PIMCO STRATEGIC GLOBAL GOVERNMENT FUND INC
Form N-CSR
April 05, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number: 811-08216

PIMCO Strategic Global Government Fund, Inc.

(Exact name of registrant as specified in charter)

840 Newport Center Drive, Newport Beach, CA 92660

(Address of principal executive offices)

John P. Hardaway

Treasurer

PIMCO Funds

840 Newport Center Drive

Newport Beach, CA 92660

(Name and address of agent for service)

Copies to:

Brendan Fox

Dechert LLP

1775 I Street, N.W.

Washington, D.C. 20006

Registrant s telephone number, including area code: (866) 746-2606

Date of fiscal year end: January 31

Date of reporting period: February 1, 2006 January 31, 2007

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 as amended (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Table of Contents

Item 1. Reports to Shareholders.

The following is a copy of the report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940, as amended (the Act) (17 CFR 270.30e-1).

Table of Contents

Annual Report January 31, 2007

PIMCO

PIMCO Strategic Global Government Fund, Inc.

Table of Contents

Table of Contents

Pacific Investment Management Company LLC (PIMCO), an investment adviser with in excess of $667 billion of assets under management as of December 31, 2006, is responsible for the management and administration of the PIMCO Strategic Global Government Fund, Inc. (the Fund). Founded in 1971, PIMCO manages assets on behalf of mutual fund and institutional clients located around the world.

Table of Contents

Chairman s Letter

Dear PIMCO Strategic Global Government Fund, Inc. Shareholder:

It is our pleasure to present to you the annual report for PIMCO Strategic Global Government Fund, Inc. (the Fund), covering the twelve-month period ended January 31, 2007, the Fund s fiscal year-end.

The past twelve months were challenging for many closed-end bond funds. The Federal Reserve raised the Federal Funds rate by 0.75% in the first five months of the Fund s fiscal year, resulting in an inverted yield curve (a yield curve environment in which short-term interest rates yield more than intermediate and long-term rates). Rising interest rates reduced the value of fixed-income securities and made it more costly for funds that use leverage to borrow. In addition, the premiums that investors typically earn for investing in riskier assets, such as corporate and emerging market bonds, declined as investors appetites for yield grew.

As a result, the Board of Directors of the Fund decided to decrease the Fund s monthly dividend from 7.4 cents per common share to 6.5 cents per common share beginning last August. Despite these market difficulties, the Fund returned 5.75% based on its net asset value performance and 4.21% based on its NYSE share price during the period. The Fund s benchmark, the Lehman Brothers Intermediate Aggregate Bond Index, returned 4.48% during the same period.

Since PIMCO assumed responsibility for managing the Fund on February 8, 2002, through January 31, 2007, the Fund has achieved annualized returns of 6.68% based on its net asset value performance and 9.13% based on its NYSE share price, while the benchmark returned 4.46% on an annualized basis during the same period. On January 31, 2007, the Fund s net assets stood at $378.3 million.

Additional highlights of the bond markets during the twelve-month reporting period ended January 31, 2007 include:

- Bonds gained during 2006 as a whole despite a difficult environment in the first half of the year. Signs of economic softness during the second half of the year put an end to the Federal Reserve s series of 17 consecutive interest rate hikes that began in mid-2004, and interest rates across the U.S. Treasury yield curve fell.

Table of Contents

- Investor concern about central bank tightening overseas caused European and U.K. government bonds to lag U.S. Treasuries for the year while the yield on Japanese government bonds rose the least over the twelve-month period. On January 31, 2007, the benchmark ten-year Treasury yielded 4.81%, which was 0.29% higher than at January 31, 2006.

- Riskier assets such as corporate and emerging markets bonds outperformed U.S. Treasuries. Ample liquidity and low volatility, even amid central bank tightening around the globe, supported global investors in their pursuit of yield. By the end of the Fund s fiscal year, the premium that investors received for investing in emerging market bonds stood at 1.74% versus 2.10% the year prior.

- Toward the end of the year, the effects of a cooling housing market and overly aggressive mortgage lending in prior years resulted in the pronounced weakness that PIMCO had expected in the subprime mortgage market (a market characterized by loans to borrowers with low credit scores, limited or no loan documentation, and loans covering a high percentage of the property s appraised value). The Fund s exposure to this segment of the mortgage market was minimal due to a focus on high-quality, AAA-rated, agency issued mortgage-backed securities, which posted returns in excess of U.S. Treasuries.

On the following pages please find details on the Fund s portfolio and total return investment performance, including our discussion of the primary factors that affected performance during the twelve-month reporting period.

We appreciate the trust you have placed in us, and we will strive to meet your investment needs. If you have any questions regarding your investment in the Fund, please contact your account manager or call one of our shareholder associates at 1-866-746-2606. We also invite you to visit the Fund s website at www.rcsfund.com.

Sincerely,

R. Wesley Burns

Chairman of the Board, PIMCO Strategic Global Government Fund, Inc.

March 20, 2007

Table of Contents

Important Information About the Fund

Background and Investment Objective

The PIMCO Strategic Global Government Fund, Inc. is a closed-end bond fund which trades on the NYSE under the ticker symbol RCS. Formed in 1994, the primary investment objective of the Fund is to generate, over time, a level of income higher than that generated by high-quality, intermediate-term U.S. debt securities. As a secondary objective, the Fund seeks to maintain volatility in the net asset value of the shares of the Fund comparable to that of high-quality, intermediate-term U.S. debt securities. Pacific Investment Management Company LLC (PIMCO) assumed responsibility for portfolio management of the Fund on February 8, 2002.

Primary Investments

The Fund attempts to achieve its investment objective by investing primarily in a portfolio of investment grade fixed-income securities of the United States and other countries. The Fund invests, under normal circumstances, at least 80% of its net assets plus borrowings for investment purposes in government securities. Government securities include bonds issued or guaranteed by the U.S. or foreign governments (including states, provinces, cantons, and municipalities), by their agencies, authorities or instrumentalities, or by supranational entities, and synthetic instruments with economic characteristics similar to such securities. Government securities also include mortgage-backed securities issued or guaranteed by certain U.S. government agencies and government-sponsored enterprises, including Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae) and Government National Mortgage Association (GNMA or Ginnie Mae), which may or may not be backed by the full faith and credit of the U.S. government.

On March 31, 2006, the Fund changed its non-fundamental policy relating to investments in global securities. Previously, the Fund s policy was to invest, under normal circumstances, at least 65% of its total assets in the securities of issuers located in not less than three different countries, including the United States. The policy was changed in two respects: (1) the percentage changed from at least 65% to at least 80% and (2) the basis of the calculation changed from total assets to net assets plus amounts borrowed for investment purposes. The amended policy requires the Fund to invest, under normal circumstances, at least 80% of its net assets plus amounts borrowed for investment purposes in the securities of issuers located in not less than three different countries, including the United States. These changes were made to make the Fund s policy regarding investment in global securities consistent with its policy regarding investment in government securities, and to give PIMCO more flexibility in the use of transactions that settle on a delayed delivery or forward commitment basis.

Effective September 14, 2006, the Fund adopted a non-fundamental investment policy permitting it to invest up to 20% of its total assets in non-investment grade securities regardless of the issuer. Prior to the adoption of this policy, the only non-investment grade securities in which the Fund was permitted to invest were securities of emerging markets issuers, subject to a limit of 20% of total assets. The new policy expands the Fund s ability to invest in non-investment grade securities beyond those of emerging markets issuers, to include other types of securities in which the Fund is permitted to invest, such as corporate, mortgage-backed and asset-backed securities. As discussed in the Summary of Risks, investments in non-investment grade securities exposes the Fund to credit and high-yield security risk. The Fund continues to be subject to a separate investment policy limiting its investments in securities of emerging markets issuers to 20% of total assets.

Dividend Policy

Effective with the August 14, 2006 dividend declaration, the Fund pays a monthly dividend out of net investment income at a rate of $0.065 per share. The Fund may also pay a special dividend at the end of each calendar year in order to satisfy tax distribution rules applicable to regulated investment companies.

Shareholders who wish to have their dividends reinvested may elect to do so through the Fund s Dividend Reinvestment Plan described in this report beginning on page 32. Shareholders who hold their shares through a financial intermediary may or may not be able to participate in the Fund s Dividend Reinvestment Plan and should consult with their financial intermediary to determine eligibility.

Risks of Making an Investment in the Fund

We believe that bond funds have an important role to play in a well-diversified investment portfolio. It is important to note, however, that it is possible to lose money in an investment in the Fund. The past and current dividend rates are not assured, and because the Fund s shares trade at market value on an exchange, the shares may trade at a discount or premium to the Fund s net asset value (NAV). An investment in the Fund is not a deposit in a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency.

Summary of Risks

The following provides a description of the Fund s principal risks. The Fund may be subject to additional risks other than those described below.

- Interest rate risk, including the risk that bond prices fall as interest rates rise.
- Yield curve flattening risk, including the risk of a decrease in the difference between short-term interest rates and long-term interest rates and the risk that financing costs exceed the returns from longer-term investments purchased with borrowed funds.
- Market price versus NAV (discount risk), including the risk that the Fund s shares may trade at a smaller premium or a larger discount from their NAV.
- Net investment income risk, including the risk that the Fund may not generate sufficient net income to meet the current monthly dividend rate.

- Duration risk, including the risk that investments with a longer final maturity may be more sensitive to interest rate changes than investments with a shorter final maturity.

- Derivative risk, including the risk of defaults by counterparties and the risk that a derivative performs differently from a direct investment in the instrument underlying the derivative.

- Small company risk, including the risk that securities issued by small companies may be less liquid than securities issued by larger companies.

- Non-U.S. security risk, including the risk that non-U.S. securities may present different risks (such as political, regulatory, accounting and tax risks) from similar securities issued by U.S. issuers. This risk may be enhanced when investing in emerging markets.

Important Information About the Fund

- Credit and high-yield security risk, including the risk that offerings of debt securities or derivatives may default and the risk that below investment grade bonds may be subject to higher default rates than investment grade bonds. As a result of the Fund s new policy, any expanded investments in non-investment grade securities will increase the Fund s exposure to these risks,

- Sector-specific risk, including the risk that certain sectors of the bond market may have different risk attributes from the bond market as a whole.

- Leverage risk, including the risk that certain other risks will be magnified when the Fund pursues leveraging strategies and the risk that investments in excess of capital may increase the volatility of returns.

- Concentration risk, which may result in additional volatility compared to a more diversified portfolio.

- Mortgage risk, including the risk that rising interest rates will extend the duration of mortgage-related securities, making them more sensitive to changes in interest rates (extension risk) and the risk that in an environment where interest rates are falling, borrowers will pay off their mortgages sooner than expected, causing the Fund to reinvest at the lower prevailing interest rates and reducing the Fund s returns (contraction risk).

In an environment in which interest rates may trend upward, rising rates will negatively impact the performance of most bond funds, and fixed-income securities held by a fund are likely to decrease in value. The price volatility of fixed-income securities can also increase during periods of rising interest rates resulting in increased losses to a fund. Bond funds and individual bonds with a longer duration (a measure of the expected life of a security) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations. The Fund s duration, a measure of the portfolio s sensitivity to interest rate changes, was 5.04 years as of January 31, 2007, compared to the duration of Lehman Brothers Intermediate Aggregate Bond Index which was 3.68 years.

The Fund may use derivative instruments for hedging and leveraging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, leveraging risk and the risk that the Fund could not close out a position when it would be most advantageous to do so. Because the Fund may invest in derivatives, it could lose more than the principal amount invested in these instruments.

High-yield bonds are bonds that are rated below investment grade (e.g., rated below BBB- by Standard & Poor s and below Baa3 by Moody s). Below-investment grade bonds may be issued in a variety of sectors of the bond market including the corporate and emerging markets sectors. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. As of January 31, 2007, the Fund s holdings of high-yield bonds were approximately 9% of its total investments. The credit quality of the investments in the Fund s portfolio does not ensure the stability or safety of the Fund s portfolio.

The Fund s investments in securities issued by certain U.S. government agencies or U.S. government-sponsored enterprises may not be guaranteed by the U.S. Treasury. Government National Mortgage Association, a wholly owned U.S. government corporation, is authorized to guarantee, with the full faith and credit of the U.S. government, the timely payment of principal and interest on securities issued by institutions approved by GNMA and backed by pools of mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Government-related

Table of Contents

guarantors (i.e., not backed by the full faith and credit of the U.S. government) include the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA but are not backed by the full faith and credit of the U.S. government. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but its participation certificates are not backed by the full faith and credit of the U.S. government.

The Fund invests in dollar rolls, a simultaneous agreement to sell a security held in the portfolio with a purchase of a similar, but not identical security at a future date at an agreed-upon price, which may create leveraging risk for the Fund. The use of leverage may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so. Because leveraging tends to exaggerate the effect of any increase or decrease in the value of portfolio securities, leverage may cause the Fund to be more volatile than if the Fund had not been leveraged.

Sarbanes-Oxley Act and Other Information Available to Shareholders

On June 28, 2006, the Fund submitted a CEO annual certification to the NYSE on which the Fund s principal executive officer certified that he was not aware, as of that date, of any violation by the Fund of the NYSE s Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related Securities and Exchange Commission (SEC) rules, the Fund s principal executive and principal financial officers have made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q, relating to, among other things, the Fund s disclosure controls and procedures and internal control over financial reporting, as applicable.

PIMCO has adopted written proxy voting policies and procedures (Proxy Policy) as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Fund as the policies and procedures that PIMCO will use when voting proxies on behalf of the Fund. Copies of the written Proxy Policy and the factors that PIMCO may consider in determining how to vote proxies for the Fund, and information about how the Fund voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30 are available without charge, upon request, by calling the Fund at 1-866-746-2606 and on the SEC website at http://www.sec.gov. The Fund s Proxy Policy and proxy voting record are also available on the website maintained by PIMCO for the Fund at http://www.rcsfund.com. The Fund held no securities during the year ended June 30, 2006, with respect to which there was a security holder vote. Accordingly, there are no proxy votes to report.

The Fund files a complete schedule of its portfolio holdings with the SEC on Form N-Q for the first and third quarters of each fiscal year, which are available on the SEC s website at http://www.sec.gov. A copy of the Fund s Form N-Q is also available without charge, upon request, by calling the Fund at 1-866-746-2606 or visiting the Fund s website at http://www.rcsfund.com. In addition, the Fund s Form N-Q may be reviewed and copied at the SEC s Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. Holdings are subject to change daily.

Table of Contents

Fund Summary PIMCO Strategic Global Government Fund, Inc.

Objective: The Fund s primary investment objective is to generate, over time, a level of income higher than that generated by high-quality, intermediate-term U.S. debt securities. As a secondary objective, the Fund seeks to maintain volatility in the net asset value of the shares of the Fund comparable to that of high-quality, intermediate-term U.S. debt securities.

Primary Investments: Investment grade fixed-income government securities of the United States and other countries, including mortgage-backed securities (which may not be backed by the full faith and credit of the relevant government). The Fund may invest up to 20% of its total assets in below-investment grade (high yield) securities and up to 20% of its total assets in securities of emerging markets issuers.

Fund Inception Date: 02/24/1994

Total Net Assets: $378.3 million as of January 31, 2007

Portfolio Manager: Dan Ivascyn

Cumulative Returns Through January 31, 2007

	RCS Based on NYSE Share Price	RCS Based on Net Asset Value	Lehman Brothers Aggregate Bond Index
02/28/1994	$10,000	$10,000	$10,000
03/31/1994	9,800	9,631	9,802
04/30/1994	9,100	9,511	9,734
05/31/1994	8,758	9,507	9,752
06/30/1994	8,515	9,323	9,746
07/31/1994	8,371	9,465	9,905
08/31/1994	8,636	9,443	9,936
09/30/1994	8,388	9,455	9,828
10/31/1994	8,138	9,500	9,826
11/30/1994	8,303	9,403	9,786
12/31/1994	8,279	9,248	9,836
01/31/1995	8,279	9,282	10,017
02/28/1995	8,449	9,457	10,241
03/31/1995	8,514	9,435	10,296
04/30/1995	8,576	9,674	10,430
05/31/1995	9,081	9,958	10,749
06/30/1995	9,034	9,970	10,817
07/31/1995	9,099	10,017	10,825
08/31/1995	9,052	10,119	10,928
09/30/1995	9,119	10,239	11,013
10/31/1995	9,299	10,288	11,127

11/30/1995	9,251	10,520	11,266
12/31/1995	9,319	10,735	11,392
01/31/1996	9,620	10,776	11,486
02/29/1996	9,571	10,547	11,366
03/31/1996	9,346	10,617	11,314
04/30/1996	9,237	10,715	11,277
05/31/1996	9,307	10,682	11,260
06/30/1996	9,256	10,781	11,392
07/31/1996	9,572	10,824	11,429
08/31/1996	9,643	10,943	11,435
09/30/1996	9,777	11,220	11,606
10/31/1996	10,037	11,410	11,819
11/30/1996	10,235	11,709	11,980
12/31/1996	10,669	11,679	11,909
01/31/1997	10,926	11,909	11,970
02/28/1997	11,129	12,044	12,000
03/31/1997	11,075	11,835	11,906
04/30/1997	11,154	12,023	12,065
05/31/1997	11,362	12,232	12,171
06/30/1997	11,506	12,422	12,294
07/31/1997	11,714	12,623	12,536
08/31/1997	11,926	12,607	12,486
09/30/1997	12,139	12,759	12,636
10/31/1997	11,946	12,508	12,776
11/30/1997	12,231	12,597	12,809
12/31/1997	12,503	12,747	12,917
01/31/1998	12,538	12,986	13,070
02/28/1998	12,515	13,111	13,074
03/31/1998	12,385	13,182	13,121
04/30/1998	12,469	13,208	13,191
05/31/1998	12,124	13,212	13,285
06/30/1998	12,063	13,126	13,362
07/31/1998	12,221	13,278	13,416
08/31/1998	11,282	12,486	13,592
09/30/1998	11,812	13,109	13,863
10/31/1998	12,197	13,240	13,846
11/30/1998	12,136	13,453	13,874
12/31/1998	12,070	13,461	13,931
01/31/1999	12,147	13,544	14,017
02/28/1999	11,775	13,406	13,871
03/31/1999	11,944	13,770	13,971
04/30/1999	12,113	14,172	14,023
05/31/1999	12,363	13,752	13,927
06/30/1999	12,456	13,611	13,913
07/31/1999	12,390	13,345	13,863
08/31/1999	11,840	13,289	13,869
09/30/1999	11,774	13,692	14,041
10/31/1999	11,870	13,785	14,096
11/30/1999	11,757	13,878	14,110
12/31/1999	12,339	14,054	14,067
01/31/2000	12,518	13,679	13,986
02/29/2000	12,096	13,788	14,120
03/31/2000	12,280	13,831	14,271
04/30/2000	12,298	13,783	14,257
05/31/2000	12,135	13,698	14,271
06/30/2000	12,947	14,264	14,548
07/31/2000	13,236	14,364	14,651
08/31/2000	13,976	14,654	14,846
09/30/2000	13,981	14,892	14,990
10/31/2000	14,367	14,801	15,077
11/30/2000	13,930	14,960	15,293
12/31/2000	15,238	15,400	15,562

01/31/2001	15,789	15,870	15,812
02/28/2001	16,054	15,861	15,937
03/31/2001	16,244	15,881	16,044
04/30/2001	16,094	15,930	16,031
05/31/2001	16,521	16,183	16,127
06/30/2001	16,869	16,291	16,176
07/31/2001	17,287	16,475	16,493
08/31/2001	17,372	16,780	16,653
09/30/2001	17,264	17,011	16,903
10/31/2001	18,075	17,410	17,163
11/30/2001	18,015	17,234	16,993
12/31/2001	17,610	17,173	16,912
01/31/2002	18,230	17,453	17,032
02/28/2002	18,739	17,945	17,195
03/31/2002	18,593	17,731	16,967
04/30/2002	18,667	18,188	17,270
05/31/2002	19,636	18,307	17,422
06/30/2002	19,903	18,152	17,575
07/31/2002	20,886	18,013	17,786
08/31/2002	20,918	18,449	17,999
09/30/2002	21,161	18,352	18,240
10/31/2002	19,970	18,756	18,229
11/30/2002	20,334	18,879	18,207
12/31/2002	21,455	19,278	18,519
01/31/2003	21,868	19,439	18,537
02/28/2003	22,121	19,738	18,744
03/31/2003	21,319	19,849	18,755
04/30/2003	22,185	20,314	18,871
05/31/2003	22,607	20,508	19,106
06/30/2003	22,278	20,533	19,110
07/31/2003	23,163	19,530	18,650
08/31/2003	22,971	19,823	18,731
09/30/2003	22,775	20,530	19,145
10/31/2003	23,467	20,520	19,011
11/30/2003	23,228	20,654	19,043
12/31/2003	24,441	21,046	19,226
01/31/2004	24,575	21,201	19,351
02/29/2004	24,969	21,339	19,535
03/31/2004	25,507	21,534	19,662
04/30/2004	21,111	20,863	19,240
05/31/2004	21,653	20,549	19,172
06/30/2004	21,289	20,958	19,273
07/31/2004	22,630	21,275	19,441
08/31/2004	24,564	21,747	19,759
09/30/2004	24,852	21,833	19,791
10/31/2004	25,496	22,037	19,936
11/30/2004	24,459	22,064	19,808
12/31/2004	25,937	22,333	19,945
01/31/2005	27,857	22,362	20,014
02/28/2005	26,740	22,308	19,910
03/31/2005	25,186	22,072	19,834
04/30/2005	26,431	22,369	20,059
05/31/2005	27,956	22,626	20,232
06/30/2005	27,214	22,676	20,313
07/31/2005	28,078	22,622	20,168
08/31/2005	28,230	22,822	20,385
09/30/2005	28,475	22,787	20,234
10/31/2005	29,295	22,431	20,111
11/30/2005	25,490	22,482	20,189
12/31/2005	24,511	22,730	20,345
01/31/2006	27,036	22,936	20,371
02/28/2006	28,094	23,166	20,418

03/31/2006	28,190	22,886	20,294
04/30/2006	26,931	22,941	20,301
05/31/2006	26,115	22,723	20,284
06/30/2006	25,388	22,734	20,318
07/31/2006	26,594	23,202	20,575
08/31/2006	26,496	23,444	20,852
09/30/2006	27,206	23,572	21,011
10/31/2006	27,400	23,747	21,140
11/30/2006	27,169	24,018	21,355
12/31/2006	26,262	24,267	21,277
01/31/2007	28,174	24,255	21,283

Past performance is no guarantee of future results. The line graph depicts the value of a net $10,000 investment made at the Fund s inception on February 24, 1994 and held through January 31, 2007, compared to the Lehman Brothers Intermediate Aggregate Bond Index, an unmanaged market index which includes treasury, investment-grade corporate and mortgage-backed securities. It is not possible to invest directly in the Index. Investment performance assumes the reinvestment of dividends and capital gains distribution, if any. The Fund s NYSE share price performance does not reflect the effect of sales loads or broker commissions. The performance data quoted represents past performance. Investment return and share value will fluctuate so that Fund shares, when sold, may be worth more or less than their original cost. Returns shown do not reflect the deduction of taxes that a shareholder would pay on (i) Fund distributions or (ii) the sale of Fund shares.

◊ *PIMCO assumed responsibility for portfolio management of the Fund on February 8, 2002.*

Average Annual Total Return for the period ended January 31, 2007

		1 Year	5 Years	10 Years	Since Inception 02/24/1994	Since 02/08/2002[(a)]
▬	RCS Based on NYSE Share Price	4.21%	9.10%	9.94%	8.36%	9.16%
—	RCS Based on Net Asset Value	5.75%	6.80%	7.37%	7.09%	6.68%
- - -	Lehman Brothers Intermediate Aggregate Bond Index[(b)]	4.48%	4.56%	5.92%	6.02%[(c)]	4.46%

All Fund returns are net of fees and expenses.

[(a)] *PIMCO assumed responsibility for portfolio management of the Fund on February 8, 2002.*
[(b)] *Lehman Brothers Intermediate Aggregate Bond Index represents securities that are taxable and dollar-denominated. The Index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest directly in this Index.*
[(c)] *Index comparisons began on February 28, 1994.*

Past performance is no guarantee of future results. Performance data current to the most recent month-end is available at www.rcsfund.com or by calling 1-866-746-2606.

Table of Contents

	NYSE Symbol	**RCS**

Allocation Breakdown % of Total Investments	**01/31/07**	**01/31/06**
U.S. Government Agencies and Sponsored Entities (GSEs)	76.5% (d)	73.0% (e)
Private Mortgage-Backed Securities	10.4%	13.4%
Corporate Bonds & Notes	7.1%	0.9%
Sovereign Issues	4.3%	8.7%
Short-Term Instruments	0.8%	2.0%
Other	0.9%	2.0%

(d) *54.5% of Total Investments was invested in mortgage-backed securities of GSEs not backed by the full faith and credit of the U.S. government.*
(e) *70.8% of Total Investments was invested in mortgage-backed securities of GSEs not backed by the full faith and credit of the U.S. government.*

Portfolio Insights

» The average credit quality of the Fund as of January 31, 2007 was AA.

» The Fund ran an above-index duration exposure, or sensitivity to changes in market interest rates, for most of the twelve-month period in expectation of a slowdown in economic growth accompanied by a decline in interest rates. Despite a slowdown in U.S. real GDP growth, this duration posture detracted from performance as the ten-year U.S. Treasury yield rose from 4.52% to 4.81%.

» The Fund s holdings reflected an emphasis on short maturity fixed-income securities throughout the year in expectation that the Federal Reserve would reduce the Federal Funds Rate and the U.S. Treasury curve would steepen. This position detracted from returns as the two-year Treasury yield rose more than the 30-year Treasury yield over the period, resulting in a flattening of the yield curve.

» The Fund s interest expense increased as a result of higher borrowing costs due to the sharp rise in short-term rates and increased use of reverse repurchase agreements to finance investments.

» The Fund invested in mortgage-backed securities (MBS), predominantly AAA-rated issuances of FNMA and FHLMC, as a source of high-quality yield. An overweight to MBS, excluding GNMA MBS, benefited returns as they outperformed like-duration Treasuries over the period.

» Positions in GNMA MBS detracted from performance as they lagged like-duration Treasuries over the period.

» The Fund maintained an underweight to corporate bonds out of concern that thin credit spreads could widen as the economy weakened. This position detracted from returns as corporate bonds outpaced like-duration Treasuries over the period.

» Following the Fund s adoption of a non-fundamental investment policy permitting it to invest up to 20% of its total assets in non-investment grade securities without regard to whether such securities are emerging markets securities, the Fund began to invest in select high-yield corporate issues. This exposure, 3% of total investments at the end of the period, added to returns as spreads narrowed in this sector.

»

The Fund sought yield through its investments in select emerging markets bonds. The Fund supplemented its holdings of emerging markets sovereign debt with select higher-yielding emerging markets corporate issuances. Exposure to emerging markets bonds, 9% of total investments at the end of the period, benefited performance as spreads tightened.

» The Fund expressed PIMCO s expectation that the U.S. dollar would depreciate via modest exposure to the Japanese yen, a position that detracted from performance as the yen depreciated versus the U.S. dollar over the period.

Table of Contents

Financial Highlights

Selected Per Share Data for the Year Ended	Net Asset Value Beginning of Year	Net Investment Income (Loss) (a)	Net Realized/ Unrealized Gain (Loss) on Investments (a)	Total Income from Investment Operations	Dividends from Net Investment Income	Net Asset Value End of Year
01/31/2007	$ 10.39	$ 0.65(g)	$ (0.09)(h)	$ 0.56	$ (0.83)(g)	$10.12
01/31/2006	11.01	0.75(f)	(0.48)(h)	0.27	(0.89)(f)	10.39
01/31/2005	11.41	0.82(e)	(0.23)(h)	0.59	(0.99)(e)	11.01
01/31/2004	11.33	0.78	0.21	0.99	(0.91)	11.41
01/31/2003	11.20	1.01	0.13	1.14	(1.01)	11.33

(a) Per share amounts based on average number of shares outstanding during the period.

(b) Total investment return on market value is the combination of reinvested dividend income, reinvested capital gains distributions, if any, and changes in market price per share during the period. Total investment returns exclude the effects of broker commissions.

(c) Total investment return on net asset value is the combination of reinvested dividend income on ex-date on a net asset value basis, reinvested capital gains distributions on a net asset value basis, if any, and changes in net asset value per share during the period.

(d) Past performance is no guarantee of future results.

(e) Net investment income for tax purposes was $0.98 per share. Net investment income for financial reporting purposes was $0.16 per share lower due to the inclusion of losses incurred primarily on paydowns on mortgage-backed securities. In most cases paydown losses are treated as a reduction of net income for financial reporting purposes, but treated as capital losses for tax purposes. See the discussion of Dividends and Distributions to Shareholders in the Notes to the Financial Statements on page 23 for more information about the difference between amounts determined for financial reporting and tax purposes.

(f) Net investment income for tax purposes was $0.87 per share. Net investment income for financial reporting purposes was $0.12 per share lower due to the inclusion of losses incurred primarily on paydowns on mortgage-backed securities. In most cases paydown losses are treated as a reduction of net income for financial reporting purposes, but treated as capital losses for tax purposes. See the discussion of Dividends and Distributions to Shareholders in the Notes to the Financial Statements on page 23 for more information about the difference between amounts determined for financial reporting and tax purposes.

(g) Net investment income for tax purposes was $0.81 per share. Net investment income for financial reporting purposes was $0.16 per share lower due to the inclusion of losses incurred primarily on paydowns on mortgage-backed securities and swaps. In most cases paydown losses are treated as a reduction of net income for financial reporting purposes, but treated as capital losses for tax purposes. Swaps are included as a component of net investment income for tax purposes, but treated as a component of capital for financial reporting purposes. See the discussion of Dividends and Distributions to Shareholders in the Notes to the Financial Statements on page 23 for more information about the difference between amounts determined for financial reporting and tax purposes.

(h) Net realized and unrealized losses as determined on a tax basis are deferred and do not reduce taxable net investment income.

(i) The difference between the ratio of expenses to average net assets and the ratio of expenses to average net assets excluding interest expense was primarily comprised of interest on reverse repurchase agreements. See the discussion on Reverse Repurchase Agreements on page 24 and the discussion of Leverage on page 23 of the Notes to the Financial Statements for more information.

 See accompanying notes

Table of Contents

NYSE Share Price End of Year	Total Return Per Share NYSE Share Price(b)(d)	Total Return Per Share Net Asset Value(c)(d)	Net Assets End of Period (000s)	Ratio of Expenses to Average Net Assets	Ratio of Expenses to Average Net Assets Excluding Interest Expense	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
$ 11.14	4.21%	5.75%	$ 378,385	3.03%(i)	1.06%(i)	6.42%	123%
11.58	(2.95)	2.57	$ 382,618	1.52	1.06	6.99	361
12.88	13.36	5.47	$ 399,268	1.06	1.05	7.38	224
12.41	12.38	9.07	$ 407,099	1.05	1.04	6.84	446
11.95	19.96	11.38	$ 395,313	1.15	1.15	9.02	517

Statement of Assets and Liabilities

January 31, 2007

Amounts in thousands, except share and per share amounts	
Assets:	
Investments, at value	$ 1,257,743
Cash	101
Foreign currency, at value	1,054
Receivable for investments sold	155,358
Interest and dividends receivable	5,317
Paydown receivable	6
Variation margin receivable	324
Swap premiums paid	8,154
Unrealized appreciation on swap agreements	24,744
Other assets	1
	1,452,802
Liabilities:	
Payable for reverse repurchase agreements	$ 256,581
Payable for investments purchased	663,349
Payable for short sale	127,852
Dividends payable	2,429
Accrued investment advisory fee	248
Accrued administration fee	15
Accrued custodian expense	41
Accrued audit fee	27
Accrued printing expense	11
Variation margin payable	801
Swap premium received	19,009
Unrealized depreciation on forward foreign currency contracts	141
Unrealized depreciation on swap agreements	3,614
Other liabilities	299
	1,074,417
Net Assets	$ 378,385
Net Assets Consist of:	
Capital stock authorized 500 million shares, $.00001 par value; outstanding 37,379,165 shares	$ 1
Paid in capital	437,988
(Overdistributed) net investment income	(2,946)
Accumulated undistributed net realized (loss)	(79,712)
Net unrealized appreciation	23,054
	$ 378,385
Net Asset Value Per Share Outstanding	$ 10.12
Cost of Investments Owned	$ 1,258,780
Cost of Foreign Currency Held	$ 1,064
Proceeds Received on Short Sales	$ 127,969

Table of Contents

Statement of Operations

Amounts in thousands

		Year Ended January 31, 2007
Investment Income:		
Interest	$	35,616
Miscellaneous income		25
Total Income		35,641
Expenses:		
Investment advisory fees		3,129
Administration fees		189
Transfer agent fees		42
Directors fees		158
Printing expense		48
Legal fees		106
Audit fees		41
Custodian fees		161
Interest expense		7,427
Miscellaneous expense		110
Total Expenses		11,411
Net Investment Income		24,230
Net Realized and Unrealized Gain (Loss):		
Net realized gain on investments		10,414
Net realized (loss) on futures contracts, options and swaps		(32,233)
Net realized (loss) on foreign currency transactions		(634)
Net change in unrealized (depreciation) on investments		(16,599)
Net change in unrealized appreciation on futures contracts, options and swaps		35,950
Net change in unrealized appreciation on translation of assets and liabilities denominated in foreign currencies		35
Net (Loss)		(3,067)
Net Increase in Net Assets Resulting from Operations	$	21,163

Table of Contents

Statements of Changes in Net Assets

Amounts in thousands, except share amounts

Increase (Decrease) in Net Assets from:	Year Ended January 31, 2007	Year Ended January 31, 2006
Operations:		
Net investment income	$ 24,230	$ 27,270
Net realized (loss)	(22,453)	(2,771)
Net change in unrealized appreciation (depreciation)	19,386	(15,534)
Net increase resulting from operations	21,163	8,965
Distributions to Shareholders:		
From net investment income	(30,980)	(32,475)
Fund Share Transactions:		
Issued as reinvestment of distributions (536,700 and 592,628 shares, respectively)	5,584	6,860
Total Decrease in Net Assets	(4,233)	(16,650)
Net Assets:		
Beginning of year	382,618	399,268
End of year*	$ 378,385	$ 382,618
* Including (overdistributed) net investment income of:	$ (2,946)[(a)]	$ (1,598)[(b)]

[(a)] *Amount reflects annual Fund distributions made in excess of the Fund s accumulated net investment income based on financial accounting principles. For income tax purposes, the Fund underdistributed accumulated taxable income by $1,110,000 (see discussion of Federal Tax Matters in the Notes to the Financial Statements on page 27). Dividend distributions are based on net taxable income. Fund distributions may vary significantly from the Fund s net investment income due to differences in financial accounting and income tax accounting principles. See the discussion of Dividends and Distributions to Shareholders in the Notes to the Financial Statements on page 23 for more information about the difference between amounts determined for financial accounting purposes and income tax purposes.*

[(b)] *Amount reflects annual Fund distributions made in excess of the Fund s accumulated net investment income based on financial accounting principles. For income tax purposes, the Fund underdistributed accumulated taxable income by $2,302,000. Dividend distributions are based on net taxable income. Fund distributions may vary significantly from the Fund s net investment income due to differences in financial accounting and income tax accounting principles. See the discussion of Dividends and Distributions to Shareholders in the Notes to the Financial Statements on page 23 for more information about the difference between amounts determined for financial accounting purposes and income tax purposes.*

 See accompanying notes

Table of Contents

Statement of Cash Flows

Amounts in thousands

Increase in Cash from:		Year Ended January 31, 2007
Cash flows provided by operating activities:		
Net increase in net assets resulting from operations	$	21,163
Adjustments to reconcile net increase in net assets from operations to net cash used for operating activities:		
Purchases of long-term securities		(8,231,069)
Proceeds from sales of long-term securities		7,918,100
Sale of short-term portfolio investments, net		5,916
Increase in interest receivable		(627)
Increase in receivable for investments sold		(31,799)
Increase in paydown receivable		955
Increase in payable for investments purchased		76,017
Increase in other asset		(1)
Decrease in swap premium paid		(6,904)
Proceeds from futures transactions		1,870
Proceeds from currency transactions		(644)
Decrease in management fee payable		(12)
Increase in accrued printing expense		1
Increase in accrued custodian expense		16
Increase in accrued audit fee		16
Decrease in other accrued liabilities		(102)
Proceeds from short sale transactions		127,969
Unrealized appreciation on investments		(19,386)
Net realized loss on investments		22,453
Net amortization on investments		631
Net cash used for operating activities		(115,437)
Cash flows received from financing activities:		
Net borrowing from reverse repurchase agreements		142,276
Cash dividend paid*		(25,693)
Net cash received from financing activities		116,583
Net Increase in Cash		1,146
Cash and Foreign Currency:		
Beginning of year		9
End of year	$	1,155

* Includes reinvestment of dividends of $5,584

Schedule of Investments

		PRINCIPAL AMOUNT (000s)		VALUE (000s)
CORPORATE BONDS & NOTES 23.5%				
BANKING & FINANCE 5.2%				
ATF Bank JSC				
8.875% due 11/09/2009	$	1,500	$	1,547
Banque Centrale de Tunisie				
7.375% due 04/25/2012		2,000		2,152
Desarrolladora Homex S.A. de C.V.				
7.500% due 09/28/2015		2,000		2,046
GMAC LLC				
6.000% due 12/15/2011		3,000		2,959
GPB Eurobond Finance PLC for Gazprombank				
6.500% due 09/23/2015		5,000		4,971
PT Bank Negara Indonesia Tbk				
10.000% due 11/15/2012		2,000		2,064
VTB Capital S.A. for Vneshtorgbank				
5.970% due 08/01/2008		2,000		2,005
Wells Fargo Capital X				
5.950% due 12/15/2086		2,000		1,972
				19,716
INDUSTRIALS 15.1%				
Bon-Ton Stores, Inc.				
10.250% due 03/15/2014		2,000		2,080
Cablemas S.A. de C.V.				
9.375% due 11/15/2015		2,000		2,218
CSN Islands IX Corp.				
10.500% due 01/15/2015		3,700		4,407
Dynegy Holdings, Inc.				
7.125% due 05/15/2018		1,000		975
8.375% due 05/01/2016		2,000		2,125
EchoStar DBS Corp.				
7.125% due 02/01/2016		1,500		1,513

		PRINCIPAL AMOUNT (000s)		VALUE (000s)
Gaz Capital for Gazprom				
8.625% due 04/28/2034		3,000		3,763
Georgia-Pacific Corp.				
7.000% due 01/15/2015		500		500
7.700% due 06/15/2015		1,500		1,536
7.750% due 11/15/2029		1,500		1,492
HCA, Inc.				
9.000% due 12/15/2014		1,500		1,481
9.250% due 11/15/2016		700		746
Herbst Gaming, Inc.				
8.125% due 06/01/2012		2,000		2,050
Lyondell Chemical Co.				
8.250% due 09/15/2016		1,500		1,598
Morgan Stanley Bank AG for OAO Gazprom				
9.625% due 03/01/2013	$	2,000	$	2,357
NAK Naftogaz Ukrainy				
8.125% due 09/30/2009		3,000		3,005
Pemex Project Funding Master Trust				
5.750% due 12/15/2015		7,000		6,834
9.125% due 10/13/2010		370		412
Petroliam Nasional Bhd.				
7.625% due 10/15/2026		2,300		2,775
RH Donnelley Corp.				
8.875% due 01/15/2016		3,500		3,684
SemGroup L.P.				
8.750% due 11/15/2015		1,500		1,511
Service Corp. International				
7.625% due 10/01/2018		1,500		1,582
Sino-Forest Corp.				
9.125% due 08/17/2011		2,000		2,120
Southern Copper Corp.				
7.500% due 07/27/2035		1,000		1,070
Supervalu, Inc.				
7.500% due 11/15/2014		1,500		1,570
Vale Overseas Ltd.				
6.250% due 01/23/2017		900		904
6.875% due 11/21/2036		1,100		1,122
Verso Paper Holdings LLC and Verson Paper, Inc.				
9.125% due 08/01/2014		1,500		1,582
				57,012

UTILITIES 3.2%

Cia Energetica de Sao Paulo		
10.000% due 03/02/2011	2,000	2,235
Enersis S.A.		
7.375% due 01/15/2014	2,000	2,149
Nevada Power Co.		
6.500% due 05/15/2018	2,500	2,598
TECO Energy, Inc.		
6.750% due 05/01/2015	5,000	5,219
		12,201
Total Corporate Bonds & Notes (Cost $85,509)		**88,929**
U.S. GOVERNMENT AGENCIES 254.2%		
Fannie Mae		
4.250% due 11/25/2024 - 03/25/2033	402	330
5.000% due 05/25/2016 - 12/01/2018	231	228

January 31, 2007

	PRINCIPAL AMOUNT (000s)	VALUE (000s)
5.350% due 01/01/2023	$ 84	$ 83
5.500% due 08/25/2014 - 06/01/2037	17,148	16,867
5.750% due 06/25/2033	100	98
5.807% due 08/25/2043	2,500	2,504
6.000% due 02/25/2017 - 01/01/2037	53,064	53,267
6.000% due 01/25/2044 (b)	10,338	10,355
6.491% due 04/01/2030	78	79
6.500% due 05/01/2013 - 07/25/2042	14,163	14,407
6.500% due 02/01/2028 - 06/25/2044 (b)	18,265	18,596
6.650% due 03/01/2032	216	221
6.665% due 02/01/2032	37	38
6.670% due 12/01/2028	125	126
6.850% due 12/18/2027	117	120
7.000% due 01/01/2013 - 01/01/2047	19,003	19,515
7.000% due 04/01/2030 - 03/25/2045 (b)	24,785	25,455
7.021% due 02/01/2028	36	36
7.065% due 03/01/2032	300	303
7.082% due 09/01/2028	48	49
7.179% due 12/01/2028	118	120
7.343% due 02/01/2027	101	102
7.400% due 10/01/2031	17	17
7.407% due 11/01/2027	145	147
7.410% due 02/01/2030	83	85
7.465% due 10/01/2031	11	11
7.500% due 06/01/2017 (b)	1,227	1,266
7.500% due 12/01/2017 - 06/25/2044	18,942	19,667
7.598% due 12/01/2025	179	183
7.750% due 03/01/2031	90	91
7.815% due 12/01/2030	251	253
8.000% due 04/01/2017 - 06/01/2032	6,692	7,012
8.000% due 08/01/2032 (b)	5,010	5,303
8.500% due 04/01/2016 - 06/18/2027	2,638	2,818
8.750% due 11/01/2011 - 05/01/2017	38	39
9.000% due 12/01/2019 (b)	14,154	15,252
9.428% due 05/15/2021	1,918	2,094
9.985% due 07/15/2027	751	832
10.300% due 04/25/2019	107	113
Federal Housing Administration		
7.430% due 06/01/2024	197	199
Freddie Mac		
5.000% due 10/15/2016 - 02/15/2024	523	516
5.500% due 12/01/2031 - 11/01/2036	200,534	197,400
5.570% due 04/01/2033	52	52
	PRINCIPAL	VALUE (000s)

	AMOUNT (000s)	
6.000% due 10/15/2012 - 03/15/2035	$ 1,519	$ 1,534
6.000% due 12/15/2016 - 03/15/2033 (b)	14,204	14,334
6.500% due 11/01/2016 - 10/25/2043	83,478	84,907
6.500% due 10/15/2023 - 03/25/2044 (b)	45,311	46,286
6.900% due 09/15/2023	2,875	2,957
6.950% due 07/15/2021	1,426	1,425
7.000% due 11/01/2007 - 10/25/2043	83,022	84,951
7.000% due 03/15/2029 - 06/01/2036 (b)	21,997	22,503
7.154% due 12/01/2026	41	42
7.356% due 09/01/2031	323	327
7.500% due 01/01/2016 - 02/25/2042	6,477	6,748
8.000% due 02/15/2022 - 12/01/2026	1,480	1,552
8.250% due 10/01/2007	2	2
8.500% due 04/15/2022 - 10/01/2030	1,591	1,651
Ginnie Mae		
5.500% due 04/20/2035 - 06/20/2035	973	978
6.000% due 01/01/2037	125,000	126,172
6.500% due 06/20/2032 - 04/01/2037	125,139	127,995
7.000% due 02/15/2024 - 06/15/2026	386	398
7.000% due 3/20/2031 (b)	8,095	8,377
7.250% due 07/16/2028	447	454
7.500% due 07/15/2007 - 03/15/2029	3,897	4,070
8.000% due 06/15/2016 - 03/20/2030	900	954
8.500% due 10/15/2016 - 02/15/2031	57	61
9.000% due 06/15/2016 - 01/15/2020	1,769	1,899
Small Business Administration		
4.754% due 08/10/2014	1,698	1,630
5.038% due 03/10/2015	995	970
6.300% due 07/01/2013 - 06/01/2018	1,232	1,260
6.400% due 08/01/2013	326	332
7.200% due 06/01/2017	119	124
7.449% due 08/01/2010	114	119
7.540% due 08/10/2009	412	426
7.700% due 07/01/2016	71	75
Total U.S. Government Agencies (Cost $968,176)		**961,762**

Table of Contents

Schedule of Investments

		PRINCIPAL AMOUNT (000s)		VALUE (000s)
PRIVATE MORTGAGE-BACKED SECURITIES 34.6%				
Citigroup Mortgage Loan Trust, Inc.				
7.000% due 09/25/2033	$	122	$	123
Countrywide Alternative Loan Trust				
6.500% due 07/25/2035		2,453		2,454
Countrywide Home Loan Mortgage Pass-Through Trust				
6.000% due 11/25/2026 (b)		6,501		6,465
7.500% due 11/25/2034 (b)		5,307		5,498
CS First Boston Mortgage Securities Corp.				
7.000% due 02/25/2034 (b)		2,723		2,770
DLJ Commercial Mortgage Corp.				
7.340% due 10/10/2032		1,500		1,564
GMAC Mortgage Corp. Loan Trust				
5.220% due 08/19/2034		1,293		1,267
GSAA Trust				
6.000% due 04/01/2034 (b)		6,352		6,332
GSMPS Mortgage Loan Trust				
7.000% due 06/25/2043 (b)		7,068		7,169
7.500% due 06/19/2027		212		219
8.000% due 09/19/2027		2,901		3,051
GSR Mortgage Loan Trust				
5.500% due 11/25/2035 (b)		5,000		4,822
6.500% due 01/25/2034 (b)		5,105		5,156
MASTR Alternative Loans Trust				
6.500% due 03/25/2034		2,438		2,454
7.000% due 04/25/2034		512		516
MASTR Reperforming Loan Trust				
7.000% due 05/25/2035 (b)		5,599		5,696
7.500% due 07/25/2035 (b)		8,076		8,328
Nomura Asset Acceptance Corp.				
7.000% due 10/25/2034 (b)		4,613		4,729
7.500% due 03/25/2034 (b)		6,212		6,411
7.500% due 10/25/2034 (b)		13,840		14,433
Residential Asset Mortgage Products, Inc.				
6.500% due 11/25/2031		327		330

7.000% due 08/25/2016 (b)	4,959	5,041
8.500% due 10/25/2031 (b)	2,186	2,277
8.500% due 11/25/2031	2,530	2,700
Structured Asset Securities Corp.		
7.500% due 10/25/2036	9,608	10,074
Vendee Mortgage Trust		
7.500% due 09/15/2030 (b)	8,028	8,382
Washington Mutual MSC Mortgage Pass-Through Certificates		
6.500% due 08/25/2034	5,628	5,712
7.000% due 03/25/2034	1,012	1,023

	PRINCIPAL AMOUNT (000s)	VALUE (000s)
7.500% due 04/25/2033 (b)	$ 4,139	$ 4,247
Wells Fargo Mortgage-Backed Securities Trust		
4.109% due 06/25/2035	1,800	1,766
Total Private Mortgage-Backed Securities (Cost $133,732)		**131,009**
ASSET-BACKED SECURITIES 0.0%		
Residential Asset Mortgage Products, Inc.		
8.500% due 12/25/2031	58	60
Total Asset-Backed Securities (Cost $60)		**60**
SOVEREIGN ISSUES 14.5%		
Brazilian Government International Bond		
7.125% due 01/20/2037	7,580	8,027
8.000% due 01/15/2018	902	999
8.250% due 01/20/2034	4,000	4,774
8.750% due 02/04/2025	4,500	5,535
10.125% due 05/15/2027	1,538	2,159
10.500% due 07/14/2014	700	884
11.000% due 08/17/2040	2,500	3,296
Dominican Republic International Bond		
9.040% due 01/23/2018	5,465	6,271
Jamaica Government International Bond		
8.500% due 02/28/2036	1,000	1,069
10.625% due 06/20/2017	4,000	4,860
Pakistan Government International Bond		
7.125% due 03/31/2016	2,000	2,078
Panama Government International Bond		
9.375% due 07/23/2012	3,325	3,877
Russia Government International Bond		
5.000% due 03/31/2030	937	1,042
11.000% due 07/24/2018	1,000	1,428
12.750% due 06/24/2028	300	536
Ukraine Government International Bond		
7.650% due 06/11/2013	6,200	6,664
Venezuela Government International Bond		

9.375% due 01/13/2034		1,000	1,302
Total Sovereign Issues (Cost $48,866)			**54,801**
FOREIGN CURRENCY-DENOMINATED ISSUES 2.6%			
Gaz Capital for Gazprom			
5.875% due 06/01/2015	**EUR**	1,000	1,352

Table of Contents

January 31, 2007

		PRINCIPAL AMOUNT (000s)		VALUE (000s)
Mexico Government International Bond				
8.000% due 07/23/2008	**DEM**	12,100	**$**	8,441
Total Foreign Currency-Denominated Issues (Cost $9,224)				**9,793**
SHORT-TERM INSTRUMENTS 2.8%				
COMMERCIAL PAPER 1.1%				
TotalFinaElf Capital S.A.				
5.260% due 02/01/2007	**$**	4,200		4,200
REPURCHASE AGREEMENTS 0.9%				
State Street Bank and Trust Co.				
4.900% due 02/01/2007	**$**	3,507	**$**	3,507

(Dated 01/31/2007. Collateralized by Federal Home Loan Bank 4.500% due 05/21/2007 valued at $3,582. Repurchase proceeds are $3,507.)

		PRINCIPAL AMOUNT (000s)		VALUE (000s)
U.S. TREASURY BILLS 0.8%				
4.836% due 03/01/2007-03/15/2007 (a)(c)(e)	**$**	2,810	**$**	2,796
Total Short-Term Instruments (Cost $10,503)				**10,503**
Purchased Options (g) **0.2% (Cost $2,710)**			**$**	**886**
Total Investments (d) **332.4% (Cost $1,258,780)**			**$**	**1,257,743**
Other Assets and Liabilities (Net) (232.4%)				**(879,358)**
Net Assets 100.0%			**$**	**378,385**

Notes to Schedule of Investments (amounts in thousands*, except number of contracts):

*** A zero balance may reflect actual amounts rounding to less than one thousand.**

(a) Coupon represents a weighted average rate.

(b) On January 31, 2007, securities valued at $265,483 were pledged as collateral for reverse repurchase agreements.

(c) Securities with an aggregate market value of $1,492 have been pledged as collateral for swap and swaption contracts on January 31, 2007.

(d) As of January 31, 2007, portfolio securities with an aggregate value of $199 were valued in good faith and pursuant to the guidelines established by the Board of Directors.

(e) Securities with an aggregate market value of $1,055 have been segregated with the custodian to cover margin requirements for the following open futures contracts on January 31, 2007:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation
U.S. Treasury 5-Year Note March Futures	Short	03/2007	801	$ 1,000
U.S. Treasury 10-Year Note March Futures	Short	03/2007	588	1,139
U.S. Treasury 30-Year Bond March Futures	Short	03/2007	244	850
				$ 2,989

Table of Contents

Schedule of Investments

(f) Swap agreements outstanding on January 31, 2007:

Interest Rate Swaps

Counterparty	Floating Rate Index	Pay/ Receive Floating Rate