BDC has provided or offered to provide managerial assistance, whether these companies are identified as EPCs, as well as the specific criteria that define the entity as an EPC. The letters also request identification of any positions that lost status as an EPC due to the issuance of a class of securities that are "margin eligible."[1] These requests in the BDC Request Letters concerning EPCs indicate that the SEC Staff may be focused on how BDCs are classifying and treating EPCs, including whether in the SEC's view advisers may be taking a lax approach to maintaining the required level of EPC investments in order to pursue other, potentially more lucrative, discretionary investments.

Issuance of the BDC Request Letters follows the FINRA targeted exam letters that were issued in August 2016 to certain of its broker-dealer registrants requesting: (1) a list of each BDC offered by a firm and the firm's role in the offering *(i.e.*, dealer manager, distributor, etc.); (2) for each BDC offered, a list of all participating broker-dealers that have selling arrangements with the firm and sample copies of selling agreements utilized; (3) an Excel list of all broker-dealers that sold the BDCs to customers in initial or follow-on offerings and information about the sales from those offerings; and (4) a copy of the firm's due diligence procedures. FINRA has not announced the results of the targeted exam, although it did indicate in its 2017 Regulatory and Examination Priorities Letter that it would be considering the suitability of non-traded BDCs, among other products, for certain types of investors.

Collectively, the FINRA target exam letters, followed by the BDC Request Letters from the SEC suggest that regulators intend to take a close look at fee and expense practices in the BDC sector, which is consistent with recent messaging from SEC senior leadership concerning the importance of protecting potentially vulnerable retail investors. Although it remains to be seen whether the level of SEC scrutiny will approximate the increased spotlight placed on the private equity industry in 2012, the BDC Request Letters suggest that the industry should brace for a level of sustained scrutiny, which will likely have a concomitant market effect of enhancing overall levels of transparency in the BDC industry.

1. The 1940 Act defines EPCs to include any domestic operating company that, among other things, does not have a class of securities that is marginable under Federal Reserve Board rules. Generally, margin stock includes equity securities registered on a national securities exchange, any over-the-counter security trading in the Nasdaq Stock Market's National Market, any debt security convertible into a margin stock, and most mutual funds under Regulation U.

M&A Transactions

Acquiror	Acquired or Target Company	Type of Transaction and Status
BlackRock, the world's largest asset manager with approximately $5.4 trillion AUM	**Scalable Capital**, an Anglo-German digital investment manager	Acquisition of minority position. BlackRock led a €30 million funding round for Scalable alongside its two existing German venture capital backers.
DiMeo Schneider & Associates, L.L.C., an asset manager with approximately $66 billion AUM	**ORION Investment Advisors**, a registered investment adviser	Acquisition (terms not disclosed)
Domain Timber Advisors, LLC, a registered investment adviser and an affiliate of Domain Capital Advisors, LLC with approximately $5.3 billion AUM	**Timbervest, LLC**'s fund management business	Acquisition (terms not disclosed)
Dyal Capital Partners, a division of Neuberger Berman Group with approximately $351 million AUM	**TPG Sixth Street Partners**, global credit and credit-related investment firm affiliated with TPG Holdings with approximately $20 billion AUM	Acquisition of a passive, non-voting minority interest (terms not disclosed)
Dyal Capital Partners, a division of Neuberger Berman Group	**Atalaya Capital Management**, a private credit and special opportunities alternative investment manager with approximately $2.5 billion AUM	Acquisition of a passive, non-voting minority interest (terms not disclosed)
HighTower Advisors, LLC, a national adviser-owned financial services company	**Lee Equity Partners**, a New York based private equity firm with approximately $6.4 billion AUM	Acquisition (terms not disclosed)
Invesco Ltd., an independent investment management firm	**Source**, an investment firm and majority owned by an affiliate of Warburg Pincus	Acquisition. Transaction includes $18 billion in Source-managed AUM, plus approximately $7 billion in externally managed AUM
MainSource Financial Group, a community-focused, financial holding company with assets of approximately $4.6 billion AUM	**Capstone Investment Management, LLC**, an independent firm	Acquisition (terms not disclosed)
RMB Capital, an independent, diversified financial services firm with approximately $6.7 billion AUM	**VennWell, LLC**, a financial planning and investment management firm with approximately $250 million AUM	Acquisition (terms not disclosed)
Rosemont Investment Partners, LLC, a specialist private equity firm	**Hartland $ Co., LLC**, an institutional and wealth advisory firm with approximately $18 billion AUM	Acquisition of minority position (terms not disclosed). Management-led recapitalization.

M&A Transactions *(continued)*

Acquiror	Acquired or Target Company	Type of Transaction and Status
Schroders plc, a global investment manager with $490.7 billion AUM	**Adveq Holding AG**, an asset manager investing in private equity globally with $7 billion AUM	Acquisition (terms not disclosed)
KKR & Co. L.P., a global investment firm, and Stone Point Capital LLC, a financial services-focused private equity firm with $13 billion AUM	**Focus Financial Partners**, a partnership of independent, fiduciary wealth management firms	Acquisition of a majority position (terms not disclosed)
Touchstone Advisors, Inc., a wholly-owned subsidiary of Western & Southern Financial Group	**Sentinel Asset Management, Inc.**, a Vermont-based diversified asset management firm and an indirect wholly-owned subsidiary of National Life Holding, with $5.54 billion AUM	Acquisition of certain assets of Sentinel Asset Management, Inc. related to thirteen Sentinel funds being reorganized into Touchstone funds
White Oak Equity Partners, a private equity investor focused on acquiring minority GP interests in hedge funds with approximately $2 billion AUM	**ROW Asset Management**, systematic quantitative global macro investment firm with over $800 million AUM	Acquisition of minority position (terms not disclosed)

Closed-End Fund Initial Public Offerings

AllianzGI Convertible & Income 2024 Target Term Fund (NYSE: CBH)

Amount Raised (Inception Date):	$165 million (June 27, 2017)
Investment Objective/Policies:	The Fund's investment objectives are to provide a high level of income and to return at least $9.835 per common share (the original net asset value per common share of beneficial interest before deducting offering costs of $0.02 per share) to holders of common shares on or about September 1, 2024. The Fund will normally invest at least 80% of its managed assets in a diversified portfolio of convertible securities and income-producing debt instruments. It is expected that a portion of the Fund's income-producing debt instruments will consist of high yield securities (sometimes referred to as "high yield" or "junk" securities), which are securities that are, at the time of investment, rated below investment grade (below Baa3 by Moody's Investors Service, Inc. or below BBB- by either S&P Global Rating Services or Fitch Ratings Inc.) or that are unrated but determined by the Investment Manager to be of comparable quality. A portion of the Fund's portfolio is also generally expected to consist of senior secured loans. The Fund will invest primarily in the securities or instruments of U.S. issuers.
Manager:	Allianz Global Investors U.S. LLC
Book-runners:	Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, and UBS Securities LLC

Simpson Thacher

Simpson Thacher's dynamic, long-standing Registered Funds Practice encompasses all aspects of the investment management business. Our practice focuses on alternative asset managers seeking to access retail investor channels, asset management mergers and acquisitions, and advising on cutting-edge regulatory policy and strategy matters.

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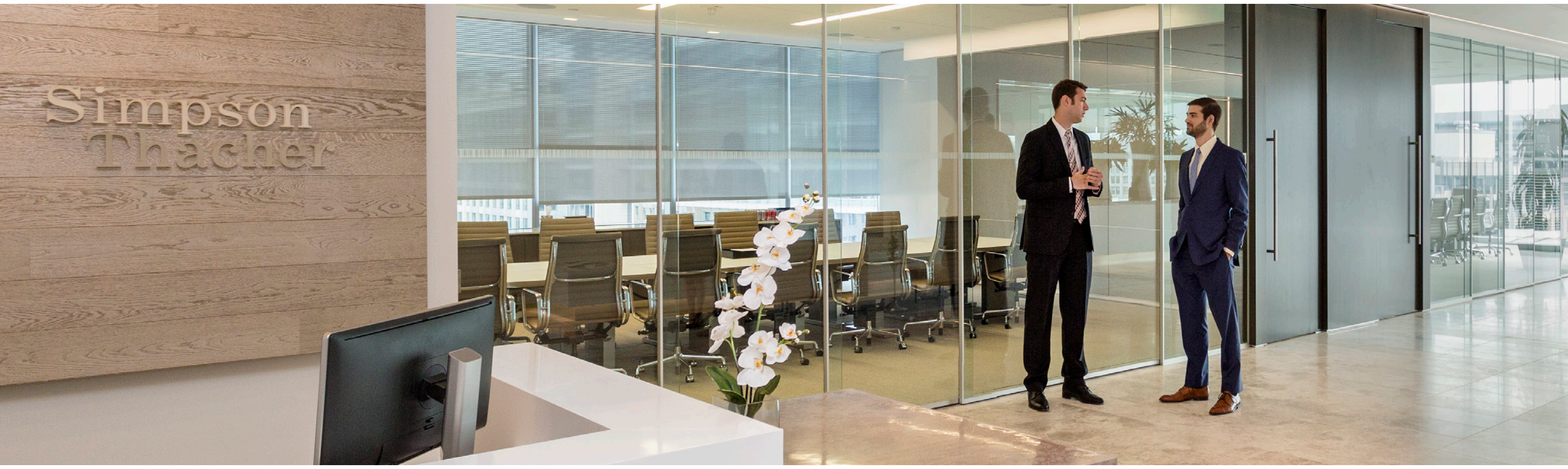

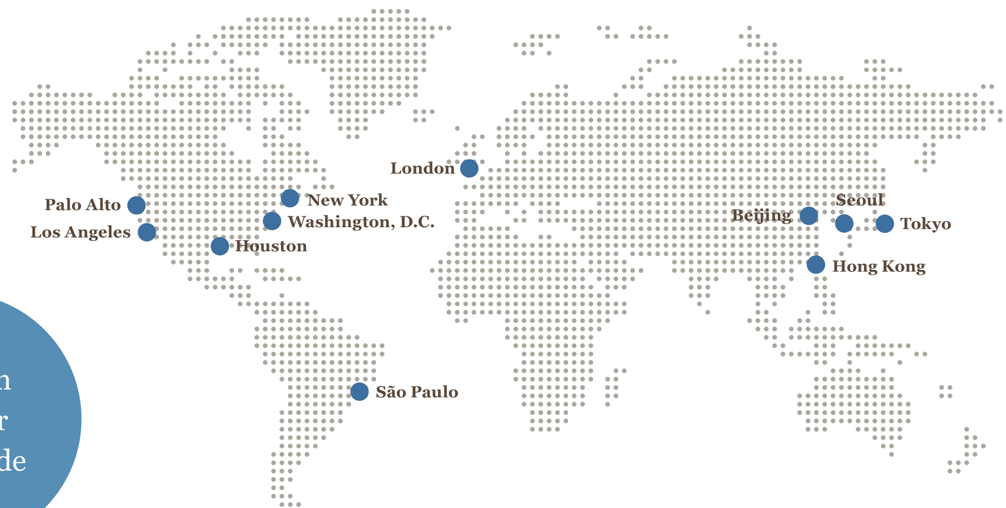

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