

Capital Structure and Flow of Money & Shares of a CEF from IPO to Retail Trading

- Liabilities
- Assets
- Common Shares
- Dividends

PIMCO Board decides to create a new CEF. A decision is made on the percentages of total assets to be composed of **Common Equity, Preferred Shares, and a Bank Loan (Borrowed Capital).**

Common Equity Formation

Legal & Regulatory Filing. PIMCO, with legal counsel, drafts the prospectus (Form N-2) and files it with the SEC.

SEC Review & Approval

Underwriting & Syndicate Formation. The Lead Underwriter appointed by PIMCO forms a syndicate of investment banks and brokerage firms.

IPO Event
Issues 2,500,000 new CEF common shares

Transfer of 2,500,000 new CEF shares

Underwriting Syndicate

Transfers 2,500,000 new CEF shares to Brokers at \$25.00/share

Brokers

During IPO, Brokers sell the shares to Retail Investors at \$25.00/share

Retail Investors, Purchased and own 2,500,000 new common CEF shares

\$25.00/share from 'Retail Investors' to 'Brokers'

\$25.00/share from Brokers to Underwriting Syndicate

\$23.875/share from Underwriting Syndicate as CEF Common Equity

Syndicate Fees

\$1.125/share (Underwriting Discount) from 'Underwriting Syndicate' to **Syndicate Fees**

Leverage Funding (Bank Loan & Preferred Shares) to raise additional capital via leverage.

PIMCO actively manages the CEF

Bank

Bank Loan (\$20M)

Preferred shares

Preferred shares are created by the CEF Entity and sold in a private placement to institutional investors, bypassing brokers and syndicates.

Proceeds from sale of Preferred Shares (\$20M)

Loan Interest (e.g., 4% annually)

Preferred Dividends (e.g., 5% annually)

Management Fee (e.g., 0.6% annually)

Initial Capital, the Engine that generates distributions is composed of Common Equity (NAV) \$59.7M + Bank Loan 20M+ Proceeds from Preferreds 20M = \$99.7M

Common Dividends, composed of Income, Capital Gains and ROC

Post-IPO Trading: Retail Investors (**Holder of Common Shares**) trade shares on the market, at a price determined by supply and demand and market sentiment, and receive Dividends

Trading Commissions, although in these days of zero commission trading this is negligible.