PIMCO Income Strategy Fund II
Form N-2/A
August 31, 2018


As filed with the Securities and Exchange Commission on August 31, 2018

1933 Act File No. 333-226215

1940 Act File No. 811-21601

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM N-2**

(Check appropriate box or boxes)

**[X] REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**[X] Pre-Effective Amendment No. 1**

**[ ] Post-Effective Amendment No.**

**and**

**[X] REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940**

**[X] Amendment No. 12**

**PIMCO INCOME STRATEGY FUND II**

***(Exact Name of Registrant as Specified in Charter)***

**1633 Broadway**

**New York, New York 10019**

**(Address of Principal Executive Offices)**

**(Number, Street, City, State, Zip Code)**

**(844) 337-4626**

*(Registrant s Telephone Number, including Area Code)*

**Joshua D. Ratner**

**c/o Pacific Investment Management Company LLC**

**1633 Broadway**

**New York, New York 10019**

*(Name and Address (Number, Street, City, State, Zip Code) of Agent for Service)*

*Copies of Communications to:*

**David C. Sullivan, Esq.**

**Ropes & Gray LLP**

**Prudential Tower, 800 Boylston Street**

**Boston, Massachusetts 02199**

**Approximate Date of Proposed Public Offering:**

**As soon as practicable after the effective date of this Registration Statement.**

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box [X].

It is proposed that this filing will become effective (check appropriate box):

[ ] when declared effective pursuant to section 8(c).

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

| Title of Securities Being Registered | Amount Being Registered(1) | Proposed Maximum Offering Price Per Unit | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee(3) |
|---|---|---|---|---|
| Common Shares, par value $0.00001 | | | $175,000,000.00 | $21,663.00 |

(1) There are being registered hereunder a presently indeterminate number of shares of common stock to be offered on an immediate, continuous or delayed basis.
(2) Estimated solely for purposes of calculating the registration fee as required by Rule 457(o) under the Securities Act of 1933, as amended.
(3) A registration fee of $124.50 was previously paid in connection with the initial filing on July 18, 2018.

**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion dated August 31, 2018

# Base Prospectus

*August 31, 2018*

PIMCO Income Strategy Fund II

| **$175,000,000 Common Shares of Beneficial Interest** | **Common Shares** |
|---|---|
| PIMCO Income Strategy Fund II | PFN |

PIMCO Income Strategy Fund II (the "Fund") is a diversified, closed-end management investment company that commenced operations on October 29, 2004, following the initial public offering of its common shares.

***Investment Objective.*** The Fund's primary investment objective is to seek high current income, consistent with the preservation of capital. The Fund cannot assure you that it will achieve its investment objective, and you could lose all of your investment in the Fund.

***Investment Strategy.*** The Fund seeks to achieve its investment objective by utilizing a dynamic asset allocation strategy that focuses on duration management, credit quality analysis, risk management techniques and broad diversification among issuers, industries and sectors. The Fund normally invests in a diversified portfolio of floating and/or fixed rate debt instruments. On behalf of the Fund, Pacific Investment Management Company LLC, the Fund's investment manager ("PIMCO" or the "Investment Manager") employs an active approach to allocation among multiple fixed-income sectors based on, among other things, market conditions, valuation assessments and economic outlook, credit market trends and other economic factors. The Fund focuses on seeking the best income generating investment ideas across multiple fixed income sectors, with an emphasis on seeking opportunities in developed and emerging global credit markets.

*(continued on following page)*

The Fund's common shares (the "Common Shares") are listed on the New York Stock Exchange ("NYSE") under the symbol "PFN." The last reported sale price of the Common Shares, as reported by the NYSE on July 31, 2018, was $10.70 per Common Share. The net asset value ("NAV") of the Common Shares at the close of business on July 31, 2018, was $10.04 per Common Share.

**Investment in the Fund's common shares involves substantial risks arising from, among other strategies, the Fund's ability to invest in debt instruments that are, at the time of purchase, rated below investment grade (below Baa3 by Moody's Investors Service, Inc. ("Moody's") or below BBB- by either S&P Global Ratings, a division of The McGraw-Hill Company, Inc. ("S&P") or Fitch, Inc. ("Fitch")) or unrated but determined by PIMCO to be of comparable quality, the Fund's exposure to foreign and emerging markets securities and currencies and to mortgage-related and other asset-backed securities, and the Fund's use of leverage. Debt securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal, and are commonly referred to as "high yield" securities or "junk bonds." The Fund's exposure to foreign securities and currencies, and particularly to emerging markets securities and currencies, involves special risks, including foreign**

**currency risk and the risk that the securities may decline in response to unfavorable political and legal developments, unreliable or untimely information or economic and financial instability. Mortgage-related and other asset-backed securities are subject to extension and prepayment risk and often have complicated structures that make them difficult to value. Because of the risks associated with investing in high yield securities, foreign and emerging market securities (and related exposure to foreign currencies) and mortgage-related and other asset-backed securities, and using leverage, an investment in the Fund should be considered speculative. Before investing in the Common Shares, you should read the discussion of the principal risks of investing in the Fund in "Principal Risks of the Fund." Certain of these risks are summarized in "Prospectus Summary—Principal Risks of the Fund.**

Neither the U.S. Securities and Exchange Commission ("SEC") nor the U.S. Commodity Futures Trading Commission ("CFTC") has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

PIMCO Income Strategy Fund II

(Continued from previous page)

Under normal circumstances, the Fund will have a short to intermediate average portfolio duration (i.e., within a zero to eight year range), as calculated by the Investment Manager, although it may be shorter or longer at any time or from time to time depending on market conditions and other factors. PIMCO believes that maintaining duration within this range offers flexibility and the opportunity for above-average returns while potentially limiting exposure to interest rate volatility and related risks.

***Portfolio Contents.*** The Fund seeks to achieve its investment objective by ordinarily investing in a diversified portfolio of floating- and/or fixed-rate debt instruments. The Fund may invest a substantial portion of its floating-rate assets in floating-rate loans. Other floating-rate debt instruments in which the Fund may invest include catastrophe and other event-linked bonds, bank capital securities, unsecured bank loans, corporate bonds and other debt securities, money market instruments and certain types of mortgage-backed and other asset-backed securities that pay interest at rates that adjust whenever a specified interest rate changes and/or reset on predetermined dates (such as the last day of a month or calendar quarter). The Fund also considers floating-rate assets to include securities with durations of less than or equal to one year and fixed-rate securities with respect to which the Fund has entered into derivative instruments to effectively convert the fixed-rate interest payments into floating-rate interest payments. The Fund also may invest in a wide variety of fixed-rate debt securities, including corporate bonds and mortgage-backed and other asset-backed securities issued on a public or private basis, including mortgage pass-through securities, collateralized mortgage obligations ("CMOs"), commercial or residential mortgage-backed securities, mortgage dollar rolls, CMO residuals, stripped mortgage-backed securities ("SMBSs") and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The Fund may make use of a variety of other instruments, including collateralized debt obligations, preferred securities, commercial paper, zero-coupon and inflation-indexed bonds issued by both governments and corporations, bank certificates of deposit, fixed time deposits and bankers' acceptances, real estate investment trusts (REITs), bonds, debentures, notes, and other debt securities of U.S. and foreign (non-U.S.) corporate and other issuers; obligations of foreign governments or their sub-divisions, agencies and government sponsored enterprises and obligations of international agencies and supranational entities; municipal securities and other debt securities issued by states or local governments and their agencies, authorities and other government-sponsored enterprises, including taxable municipal securities (such as Build America Bonds); structured notes, including hybrid or indexed securities; credit-linked notes; structured credit products; bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments); convertible debt securities (i.e., debt securities that may be converted at either a stated price or stated rate into underlying shares of common stock), including synthetic convertible debt securities (i.e., instruments created through a combination of separate securities that possess the two principal characteristics of a traditional convertible security, such as an income-producing security and the right to acquire an equity security) and contingent convertible securities. Certain debt instruments, such as convertible bonds, also may include the right to participate in equity appreciation. The principal and/or interest rate on some debt instruments may be determined by reference to the performance of a benchmark asset or market, such as an index of securities, or the differential performance of two assets or markets, such as the level of exchange rates between the U.S. dollar and a foreign currency or currencies. The Fund may invest in debt securities of stressed issuers. Subject to the Fund's investment limitations, at any given time and from time to time, substantially all of the Fund's portfolio may consist of below investment grade securities. The Fund may invest in any level of the capital structure of an issuer of mortgage-backed or asset-backed securities, including the equity or "first loss" tranche. The rate of interest on an income-producing security may be fixed, floating or variable.

The Fund invests predominantly in U.S. dollar-denominated debt securities, which may include those issued by foreign corporations or supra-national government agencies. The Fund may invest up to 25% of its total assets in securities denominated in foreign currencies, including obligations of non-U.S. governments and their respective sub-divisions, agencies and government-sponsored enterprises, except that the Fund may invest without limit in investment grade sovereign debt denominated in the relevant country's local currency with less than 1 year remaining to maturity ("short-term investment grade sovereign debt"), including short-term investment grade sovereign debt issued by emerging market issuers. The Fund may invest up to 40% of its total assets in securities and instruments that are economically tied to "emerging market" countries other than investments in short-term investment grade sovereign debt issued by emerging market issuers, where as noted above there is no limit. The Fund may also invest directly in foreign currencies, including local emerging market currencies.

The Fund may invest up to 20% of its total assets in common stocks and other equity securities from time to time, including those it has received

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PIMCO Income Strategy Fund II

through the conversion of a convertible security held by the Fund or in connection with the restructuring of a debt security.

The Fund may, but is not required to, utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward contracts (including foreign currency exchange contracts), call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements and other derivative instruments for investment purposes, leveraging purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may purchase and sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales. The Fund may also seek to obtain market exposure to the securities in which it invests by entering into a series of purchase and sale contracts.

The Fund has a policy not to concentrate investments in any particular industry, but may (consistent with that policy) invest up to 25% of its total assets in any particular industry, and may invest a substantial portion of its assets in companies in related sectors, such as those in the banking or financial services sectors, which may share common characteristics and are often subject to similar business risks and regulatory burdens.

The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade (commonly referred to as "high yield" securities or "junk bonds") and may also invest without limit in investment grade securities. However, the Fund will not normally invest more than 20% of its total assets in debt instruments, other than mortgage-related and other asset-backed securities, that are, at the time of purchase, rated CCC or lower by S&P and Fitch and Caa1 or lower by Moody's, or that are unrated but determined by PIMCO to be of comparable quality. The Fund may invest without limit in mortgage-related and other asset-backed securities regardless of rating—i.e., of any credit quality.

The Fund may invest in securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdictions, including without limit securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), or relevant provisions of applicable non-U.S. law, and other securities issued in private placements. The Fund may also invest in securities of other investment companies, including, without limit, exchange-traded funds ("ETFs"). The Fund may invest in real estate investment trusts ("REITs"). The Fund may invest in securities of companies of any market capitalization, including small and medium capitalizations.

The Fund may invest without limit in illiquid securities (i.e., securities that the Fund reasonably expects cannot be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the securities).

***Leverage.*** The Fund utilizes leverage through its outstanding auction rate preferred shares ("ARPS" and, together with any other preferred shares the Fund may have outstanding, "Preferred Shares") and may obtain additional leverage through the use of reverse repurchase agreements, dollar rolls or borrowings, such as through bank loans or commercial paper and/or other credit facilities. The Fund may also enter into transactions other than those noted above that may give rise to a form of leverage including, among others, credit default swaps, futures and forward contracts (including foreign currency exchange contracts), total return swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions. Although it has no current intention to do so, the Fund may also determine to issue other types of preferred shares. Depending upon market conditions and other factors, the Fund may or may not determine to add leverage following an offering to maintain or increase the total amount of leverage (as a percentage of the Fund's total assets) that the Fund currently maintains, taking into account the additional assets raised through the issuance of Common Shares in such offering. The Fund utilizes certain kinds of leverage, such as reverse repurchase agreements and credit default swaps, opportunistically and may choose to increase or decrease, or eliminate entirely, its use of such leverage over time and from time to time based on PIMCO's assessment of the yield curve environment, interest rate trends, market conditions and other factors. The Fund may also determine to decrease the leverage it currently maintains through its outstanding Preferred Shares through Preferred Share redemptions or tender offers and may or may not determine to replace such leverage through other sources. If the Fund determines to add leverage following an offering, it is not possible to predict with accuracy the precise amount of leverage that would be added, in part because it is not possible to predict the number of Common Shares that ultimately will be sold in an offering or series of offerings. To the extent that the Fund does not add additional leverage following an offering, the Fund's total amount of leverage as a percentage of its total assets will decrease, which could result in a reduction of investment income available for distribution to holders of the Fund's Common Shares ("Common Shareholders"). The Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder (the "1940 Act"), also generally limits the extent to which the Fund may utilize uncovered reverse repurchase agreements and borrowings, together with any other senior securities representing indebtedness, to 331/3% of the Fund's total net assets at the time utilized. See "Use of Leverage." By using leverage, the Fund will seek to obtain a higher return for holders of common shares than if the Fund did not use leverage. Leveraging is a speculative technique and there are special risks and costs involved. There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is employed. See "Use of Leverage" and "Principal Risks of the Fund—Leverage Risk."

This prospectus is part of a registration statement that the Fund has filed with the U.S. Securities and Exchange Commission (the "SEC"), using the "shelf" registration process. The Fund may offer, from time to time, in one or more offerings, up to either 11,500,000 Common Shares or $110,976,150 of the Common Shares on terms to be determined at the time of the offering. This prospectus provides you with a general description of the Common Shares that the Fund may offer. Each time the Fund uses this prospectus to offer Common Shares, the Fund will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement, which contain important information about the Fund, carefully before you invest in the Common

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Shares. Common Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents, underwriters or dealers involved in the sale of Common Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund's underwriters, or the basis upon which such amount may be calculated. See "Plan of Distribution." The Fund may not sell any Common Shares through agents, underwriters or dealers without delivery or deemed delivery of a prospectus supplement describing the method and terms of the particular offering of the Common Shares.

You should retain this prospectus and any prospectus supplement for future reference. A Statement of Additional Information, dated [ ], containing additional information about the Fund has been filed with the SEC and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page 89 of this prospectus. You may request a free copy of the Statement of Additional Information, request the Fund's most recent annual and semiannual reports, request information about the Fund and make shareholder inquiries by calling toll-free (844)-337-4626 or by writing to the Fund at c/o Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019. You may also obtain a copy of the Statement of Additional Information (and other information regarding the Fund) from the SEC's Public Reference Room in Washington, D.C. by calling (202) 551-8090. The SEC charges a fee for copies. The Fund's Statement of Additional Information and most recent annual and semiannual reports are available, free of charge, on the Fund's website (http://www.pimco.com). You can obtain the same information, free of charge, from the SEC's web site (http://www.sec.gov).

The Common Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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

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PIMCO Income Strategy Fund II

## Prospectus Summary

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

## The Fund

PIMCO Income Strategy Fund II (the "Fund") is a diversified, closed-end management investment company. The Fund commenced operations on October 29, 2004, following the initial public offering of its Common Shares. Effective March 1, 2010, the Fund changed its name from PIMCO Floating Rate Strategy Fund to its current name, PIMCO Income Strategy Fund II.

The Common Shares are listed on the New York Stock Exchange ("NYSE") under the symbol "PFN." As of July 31, 2018, the net assets of the Fund attributable to Common Shares were $599,263,606 and the Fund had outstanding Common Shares and 3,698 auction rate preferred shares of beneficial interest ("ARPS" and, together with any other preferred shares issued by the Fund, "Preferred Shares"). The last reported sale price of the Common Shares, as reported by the NYSE on July 31, 2018, was $10.70 per Common Share. The net asset value ("NAV") of the Common Shares at the close of business on July 31, 2018, was $10.04 per Common Share. See "Description of Capital Structure."

## The Offering

The Fund may offer, from time to time, in one or more offerings, up to either 11,500,000 Common Shares or $110,976,150 of the Common Shares on terms to be determined at the time of the offering. The Common Shares may be offered at prices and on terms to be set forth in one or more prospectus supplements. You should read this prospectus and the applicable prospectus supplement carefully before you invest in the Common Shares. Common Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents, underwriters or dealers involved in the sale of Common Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund's underwriters, or the basis upon which such amount may be calculated. See "Plan of Distribution." The Fund may not sell any Common Shares through agents, underwriters or dealers without delivery or deemed delivery of a prospectus supplement describing the method and terms of the particular offering of the Common Shares.

## Use of Proceeds

The net proceeds of an offering will be invested in accordance with the Fund's investment objective and policies as set forth below. It is currently anticipated that the Fund will be able to invest substantially all of the net proceeds of an offering in accordance with its investment objective and policies within approximately 30 days of receipt by the Fund, depending on the amount and timing of proceeds available to the Fund as well as the availability of investments consistent with the Fund's investment objective and policies, and except to the extent proceeds are held in cash to pay dividends or expenses, or for temporary defensive purposes. See "Use of Proceeds."

## Investment Objective and Policies

The Fund's investment objective is to seek high current income, consistent with the preservation of capital. The Fund seeks to achieve its objective by ordinarily investing in a diversified portfolio of floating- and/or fixed-rate debt instruments. The Fund may invest a substantial portion of its floating-rate assets in floating-rate loans. Other floating-rate debt instruments in which the Fund may invest include catastrophe and other event-linked bonds, bank capital securities, unsecured bank loans, corporate bonds and other debt securities, money market instruments and certain types of mortgage-backed and other asset-backed securities that pay interest at rates that adjust whenever a specified interest rate changes and/or reset on predetermined dates (such as the last day of a month or calendar quarter). The Fund may invest in investment-grade debt securities and below investment grade debt securities (commonly referred to as "high yield" securities or "junk bonds"), including securities of stressed issuers. The types of securities and instruments in which the Fund may invest are summarized under "Portfolio Contents" below. The Fund cannot assure you that it will achieve its investment objective, and you could lose all of your investment in the Fund.

## Portfolio Management Strategies

***Dynamic Allocation Strategy.*** On behalf of the Fund, the Fund's investment manager, Pacific Investment Management Company LLC ("PIMCO" or the "Investment Manager"), employs an active approach to allocation among multiple fixed income sectors based on, among other things, market conditions, valuation assessments, economic outlook, credit market trends and other economic factors. With PIMCO's macroeconomic analysis as the basis for top-down investment decisions, including geographic and credit sector emphasis, the Fund focuses on seeking the best income generating investment ideas across multiple fixed income sectors, with an emphasis on seeking opportunities in developed and emerging global credit markets. The Fund has the flexibility to allocate assets in varying proportions among floating- and fixed-rate debt instruments, as well as among investment-grade and non-investment grade securities. It may focus more heavily or exclusively on an asset class at any time, based on assessments of relative values, market conditions and other factors. PIMCO may choose to focus on particular countries/regions (e.g., U.S. vs. foreign), asset classes, industries and sectors to the exclusion of others at any time and from time to time based on market conditions and other factors. The relative value assessment within fixed-income sectors draws on PIMCO's regional and sector specialist expertise. The Fund will observe various investment guidelines as summarized below.

***Investment Selection Strategies.*** Once the Fund's top-down, portfolio positioning decisions have been made as described above, PIMCO selects particular investments for the Fund by employing a bottom-up, disciplined credit approach which is driven by fundamental, independent research within each sector/asset class represented in the Fund, with a focus on identifying securities and other instruments with solid and/or improving fundamentals.

PIMCO utilizes strategies that focus on credit quality analysis, duration management and other risk management techniques. PIMCO attempts to identify, through fundamental research driven by independent credit analysis and proprietary analytical tools, debt obligations and other income-producing securities that provide current income and/or opportunities for capital appreciation based on its analysis of the issuer's credit characteristics and the position of the security in the issuer's capital structure.

Consideration of yield is only one component of the portfolio managers' approach in managing the Fund. PIMCO also attempts to identify investments that may appreciate in value based on PIMCO's assessment of the issuer's credit characteristics, forecast for interest rates and outlook for particular countries/regions, currencies, industries, sectors and the global economy and bond markets generally.

***Credit Quality.*** The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade or that are unrated but judged by PIMCO to be of comparable quality (commonly referred to as "high yield" securities or "junk bonds"). The Fund will not normally invest more than 20% of its total assets in debt instruments, other than mortgage-related and other asset-backed securities, that are, at the time of purchase, rated CCC or lower by S&P Global Ratings ("S&P") and Fitch, Inc. ("Fitch") and Caa1 or lower by Moody's Investors Services Inc. ("Moody's"), or that are unrated but determined by PIMCO to be of comparable quality to securities so rated. The Fund may invest without limit in mortgage-related and other asset-backed securities regardless of rating (i.e., of any credit quality). Subject to this 20% restriction, the Fund may invest in issuers of any credit quality (including debt securities in the lowest ratings categories and securities that are in default or the issuers of which are in bankruptcy) if PIMCO determines that the particular obligation is undervalued or offers an attractive yield relative to its risk profile. For purposes of applying the foregoing policies, in the case of securities with split ratings (i.e., a security receiving two different ratings from two different rating agencies), the Fund will apply the higher of the applicable ratings. Subject to the aforementioned investment restrictions, the Fund may invest in securities of stressed issuers, which include securities at risk of being in default as to the repayment of principal and/or interest at the time of acquisition by the Fund or that are rated in the lower rating categories by one or more nationally recognized statistical rating organizations (for example, Ca or lower by Moody's or CC or lower by S&P or Fitch) or, if unrated, are determined by PIMCO to be of comparable quality. Debt instruments of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal, and are commonly referred to as "high yield" securities or "junk bonds." Debt instruments in the lowest investment grade category also may be considered to possess some speculative characteristics. The Fund may, for hedging, investment or leveraging purposes, make use of credit default swaps, which are contracts whereby one party makes periodic payments to a counterparty in exchange for the right to receive from the counterparty a payment equal to the par (or other agreed-upon) value of a referenced debt obligation in the event of a default or other credit event by the issuer of the debt obligation.

***Independent Credit Analysis.*** PIMCO relies primarily on its own analysis of the credit quality and risks associated with individual debt instruments considered for the Fund, rather than relying exclusively on rating agencies or third-party research. The Fund's portfolio managers utilize this information in an attempt to minimize credit risk and to identify issuers, industries or sectors that are undervalued or that offer attractive yields relative to PIMCO's assessment of their credit characteristics. This aspect of PIMCO's capabilities will be particularly important to the extent that the Fund invests in floating rate loans, high yield securities and in securities of emerging market issuers.

***Duration Management.*** It is expected that the Fund normally will have a short to intermediate average portfolio duration (i.e., within a zero to eight year (0 to 8) range), as calculated by PIMCO, although it may be shorter or longer at any time or from time to time depending on market conditions and other factors. While the Fund seeks to maintain a short to intermediate average portfolio duration, there is no limit on the maturity or duration of any individual security in which the Fund may invest. PIMCO believes that maintaining duration within this range offers flexibility and the opportunity for above-average returns while potentially limiting exposure to interest rate volatility and related risk. Duration is a measure used to determine the sensitivity of a security's price to changes in interest rates. The Fund's duration strategy may entail maintaining a negative average portfolio duration from time to time, which would potentially benefit the portfolio in an environment of rising market interest rates, but would generally adversely impact the portfolio in an environment of falling or neutral market interest rates. PIMCO may also utilize certain strategies, including without limit investments in structured notes or interest rate futures contracts or swap, cap, floor or collar transactions, for the purpose of reducing the interest rate sensitivity of the Fund's portfolio, although there is no assurance that it will do so or that such strategies will be successful.

**Portfolio Contents**

The Fund seeks to achieve its investment objective by ordinarily investing in a diversified portfolio of floating- and/or fixed-rate debt instruments. The Fund may invest a substantial portion of its floating-rate assets in floating-rate loans. Other floating-rate debt instruments in which the Fund may invest include catastrophe and other event-linked bonds, bank capital securities, unsecured bank loans, corporate bonds and other debt securities, money market instruments and certain types of mortgage-backed and other asset-backed securities that pay interest at rates that adjust whenever a specified interest rate changes and/or reset on predetermined dates (such as the last day of a month or calendar quarter). The Fund also considers floating-rate assets to include securities with durations of less than or equal to one year and fixed-rate securities with respect to which the Fund has entered into derivative instruments to effectively convert the fixed-rate interest payments into floating-rate interest payments. The Fund also may invest in a wide variety of fixed-rate debt securities, including corporate bonds and mortgage-backed and other asset-backed securities issued on a public or private basis, including mortgage pass-through securities, collateralized mortgage obligations ("CMOs"), commercial or residential mortgage-backed securities, mortgage dollar rolls, CMO residuals, stripped mortgage-backed securities ("SMBSs") and other securities that directly or indirectly represent a participation in, or are secured by and payable from,

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PIMCO Income Strategy Fund II

mortgage loans on real property. The Fund may make use of a variety of other instruments, including collateralized debt obligations, preferred securities, commercial paper, zero-coupon and inflation-indexed bonds, bank certificates of deposit, fixed time deposits and bankers' acceptances, real estate investment trusts (REITs), bonds, debentures, notes, and other debt securities of U.S. and foreign (non-U.S.) corporate and other issuers; obligations of foreign governments or their sub-divisions, agencies and government sponsored enterprises and obligations of international agencies and supranational entities; municipal securities and other debt securities issued by states or local governments and their agencies, authorities and other government-sponsored enterprises, including taxable municipal securities (such as Build America Bonds); inflation-indexed bonds issued by both governments and corporations; structured notes, including hybrid or indexed securities; credit-linked notes; structured credit products; bank loans (including, among others, senior loans, delayed funding loans, revolving credit facilities and loan participations and assignments); preferred securities and convertible debt securities (i.e., debt securities that may be converted at either a stated price or stated rate into underlying shares of common stock), including synthetic convertible debt securities (i.e., instruments created through a combination of separate securities that possess the two principal characteristics of a traditional convertible security, such as an income-producing security and the right to acquire an equity security) and contingent convertible securities. Certain debt instruments, such as convertible bonds, also may include the right to participate in equity appreciation. The principal and/or interest rate on some debt instruments may be determined by reference to the performance of a benchmark asset or market, such as an index of securities, or the differential performance of two assets or markets, such as the level of exchange rates between the U.S. dollar and a foreign currency or currencies. The Fund may invest in debt securities of stressed issuers. Subject to the Fund's investment limitations, at any given time and from time to time, substantially all of the Fund's portfolio may consist of below investment grade securities. The Fund may invest in any level of the capital structure of an issuer of mortgage-backed or asset-backed securities, including the equity or "first loss" tranche. The rate of interest on an income-producing security may be fixed, floating or variable.

The Fund invests predominantly in U.S. dollar-denominated debt securities, which may include those issued by foreign corporations or supra-national government agencies. The Fund may invest up to 25% of its total assets in securities denominated in foreign currencies, including obligations of non-U.S. governments and their respective sub-divisions, agencies and government-sponsored enterprises, except that the Fund may invest without limit in investment grade sovereign debt denominated in the relevant country's local currency with less than 1 year remaining to maturity ("short-term investment grade sovereign debt"), including short-term investment grade sovereign debt issued by emerging market issuers. The Fund may invest up to 40% of its total assets in securities and instruments that are economically tied to "emerging market" countries other than investments in short-term investment grade sovereign debt issued by emerging market issuers, where as noted above there is no limit. The Fund may also invest directly in foreign currencies, including local emerging market currencies.

The Fund may invest up to 20% of its total assets in common stocks and other equity securities from time to time, including those it has received through the conversion of a convertible security held by the Fund or in connection with the restructuring of a debt security.

The Fund may, but is not required to, utilize various derivative strategies (both long and short positions) involving the purchase or sale of futures and forward contracts (including foreign currency exchange contracts), call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements and other derivative instruments for investment purposes, leveraging purposes or in an attempt to hedge against market, credit, interest rate, currency and other risks in the portfolio. The Fund may purchase and sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales. The Fund may also seek to obtain market exposure to the securities in which it invests by entering into a series of purchase and sale contracts.

The Fund has a policy not to concentrate investments in any particular industry, but may (consistent with that policy) invest up to 25% of its assets in any particular industry, and may invest a substantial portion of its assets in companies in related sectors, such as those in the banking or financial services sectors, which may share common characteristics and are often subject to similar business risks and regulatory burdens.

The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade and may also invest without limit in investment grade securities. The Fund will not normally invest more than 20% of its total assets in debt instruments, other than mortgage-related and other asset-backed securities, that are, at the time of purchase, rated CCC or lower by S&P and Fitch and Caa1 or lower by Moody's, or that are unrated but determined by PIMCO to be of comparable quality. The Fund may invest without limit in mortgage-related and other asset-backed securities regardless of rating—i.e., of any credit quality.

The Fund may invest in securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdictions, including without limit securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), or relevant provisions of applicable non-U.S. law, and other securities issued in private placements. The Fund may also invest in securities of other investment companies, including, without limit, exchange-traded funds ("ETFs"). The Fund may invest in real estate investment trusts ("REITs"). The Fund may invest in securities of companies of any market capitalization, including small and medium capitalizations.

The Fund may invest without limit in illiquid securities (i.e., securities that the Fund reasonably expects cannot be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the securities).

Upon PIMCO's recommendation, for temporary defensive purposes or during the period in which the net proceeds of this offering are being invested, the Fund may deviate from its investment strategy by investing some or all of its total assets in investments such as high grade debt securities, including high quality, short-term debt securities, and cash and cash equivalents. The Fund may not achieve its investment objective when it does so.

## Leverage

The Fund utilizes leverage through its outstanding Preferred Shares and may obtain additional leverage through reverse repurchase agreements, dollar rolls or borrowings, such as through bank loans or commercial paper or other credit facilities. Information regarding the terms and features of the ARPS is provided under "Description of Capital Structure" in this Prospectus.

The Fund may also enter into transactions other than those noted above that may give rise to a form of leverage including, among others, credit default swaps, futures and forward contracts (including foreign currency exchange contracts), total return swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions. Although it has no current intention to do so, the Fund may also determine to issue other types of preferred shares.

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

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

Regarding the costs associated with the Fund's ARPS, the terms of the ARPS provide that they would ordinarily pay dividends at a rate set at auctions held every seven days, normally payable on the first business day following the end of the rate period, subject to a maximum applicable rate calculated as a function of the ARPS' then-current rating and a reference interest rate. However, the weekly auctions for the ARPS, as well as auctions for similar preferred shares of other closed-end funds in the U.S., have failed since February 2008, and the dividend rates on the ARPS since that time have been paid at the maximum applicable rate (i.e., the greater of a multiple of or a spread plus a reference rate, which is the greater of the applicable LIBOR rate or the applicable Treasury Index Rate)). In September 2011, Moody's, a ratings agency that provides ratings for the Fund's ARPS, downgraded its rating of the ARPS from "Aaa" to "Aa2," citing persistently thin asset coverage levels, increased NAV volatility and concerns about secondary market liquidity for some assets supporting rated obligations. In July 2012, Moody's downgraded its rating of the ARPS from "Aa2" to "Aa3" pursuant to a revised ratings methodology adopted by Moody's. See "Use of Leverage" and "Description of Capital Structure." The Fund expects that the ARPS will continue to pay dividends at the maximum applicable rate for the foreseeable future and cannot predict whether or when the auction markets for the ARPS may resume normal functioning. See "Use of Leverage," "Principal Risks of the Fund—Leverage Risk," "Principal Risks of the Fund—Additional Risks Associated with the Fund's Preferred Shares" and "Description of Capital Structure" for more information.

Under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (the "1940 Act"), the Fund is not permitted to issue new preferred shares unless immediately after such issuance the value of the Fund's total net assets (as defined below) is at least 200% of the liquidation value of the outstanding Preferred Shares and the newly issued preferred shares plus the aggregate amount of any senior securities of the Fund representing indebtedness (i.e., such liquidation value plus the aggregate amount of senior securities representing indebtedness may not exceed 50% of the Fund's total net assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the value of the Fund's total net assets satisfies the above-referenced 200% coverage requirement.

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

Leveraging is a speculative technique and there are special risks and costs involved. The Fund cannot assure you that its Preferred Shares and use of any other forms of leverage (such as the use of reverse repurchase agreements or derivatives strategies), if any, will result in a higher yield on your Common Shares. When leverage is used, the NAV and market price of the Common Shares and the yield to Common Shareholders will be more volatile. See "Principal Risks of the Fund—Leverage Risk." In addition, dividend, interest and other costs and expenses borne by the Fund with respect to its Preferred Shares and its use of any other forms of leverage are borne by the Common Shareholders (and not by the holders of Preferred Shares) and result in a reduction of the NAV of the Common Shares. In addition, because the fees received by the Investment Manager are based on the average weekly total managed assets of the Fund ("total managed assets" includes the total assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage that may be outstanding) minus accrued liabilities (other than liabilities representing leverage), the Investment Manager has a financial incentive for the Fund to have preferred shares outstanding and to utilize other forms of leverage, which may create a conflict of interest between the Investment Manager, on the one hand, and the Common Shareholders, on the other hand.

The Fund's ability to utilize leverage is also limited by asset coverage requirements and other guidelines imposed by rating agencies (currently Moody's and Fitch) that provide ratings for the Preferred Shares, which may be more restrictive than the limitations imposed by the 1940 Act noted above. See "Description of Capital Structure" for more information.

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

## Investment Manager

Pacific Investment Management Company LLC ("PIMCO" or the "Investment Manager") serves as the investment manager of the Fund. Subject to the supervision of the Board of Trustees of the Fund (the "Board") PIMCO is responsible for managing the investment activities of the Fund and the Fund's business affairs and other administrative matters. Alfred Murata and Mohit Mittal are jointly and primarily responsible for the day-to-day management of the Fund.

The Investment Manager receives an annual fee from the Fund, payable monthly, in an amount equal to 0.830% of the Fund's average weekly "total managed assets." "Total managed assets" includes the total assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage that may be outstanding) minus accrued liabilities (other than liabilities representing leverage). For purposes of calculating average weekly total managed assets, the Fund's derivative instruments will be valued based on their market value. PIMCO is located at 650 Newport Center Drive, Newport Beach, CA, 92660. Organized in 1971, PIMCO provides investment management and advisory services to private accounts of institutional and individual clients and to registered investment companies. PIMCO is a majority-owned indirect subsidiary of Allianz SE, a publicly traded European insurance and financial services company. As of June 30, 2018, PIMCO had approximately $1.71 trillion in assets under management.

## Dividends and Distributions

The Fund makes regular monthly cash distributions to Common Shareholders at a rate based upon the past and projected net income of the Fund. Subject to applicable law, the Fund may fund a portion of its distributions with gains from the sale of portfolio securities and other sources. Distributions can only be made from net investment income after paying any accrued dividends to holders of the Preferred Shares. The dividend rate that the Fund pays on its Common Shares may vary as portfolio and market conditions change, and will depend on a number of factors, including without limit the amount of the Fund's undistributed net investment income and net short- and long-term capital gains, as well as the costs of any leverage obtained by the Fund (including the amount of the expenses and dividend rates on the Preferred Shares and any other preferred shares issued by the Fund and interest or other expenses on any reverse repurchase agreements, credit default swaps, dollar rolls and borrowings). As portfolio and market conditions change, the rate of distributions on the Common Shares and the Fund's dividend policy could change. For a discussion of factors that may cause the Fund's income and capital gains (and therefore the dividend) to vary, see "Principal Risks of the Fund." There can be no assurance that a change in market conditions or other factors will not result in a change in the Fund distribution rate or that the rate will be sustainable in the future.

The Fund generally distributes each year all of its net investment income and net short-term capital gains. In addition, at least annually, the Fund generally distributes net realized long-term capital gains not previously distributed, if any. The net investment income of the Fund consists of all income (other than net short-term and long-term capital gains) less all expenses of the Fund (after it pays accrued dividends on the outstanding Preferred Shares). The Fund may distribute less than the entire amount of net investment income earned in a particular period. The undistributed net investment income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of net investment income actually earned by the Fund during the period. Undistributed net investment income will be additive to the Fund's NAV and, correspondingly, distributions from undistributed net investment income will be deducted from the Fund's NAV.

The tax treatment and characterization of the Fund's distributions may vary significantly from time to time because of the varied nature of the Fund's investments. The Fund may enter into opposite sides of interest rate swap and other derivatives for the principal purpose of generating distributable gains on the one side (characterized as ordinary income for tax purposes) that are not part of the Fund's duration or yield curve management strategies ("paired swap transactions"), and with a substantial possibility that the Fund will experience a corresponding capital loss and decline in NAV with respect to the opposite side transaction (to the extent it does not have corresponding offsetting capital gains). Consequently, Common Shareholders may receive distributions and owe tax at a time when their investment in the Fund has declined in value, which tax may be at ordinary income rates, and which may be economically similar to a taxable return of capital. The tax treatment of certain derivatives in which the Fund invests may be unclear and thus subject to recharacterization. Any recharacterization of payments made or received by the Fund pursuant to derivatives potentially could affect the amount, timing or character of Fund distributions. In addition, the tax treatment of such investment strategies may be changed by regulation or otherwise.

To the extent required by the 1940 Act and other applicable laws, absent an exemption, a notice will accompany each monthly distribution with respect to the estimated source (as between net income and gains) of the distribution made. If the Fund estimates that a portion of one of its dividend distributions may be comprised of amounts from sources other than net income, the Fund will notify shareholders of record of the estimated composition of such distribution through a Section 19 Notice. For these purposes, the Fund estimates the source or sources from which a distribution is paid, to the close of the period as of which it is paid, in reference to its internal accounting records and related accounting practices. If, based on such accounting records and practices, it is estimated that a particular distribution does not include capital gains or paid-in surplus or other capital sources, a Section 19 Notice generally would not be issued. It is important to note that differences exist between the Fund's daily internal accounting records and practices, the Fund's financial statements presented in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. For instance, the Fund's internal accounting records and practices may take into account, among other factors, tax-related characteristics of certain sources of distributions that differ from treatment under U.S. GAAP. Examples of such differences may include, among others, the treatment of paydowns on mortgage-backed securities purchased at a discount and periodic payments under interest rate swap contracts. Accordingly, among other consequences, it is possible that the Fund may not issue a Section 19 Notice in situations where the Fund's financial statements prepared later and in accordance with U.S. GAAP and/or the final tax character of those distributions might later report that the sources of those distributions included capital gains and/or a return of capital.

The tax characterization of the Fund's distributions made in a taxable year cannot finally be determined until at or after the end of such taxable year. As a result, there is a possibility that the Fund may make total distributions during a taxable year in an amount that exceeds the Fund's net investment income and net realized capital gains for the relevant year (including as reduced by any capital loss carry-forwards). For example, the Fund may distribute amounts early in the year that are derived from short-term capital gains, but incur net short-term capital losses later in the year, thereby offsetting short-term capital gains out of which the Fund has already made distributions. In such a situation, the amount by which the Fund's total distributions exceed net investment income and net realized capital gains would generally be treated as a tax-free return of capital up to the amount of a shareholder's tax basis in his or her Common Shares, with any amounts exceeding such basis treated as gain from the sale of Common Shares. In general terms, a return of capital would occur where the Fund distribution (or portion thereof) represents a return of a portion of your investment, rather than net income or capital gains generated from your investment during a particular period. Although return of capital distributions are not taxable, such distributions would reduce the basis of a shareholder's Common Shares and therefore may increase a shareholder's capital gains, or decrease a shareholder's capital loss, upon a sale of Common Shares, thereby potentially increasing a shareholder's tax liability. The Fund will prepare and make available to shareholders detailed tax information with respect to the Fund's distributions annually. See "Tax Matters."

The 1940 Act currently limits the number of times the Fund may distribute long-term capital gains in any tax year, which may increase the variability of the Fund's distributions and result in certain distributions being comprised more or less heavily than others of long-term capital gains currently eligible for favorable income tax rates. The Fund, as well as several other PIMCO-managed closed end funds, has received exemptive relief from the SEC permitting it to make a greater number of capital gains distributions to holders of the ARPS than would otherwise be permitted by Section 19(b) of the 1940 Act and Rule 19b-1 under the 1940 Act.

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

## Shareholder Servicing Agent, Custodian and Transfer Agent

The Investment Manager, at its own expense, has retained Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith, Incorporated, and UBS Securities LLC to serve as shareholder servicing agents for the Fund. State Street Bank and Trust Company serves as custodian of the Fund's assets and also provides certain fund accounting and sub-administrative services to the Investment Manager on behalf of the Fund. American Stock Transfer & Trust Company, LLC serves as the Fund's transfer agent and dividend disbursement agent. See "Shareholder Servicing Agent, Custodian and Transfer Agent."

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PIMCO Income Strategy Fund II

## Listing

The Fund's outstanding Common Shares are listed on the NYSE under the trading or "ticker" symbol "PFN," as will be the Common Shares offered in this prospectus, subject to notice of issuance.

## Market Price of Shares

Shares of closed-end investment companies frequently trade at prices lower than NAV. Shares of closed-end investment companies have during some periods traded at prices higher than NAV and during other periods traded at prices lower than NAV. The Fund cannot assure you that Common Shares will trade at a price equal to or higher than NAV in the future. NAV will be reduced immediately following an offering by any sales load and/ or commissions and the amount of offering expenses paid or reimbursed by the Fund. See "Use of Proceeds." In addition to NAV, market price may be affected by factors relating to the Fund such as dividend levels and stability (which will in turn be affected by Fund expenses, including the costs of any leverage used by the Fund, levels of interest payments by the Fund's portfolio holdings, levels of appreciation/depreciation of the Fund's portfolio holdings, regulation affecting the timing and character of Fund distributions and other factors), portfolio credit quality, liquidity, call protection, market supply and demand and similar factors relating to the Fund's portfolio holdings. See "Use of Leverage," "Principal Risks of the Fund," "Description of Shares" and "Repurchase of Common Shares; Conversion to Open-End Fund" in this prospectus, and see "Repurchase of Common Shares; Conversion to Open-End Fund" in the Statement of Additional Information. The Common Shares are designed for long-term investors and should not be treated as trading vehicles.

## Principal Risks of the Fund

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

## Market Discount Risk

As with any stock, the price of the Fund's Common Shares will fluctuate with market conditions and other factors. If you sell your Common Shares, the price received may be more or less than your original investment. Net asset value of the Fund's Common Shares will be reduced immediately following an offering by any sales load and/or commissions and offering expenses paid or reimbursed by the Fund in connection with such offering. The completion of an offering may result in an immediate dilution of the NAV per Common Share for all existing Common Shareholders. The Common Shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their NAV. The Common Shares may trade at a price that is less than the offering price for Common Shares issued pursuant to an offering. This risk may be greater for investors who sell their Common Shares relatively shortly after completion of an offering.

## Credit Risk

The Fund could lose money if the issuer or guarantor of a debt security (including a security purchased with securities lending collateral), or the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. The downgrade of the credit of a security held by the Fund may decrease its value. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings. Measures such as average credit quality may not accurately reflect the true credit risk of the Fund. This is especially the case if the Fund holds securities with widely varying credit ratings. Therefore, if the Fund has an average credit rating that suggests a certain credit quality, the Fund may in fact be subject to greater credit risk than the average would suggest. This risk is greater to the extent the Fund uses leverage or derivatives in connection with the management of the Fund. Municipal bonds are subject to the risk that litigation, legislation or other political events, local business or economic conditions, or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest.

### High Yield Securities Risk

In general, lower rated debt securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative effect on the NAV of the Fund's Common Shares or Common Share dividends. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as "high yield" securities or "junk bonds." High yield securities involve a greater risk of default and their prices are generally more volatile and sensitive to actual or perceived negative developments, such as a decline in the issuer's revenues or revenues of underlying borrowers or a general economic downturn, than are the prices of higher grade securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by certain rating agencies. The Fund may purchase distressed securities that are in default or the issuers of which are in bankruptcy, which involve heightened risks. See "Principal Risks of the Fund—Distressed and Defaulted Securities Risk." An economic downturn could severely affect the ability of issuers (particularly those that are highly leveraged) to service their debt obligations or to repay their obligations upon maturity. Lower-rated securities are generally less liquid than higher-rated securities, which may have an adverse effect on the Fund's ability to dispose of a particular security. For example, under adverse market or economic conditions, the secondary market for below investment grade securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and certain securities in the Fund's portfolio may become illiquid or less liquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell these securities only at prices lower than if such securities were widely traded. See "Principal Risks of the Fund—Liquidity Risk." To the extent the Fund focuses on below investment grade debt obligations, PIMCO's capabilities in analyzing credit quality and associated risks will be particularly important, and there can be no assurance that PIMCO will be successful in this regard. See "Portfolio Contents— High Yield Securities" for additional information. Due to the risks involved in investing in high yield securities, an investment in the Fund should be considered speculative.

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

## Market Risk

The market price of securities owned by the Fund may go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets. The value of a security may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, adverse changes to credit markets or adverse investor sentiment generally. The value of a security may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously. Equity securities generally have greater price volatility than fixed income securities. Credit ratings downgrades may also negatively affect securities held by the Fund. Even when markets perform well, there is no assurance that the investments held by the Fund will increase in value along with the broader market. In addition, market risk includes the risk that geopolitical events will disrupt the economy on a national or global level. For instance, terrorism, market manipulation, government defaults, government shutdowns, political changes or diplomatic developments, and natural/environmental disasters can all negatively impact the securities markets, which could cause the Fund to lose value. Any market disruptions could also prevent the Fund from executing advantageous investment decisions in a timely manner. To the extent the Fund focuses its investments in a region enduring geopolitical market disruption, it will face higher risks of loss. Thus, investors should closely monitor current market conditions to determine whether a specific Fund meets their individual financial needs and tolerance for risk.

Current market conditions may pose heightened risks with respect to funds that invest in fixed income securities. As discussed more under "—Interest Rate Risk," interest rates in the U.S. are near historically low levels. However, continued economic recovery, the end of the Federal Reserve Board's quantitative easing program, and an increased likelihood of a rising interest rate environment increase the risk that interest rates will continue to rise in the near future. Any further interest rate increases in the future could cause the value of the Fund to decrease. As such, fixed income securities markets may experience heightened levels of interest rate, volatility and liquidity risk.

Exchanges and securities markets may close early, close late or issue trading halts on specific securities, which may result in, among other things, the Fund being unable to buy or sell certain securities or financial instruments at an advantageous time or accurately price its portfolio investments.

## Interest Rate Risk

Interest rate risk is the risk that fixed-income securities and other instruments in the Fund's portfolio will decline in value because of a change in interest rates. As nominal interest rates rise, the value of certain fixed-income securities held by the Fund is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Interest rate changes can be sudden and unpredictable, and the Fund may lose money as a result of movements in interest rates. The Fund may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended.

A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). **This risk may be particularly acute in the current market environment because market interest rates are currently near historically low levels.** This, combined with recent economic recovery, the Federal Reserve Board's conclusion of its quantitative easing program, and increases in federal funds interest rates in 2015, 2016 and 2017, which had not occurred since 2006, could potentially increase the probability of an upward interest rate environment in the near future. To the extent the Federal Reserve Board continues to raise interest rates, there is a risk that rates across the financial system may rise.

Fixed-income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is a measure used to determine the sensitivity of a security's price to changes in interest rates that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. Duration is useful primarily as a measure of the sensitivity of a fixed-income security's market price to interest rate (i.e. yield) movements. All other things remaining equal, for each one percentage point increase in interest rates, the value of a portfolio of fixed-income investments would generally be expected to decline by one percent for every year of the portfolio's average duration above zero. For example, the value of a portfolio of fixed-income securities with an average duration of eight years would generally be expected to decline by approximately 8% if interest rates rose by one percentage point.

Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. Inverse floating rate securities may decrease in value if interest rates increase. Inverse floating rate securities may also exhibit greater price volatility than a fixed rate obligation with similar credit quality. When the Fund holds variable or floating rate securities, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the NAV of the Fund's shares.

During periods of very low or negative interest rates, the Fund may be unable to maintain positive returns. Interest rates in the United States and many parts of the world, including certain European countries, are at or near historically low levels. Certain European countries have recently experienced negative interest rates on certain fixed-income instruments. Very low or negative interest rates may magnify interest rate risk. Changing interest rates, including rates that fall below zero, may have unpredictable effects on markets, may result in heightened market volatility and may detract from Fund performance to the extent the Fund is exposed to such interest rates.

Measures such as average duration may not accurately reflect the true interest rate sensitivity of the Fund. This is especially the case if the Fund consists of securities with widely varying durations. Therefore, if the Fund has an average duration that suggests a certain level of interest rate risk, the Fund may in fact be subject to greater interest rate risk than the average would suggest. This risk is greater to the extent the Fund uses leverage or derivatives in connection with the management of the Fund.

Convexity is an additional measure used to understand a security's or Fund's interest rate sensitivity. Convexity measures the rate of change of duration in response to changes in interest rates. With respect to a security's price, a larger convexity (positive or negative) may imply more dramatic price changes in response to changing interest rates. Convexity may be positive or negative. Negative convexity implies that interest rate increases result in increased duration, meaning increased sensitivity in prices in response to rising interest rates. Thus, securities with negative convexity, which may include bonds with traditional call features and certain mortgage-backed securities, may experience greater losses in periods of rising interest rates. Accordingly, if the Fund holds such securities, the Fund may be subject to a greater risk of losses in periods of rising interest rates.

Rising interest rates may result in a decline in value of the Fund's fixed-income investments and in periods of volatility. Further, while U.S. bond markets have steadily grown over the past three decades, dealer "market making" ability has remained relatively stagnant. As a result, dealer inventories of certain types of bonds and similar instruments, which provide a core indication of the ability of financial intermediaries to "make markets," are at or near historic lows in relation to market size. Because market makers provide stability to a market through their intermediary services, the significant reduction in dealer inventories could potentially lead to decreased liquidity and increased volatility in the fixed-income markets. Such issues may be exacerbated during periods of economic uncertainty. All of these factors, collectively and/or individually, could cause the Fund to lose value.

## Issuer Risk

The value of a security may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services, as well as the historical and prospective earnings of the issuer and the value of its assets. A change in the financial condition of a single issuer may affect securities markets as a whole. These risks can apply to the Common Shares issued by the Fund and to the issuers of securities and other instruments in which the Fund invests.

## Leverage Risk

The Fund's use of leverage (as described under "Use of Leverage" in the body of this prospectus) creates the opportunity for increased Common Share net income, but also creates special risks for Common Shareholders. To the extent used, there is no assurance that the Fund's leveraging strategies will be successful. Leverage is a speculative technique that may expose the Fund to greater risk and increased costs. The Fund's assets attributable to its outstanding Preferred Shares or the net proceeds the that Fund obtains from its use of reverse repurchase agreements, dollar rolls and/or borrowings, if any, will be invested in accordance with the Fund's investment objective and policies as described in this prospectus. Dividends payable with respect to the Preferred Shares and interest expense payable by the Fund with respect to any reverse repurchase agreements, dollar rolls and borrowings (for dividends payable with respect to Preferred Shares) will generally be based on shorter-term interest rates that would be periodically reset. So long as the Fund's portfolio investments provide a higher rate of return (net of applicable Fund expenses) than the dividend rate on the Preferred Shares and the interest expenses and other costs to the Fund of such other leverage, the investment of the proceeds thereof will generate more income than will be needed to pay the costs of the leverage. If so, and all other things being equal, the excess may be used to pay higher dividends to Common Shareholders than if the Fund were not so leveraged. If, however, shorter-term interest rates rise relative to the rate of return on the Fund's portfolio, the interest and other costs of leverage to the Fund (including interest expenses on reverse repurchase agreements, dollar rolls and borrowings and the dividend rate on any outstanding preferred shares) could exceed the rate of return on the debt obligations and other investments held by the Fund, thereby reducing return to Common Shareholders. In addition, fees and expenses of any form of leverage used by the Fund will be borne entirely by the Common Shareholders (and not by preferred shareholders, if any) and will reduce the investment return of the Common Shares. Therefore, there can be no assurance that the Fund's use of leverage will result in a higher yield on the Common Shares, and it may result in losses. In addition, any Preferred Shares issued by the Fund are expected to pay cumulative dividends, which may tend to increase leverage risk.

Leverage creates several major types of risks for Common Shareholders, including:

the likelihood of greater volatility of NAV and market price of Common Shares, and of the investment return to Common Shareholders, than a comparable portfolio without leverage;

the possibility either that Common Share dividends will fall if the interest and other costs of leverage rise, or that dividends paid on Common Shares will fluctuate because such costs vary over time; and

the effects of leverage in a declining market or a rising interest rate environment, as leverage is likely to cause a greater decline in the NAV of the Common Shares than if the Fund were not leveraged and may result in a greater decline in the market value of the Common Shares.

In addition, holders of ARPS and any other preferred shareholders of the Fund, and the counterparties to the Fund's other leveraging transactions, have or will have priority of payment over the Fund's Common Shareholders.

The use by the Fund of reverse repurchase agreements and dollar rolls to obtain leverage also involves special risks. For instance, the market value of the securities that the Fund is obligated to repurchase under a reverse repurchase agreement or dollar roll may decline below the repurchase price. See "The Fund's Investment Objective and Policies—Portfolio Contents—Reverse Repurchase Agreements and Dollar Rolls."

In addition to reverse repurchase agreements, dollar rolls and/or borrowings (or a future issuance of preferred shares), the Fund may engage in other transactions that may give rise to a form of leverage including, among others, futures and forward contracts (including foreign currency exchange contracts), credit default swaps, total return swaps, basis swaps and other derivative transactions, loans of portfolio securities, short sales and when-issued, delayed delivery and forward commitment transactions). The Fund's use of such transactions gives rise to associated leverage risks described above, and may adversely affect the Fund's income, distributions and total returns to Common Shareholders. The Fund manages some of its derivative positions by segregating an amount of cash or liquid securities equal to the notional value or the market value, as applicable, of those positions. See "Principal Risks of the Fund—Segregation and Coverage Risk." The Fund may also offset derivatives positions against one another or against other assets to manage effective market exposure resulting from derivatives in its portfolio. To the extent that any offsetting positions do not behave in relation to one another as expected, the Fund may perform as if it is leveraged through use of these derivative strategies. See "Use of Leverage."

The SEC has issued a proposed rule relating to a registered investment company's use of derivatives and related instruments that, if adopted, could potentially require the Fund to reduce its use of leverage and/or observe more stringent asset coverage and related requirements than are currently imposed by the 1940 Act, which could adversely affect the value or performance of the Fund and the Common Shares.

Because the fees received by the Investment Manager are based on the average weekly total managed assets of the Fund ("total managed assets" includes the total assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage that may be outstanding) minus accrued liabilities (other than liabilities representing leverage)), the Investment Manager has a financial incentive for the Fund to maintain and issue preferred shares and utilize other forms of leverage, which may create a conflict of interest between the Investment Manager, on the one hand, and the Common Shareholders, on the other hand.

## Additional Risks Associated with the Fund's Preferred Shares

Although the Fund's ARPS ordinarily would pay dividends at rates set at periodic auctions, the weekly auctions for the ARPS (and auctions for similar preferred shares issued by closed-end funds in the U.S.) have failed since February 2008. The dividend rates on the ARPS since that time have been paid, and the Fund expects that they will continue to be paid for the foreseeable future, at the "maximum applicable rate" under the Fund's Bylaws (i.e., the greater of a multiple of or a spread plus a reference rate, which is the greater of the applicable LIBOR rate or the applicable Treasury Index Rate). An increase in market interest rates generally, therefore, could increase substantially the dividend rate required to be paid by the Fund to the holders of ARPS, which would increase the costs associated with the Fund's leverage and reduce the Fund's net income available for distribution to Common Shareholders.

In addition, the multiple used to calculate the maximum applicable rate is based in part on the credit rating assigned to the ARPS by the applicable rating agency (currently, Moody's and Fitch), with the multiple generally increasing as the rating declines. In September 2011, Moody's, a ratings agency that provides ratings for the Fund's ARPS, downgraded its rating of the ARPS from "Aaa" to "Aa2," citing persistently thin asset coverage levels, increased NAV volatility and concerns about secondary market liquidity for some assets supporting rated obligations. In July 2012, Moody's downgraded its rating of the ARPS from "Aa2" to "Aa3" pursuant to a revised ratings methodology adopted by Moody's. Under the Bylaws, the 2011 downgrade resulted in an increase in the dividend rate multiplier from 1.25 to 1.5, thereby increasing the dividend rate payable to ARPS holders and increasing the costs to Common Shareholders associated with the Fund's leverage. See "Use of Leverage" and "Description of Capital Structure." The ARPS could be subject to further ratings downgrades in the future, possibly resulting in further increases to the maximum applicable rate.

Therefore, it is possible that a substantial rise in market interest rates and/or further ratings downgrades of the ARPS could, by reducing income available for distribution to the Common Shareholders and otherwise detracting from the Fund's investment performance, make the Fund's continued use of Preferred Shares for leverage purposes less attractive than such use is currently considered to be. In such case, the Fund may elect to redeem some or all of the Preferred Shares outstanding, which may require it to dispose of investments at inopportune times and to incur losses on such dispositions. Such dispositions may adversely affect the Fund's investment performance generally, and the resultant loss of leverage may materially and adversely affect the Fund's investment returns to Common Shareholders. In 2008 and 2009, the Fund was effectively required to redeem a portion of its ARPS due to market dislocations that caused the value of the Fund's portfolio securities and related asset coverage to decline. In order to increase and maintain the Fund's asset coverage above the requisite 200% level, in December 2008 and March and April 2009, the Fund redeemed 2,552 shares ($63,800,000) of each series of its outstanding ARPS, in each case at face value (i.e., a total of 12,760 shares ($319,000,000) across all series). On September 19, 2014, the Fund commenced a voluntary tender offer for up to 100% of its outstanding ARPS at a price equal to 90% of the ARPS' per share liquidation preference of $25,000. The Fund accepted 2,742 ARPS for payment, representing approximately 42.58% of its outstanding ARPS, such that on October 31, 2014, the expiration of the tender offer, the Fund had a total of 3,698 ARPS outstanding with a total liquidation value of $92,450,000.

The Fund is also subject to certain asset coverage tests associated with the rating agencies that rate the ARPS—currently Moody's and Fitch. Failure by the Fund to maintain the asset coverages (or to cure such failure in a timely manner) may require the Fund to redeem ARPS. See "Description of Capital

Structure." Failure to satisfy ratings agency asset coverage tests or other guidelines could also result in the applicable ratings agency downgrading its then-current ratings on the ARPS, as described above. Moreover, the rating agency guidelines impose restrictions or limitations on the Fund's use of certain financial instruments or investment techniques that the Fund might otherwise utilize in order to achieve its investment objective, which may adversely affect the Fund's investment performance. Rating agency guidelines may be modified by the rating agencies in the future and, if adopted by the Fund, such modifications may make such guidelines substantially more restrictive, which could further negatively affect the Fund's investment performance.

## Liquidity Risk

Liquidity risk exists when particular investments are difficult to purchase or sell at the time that the Fund would like or at the price that the Fund believes such investments are currently worth. Many of the Fund's investments may be illiquid. Illiquid securities may become harder to value, especially in changing markets. The Fund's investments in illiquid securities may reduce the returns of the Fund because it may be unable to sell the illiquid securities at an advantageous time or price or possibly require the Fund to dispose of other investments at unfavorable times or prices in order to satisfy its obligations, which could prevent the Fund from taking advantage of other investment opportunities. Additionally, the market for certain investments may become illiquid under adverse market or economic conditions independent of any specific adverse changes in the conditions of a particular issuer. Bond markets have consistently grown over the past three decades while the capacity for traditional dealer counterparties to engage in fixed income trading has not kept pace and in some cases has decreased. As a result, dealer inventories of corporate bonds, which provide a core indication of the ability of financial intermediaries to "make markets," are at or near historic lows in relation to market size. Because market makers seek to provide stability to a market through their intermediary services, the significant reduction in dealer inventories could potentially lead to decreased liquidity and increased volatility in the fixed income markets. Such issues may be exacerbated during periods of economic uncertainty. In such cases, the Fund, due to limitations on investments in illiquid securities and the difficulty in purchasing and selling such securities or instruments, may be unable to achieve its desired level of exposure to a certain sector. To the extent that the Fund's principal investment strategies involve securities of companies with smaller market capitalizations, foreign (non-U.S.) securities, Rule 144A securities, senior loans, illiquid sectors of fixed income securities, derivatives or securities with substantial market and/or credit risk, the Fund will tend to have the greatest exposure to liquidity risk. Further, fixed income securities with longer durations until maturity face heightened levels of liquidity risk as compared to fixed income securities with shorter durations until maturity. It may also be the case that other market participants may be attempting to liquidate fixed income holdings at the same time as the Fund, causing increased supply in the market and contributing to liquidity risk and downward pricing pressure. See "Principal Risks of the Fund—Valuation Risk."

## Asset Allocation Risk

The Fund's investment performance depends upon how its assets are allocated and reallocated. A principal risk of investing in the Fund is that PIMCO may make less than optimal or poor asset allocation decisions. PIMCO employs an active approach to allocation among multiple fixed income sectors, but there is no guarantee that such allocation techniques will produce the desired results. It is possible that PIMCO will focus on an investment that performs poorly or underperforms other investments under various market conditions. You could lose money on your investment in the Fund as a result of these allocation decisions.

## Management Risk

The Fund is subject to management risk because it is an actively managed investment portfolio. PIMCO and each individual portfolio manager will apply investment techniques and risk analysis in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results. Certain securities or other instruments in which the Fund seeks to invest may not be available in the quantities desired. In addition, regulatory restrictions, actual or potential conflicts of interest or other considerations may cause PIMCO to restrict or prohibit participation in certain investments. In such circumstances, PIMCO or the individual portfolio managers may determine to purchase other securities or instruments as substitutes. Such substitute securities or instruments may not perform as intended, which could result in losses to the Fund. To the extent the Fund employs strategies targeting perceived pricing inefficiencies, arbitrage strategies or similar strategies, it is subject to the risk that the pricing or valuation of the securities and instruments involved in such strategies may change unexpectedly, which may result in reduced returns or losses to the Fund. Additionally, legislative, regulatory, or tax restrictions, policies or developments may affect the investment techniques available to PIMCO and each individual portfolio manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment objective. There also can be no assurance that all of the personnel of PIMCO will continue to be associated with PIMCO for any length of time. The loss of the services of one or more key employees of PIMCO could have an adverse impact on the Fund's ability to realize its investment objective.

In addition, the Fund may rely on various third-party sources to calculate its net asset value. As a result, the Fund is subject to certain operational risks associated with reliance on service providers and service providers' data sources. In particular, errors or systems failures and other technological issues may adversely impact the Fund's calculations of its net asset value, and such net asset value calculation issues may result in inaccurately calculated net asset values, delays in net asset value calculation and/or the inability to calculate net asset values over extended periods. The Fund may be unable to recover any losses associated with such failures.

### Call Risk

Call risk refers to the possibility that an issuer may exercise its right to redeem a fixed income security earlier than expected (a call). Issuers may call outstanding securities prior to their maturity for a number of reasons (e.g., declining interest rates, changes in credit spreads and improvements in the issuer's credit quality). If an issuer calls a security in which the Fund has invested, the Fund may not recoup the full amount of its initial investment and may be forced to reinvest in lower-yielding securities, securities with greater credit risks or securities with other, less favorable features.

## Foreign (non-U.S.) Investment Risk

The Fund may invest in foreign (non-U.S.) securities and may experience more rapid and extreme changes in value than the Fund that invests exclusively in securities of U.S. companies. The securities markets of many foreign countries are relatively small, with a limited number of companies representing a small number of industries. Additionally, issuers of foreign (non-U.S.) securities are usually not subject to the same degree of regulation as U.S. issuers. Reporting, accounting, auditing and custody standards of foreign countries differ, in some cases significantly, from U.S. standards. Global economies and financial markets are becoming increasingly interconnected, and conditions and events in one country, region or financial market may adversely impact issuers in a different country, region or financial market. Also, nationalization, expropriation or confiscatory taxation, currency blockage, political changes or diplomatic developments could adversely affect the Fund's investments in a foreign country. In the event of nationalization, expropriation or other confiscation, the Fund could lose its entire investment in foreign (non-U.S.) securities. Adverse conditions in a certain region can adversely affect securities of other countries whose economies appear to be unrelated. To the extent that the Fund invests a significant portion of its assets in a specific geographic region, the Fund will generally have more exposure to regional economic risks associated with foreign (non-U.S.) investments. Foreign (non-U.S.) securities may also be less liquid and more difficult to value than securities of U.S. issuers.

The global economic crisis brought several small economies in Europe to the brink of bankruptcy and many other economies into recession and weakened the banking and financial sectors of many European countries. For example, the governments of Greece, Spain, Portugal, and the Republic of Ireland have all experienced large public budget deficits, the effects of which are still yet unknown and may slow the overall recovery of the European economies from the global economic crisis. In addition, due to large public deficits, some European countries may be dependent on assistance from other European governments and institutions or other central banks or supranational agencies such as the International Monetary Fund. Assistance may be dependent on a country's implementation of reforms or reaching a certain level of performance. Failure to reach those objectives or an insufficient level of assistance could result in a deep economic downturn which could significantly affect the value of the Fund's European investments. It is possible that one or more Economic and Monetary Union member countries could abandon the euro and return to a national currency and/or that the euro will cease to exist as a single currency in its current form. The exit of any country out of the euro may have an extremely destabilizing effect on other eurozone countries and their economies and a negative effect on the global economy as a whole. Such an exit by one country may also increase the possibility that additional countries may exit the euro should they face similar financial difficulties.

At a referendum in June 2016, the United Kingdom (the UK) voted to leave the European Union (EU). In connection with the British exit from the EU (commonly known as "Brexit"), it is expected that the UK will invoke article 50 of the Treaty of Lisbon to withdraw from the EU in due course, however there is a significant degree of uncertainty about how negotiations relating to the UK's withdrawal and new trade agreements will be conducted, as well as the potential consequences and precise timeframe for Brexit. It is expected that the UK's exit from the EU will take place within two years of the UK notifying the European Council that it intends to withdraw from the EU. During this period and beyond, the impact of any partial or complete dissolution of the EU on the UK and European economies and the broader global economy could be significant, resulting in negative impacts on currency and financial markets generally, such as increased volatility and illiquidity, and potentially lower economic growth in markets in the UK, Europe and globally, which may adversely affect the value of the Fund's portfolio investments.

The UK has one of the largest economies in Europe, and member countries of the EU are substantial trading partners of the UK. The City of London's economy is dominated by financial services, some of which may have to move outside of the UK post-referendum (e.g., currency trading, international settlement). Under the referendum, banks may be forced to move staff and comply with two separate sets of rules or lose business to banks in Europe. Furthermore, the referendum creates the potential for decreased trade, the possibility of capital outflows, devaluation of the pound sterling, the cost of higher corporate bond spreads due to uncertainty, and the risk that all the above could damage business and consumer spending as well as foreign direct investment. As a result of the referendum, the British economy and its currency may be negatively impacted by changes to its economic and political relations with the EU. Any further exits from the EU, or the possibility of such exits, would likely cause additional market disruption globally and introduce new legal and regulatory uncertainties.

The impact of the referendum in the near- and long-term is still unknown and could have additional adverse effects on economies, financial markets, currencies and asset valuations around the world. Any attempt by the Fund to hedge against or otherwise protect its portfolio or to profit from such circumstances may fail and, accordingly, an investment in the Fund could lose money over short or long periods.

The Fund may invest in securities and instruments that are economically tied to Russia. Investments in Russia are subject to various risks such as political, economic, legal, market and currency risks. The risks include uncertain political and economic policies, short term market volatility, poor accounting standards, corruption and crime, an inadequate regulatory system, and unpredictable taxation. Investments in Russia are particularly subject to the risk that economic sanctions may be imposed by the United States and/or other countries. Such sanctions—which may impact companies in many sectors, including energy, financial services and defense, among others—may negatively impact the Fund's performance and/or ability to achieve its investment objective. The Russian securities market is characterized by limited volume of trading, resulting in difficulty in obtaining accurate prices. The Russian securities market, as compared to U.S. markets, has significant price volatility, less liquidity, a smaller market capitalization

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and a smaller number of traded securities. There may be little publicly available information about issuers. Settlement, clearing and registration of securities transactions are subject to risks because of registration systems that may not be subject to effective government supervision. This may result in significant delays or problems in registering the transfer of securities. Russian securities laws may not recognize foreign nominee accounts held with a custodian bank, and therefore the custodian may be considered the ultimate owner of securities they hold for their clients. Ownership of securities issued by Russian companies is recorded by companies themselves and by registrars instead of through a central registration system. It is possible that the ownership rights of the Fund could be lost through fraud or negligence. While applicable Russian regulations impose liability on registrars for losses resulting from their errors, it may be difficult for the Fund to enforce any rights it may have against the registrar or issuer of the securities in the event of loss of share registration. Adverse currency exchange rates are a risk and there may be a lack of available currency hedging instruments. Investments in Russia may be subject to the risk of nationalization or expropriation of assets. Oil, natural gas, metals, and timber account for a significant portion of Russia's exports, leaving the country vulnerable to swings in world prices.

## Emerging Markets Risk

Foreign investment risk may be particularly high to the extent that the Fund invests in securities of issuers based in or doing business in emerging market countries or invests in securities denominated in the currencies of emerging market countries. Investing in securities of issuers based in or doing business in emerging markets entails all of the risks of investing in foreign securities noted above, but to a heightened degree.

Investments in emerging market countries pose a greater degree of systemic risk (i.e., the risk of a cascading collapse of multiple institutions within a country, and even multiple national economies). The inter-relatedness of economic and financial institutions within and among emerging market economies has deepened over the years, with the effect that institutional failures and/or economic difficulties that are of initially limited scope may spread throughout a country, a region or even among all or most emerging market countries. This may undermine any attempt by the Fund to reduce risk through geographic diversification of its portfolio investments among emerging market countries.

There is a heightened possibility of imposition of withholding taxes on interest or dividend income generated from emerging market securities. Governments of emerging market countries may engage in confiscatory taxation or expropriation of income and/or assets to raise revenues or to pursue a domestic political agenda. In the past, emerging market countries have nationalized assets, companies and even entire sectors, including the assets of foreign investors, with inadequate or no compensation to the prior owners. There can be no assurance that the Fund will not suffer a loss of any or all of its investments or, interest or dividends thereon, due to adverse fiscal or other policy changes in emerging market countries.

There is also a greater risk that an emerging market government may take action that impedes or prevents the Fund from taking income and/or capital gains earned in the local currency and converting into U.S. dollars (i.e., "repatriating" local currency investments or profits). Certain emerging market countries have sought to maintain foreign exchange reserves and/or address the economic volatility and dislocations caused by the large international capital flows by controlling or restricting the conversion of the local currency into other currencies. This risk tends to become more acute when economic conditions otherwise worsen. There can be no assurance that if the Fund earns income or capital gains in an emerging market currency or PIMCO otherwise seeks to withdraw the Fund's investments from a given emerging market country, capital controls imposed by such country will not prevent, or cause significant expense in, doing so.

Bankruptcy law and creditor reorganization processes may differ substantially from those in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain emerging market countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. In addition, it may be impossible to seek legal redress against an issuer that is a sovereign state.

Other heightened risks associated with emerging markets investments include without limitation: (i) risks due to less social, political and economic stability; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in a lack of liquidity and in price volatility; (iii) certain national policies which may restrict the Fund's investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests and requirements that government approval be obtained prior to investment by foreign persons; (iv) certain national policies that may restrict the Fund's repatriation of investment income, capital or the proceeds of sales of securities, including temporary restrictions on foreign capital remittances; (v) the lack of uniform accounting and auditing standards and/or standards that may be significantly different from the standards required in the United States; (vi) less publicly available financial and other information regarding issuers; (vii) potential difficulties in enforcing contractual obligations; and (viii) higher rates of inflation, higher interest rates and other economic concerns. The Fund may invest to a substantial extent in emerging market securities that are denominated in local currencies, subjecting the Fund to a greater degree of foreign currency risk. See "Principal Risks of the Fund—Currency Risk." Also, investing in emerging market countries may entail purchases of securities of issuers that are insolvent, bankrupt or otherwise of questionable ability to satisfy their payment obligations as they become due, subjecting the Fund to a greater amount of credit risk and/or high yield risk. See "Principal Risks of the Fund—Credit Risk" and "Principal Risks of the Fund—High Yield Securities Risk."

## Derivatives Risk

The Fund may, but is not required to, utilize a variety of derivative instruments (both long and short positions) for investment or risk management purposes, as well as to leverage its portfolio. The Fund may use derivatives to gain exposure to securities markets in which it may invest (e.g., pending investment of the proceeds of this offering in individual securities, as well as on an ongoing basis). The Fund may also use derivatives to add leverage to its portfolio. See "Principal Risks of the Fund —Leverage Risk." Derivatives transactions that the Fund may utilize include, but are not limited to, purchases or sales of futures and forward contracts (including foreign currency exchange contracts), call and put options, credit default swaps, total return swaps, basis swaps and other swap agreements. The Fund may also have exposure to derivatives, such as interest rate or credit default swaps, through investment in credit-linked trust certificates and other securities issued by special purpose or structured vehicles. The Fund's use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks described elsewhere in this prospectus, such as liquidity risk, interest rate risk, issuer risk, credit risk, leveraging risk, counterparty risk and management risk. See also "Principal Risks of the Fund—Segregation and Coverage Risk." They also involve the risk of mispricing or improper valuation, the risk of unfavorable or ambiguous documentation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. If the Fund invests in a derivative instrument, it could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial. The Fund's use of derivatives also may affect the amount, timing or character of distributions to, and taxes payable by, Common Shareholders. See "Tax Matters." Over-the-counter ("OTC") derivative transactions are also subject to the risk that a counterparty to the transaction will not fulfill its contractual obligations to the other party, as many of the protections afforded to centrally-cleared derivative transactions might not be available for OTC derivatives transactions. For derivatives traded on an exchange or through a central counterparty, credit risk resides with the creditworthiness of the Fund's clearing broker, or the clearinghouse itself, rather than with a counterparty in an OTC derivative transaction.

The regulation of the derivatives markets has increased over the past several years, and additional future regulation of the derivatives markets may make derivatives more costly, may limit the availability or reduce the liquidity of derivatives, or may otherwise adversely affect the value or performance of derivatives. Any such adverse future developments could impair the effectiveness of the Fund's derivative transactions and cause the Fund to lose value. For instance, in December 2015, the SEC proposed new regulations applicable to a registered investment company's use of derivatives and related instruments. If adopted as proposed, these regulations could significantly limit or impact the Fund's ability to invest in derivatives and other instruments, limit the Fund's ability to employ certain strategies that use derivatives and/or adversely affect the Fund's performance, efficiency in implementing its strategy, liquidity and/or ability to pursue its investment objective.

## Credit Default Swaps Risk

Credit default swap agreements may involve greater risks than if the Fund had invested in the reference obligation directly since, in addition to general market risks, credit default swaps are subject to illiquidity risk, counterparty risk and credit risk. A buyer generally also will lose its investment and recover nothing should no credit event occur and the swap is held to its termination date. If a credit event were to occur, the value of any deliverable obligation received by the seller (if any), coupled with the upfront or periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the seller. When the Fund acts as a seller of a credit default swap, it is exposed to many of the same risks of leverage described herein since if an event of default occurs, the seller must pay the buyer the full notional value of the reference obligation. See "Principal Risks of the Fund—Leverage Risk."

Although the Fund may seek to realize gains by selling credit default swaps that increase in value, to realize gains on selling credit default swaps, an active secondary market for such instruments must exist or the Fund must otherwise be able to close out these transactions at advantageous times. In addition to the risk of losses described above, if no such secondary market exists or the Fund is otherwise unable to close out these transactions at advantageous times, selling credit default swaps may not be profitable for the Fund.

The market for credit default swaps has become more volatile in recent years as the creditworthiness of certain counterparties has been questioned and/or downgraded. The Fund will be subject to credit risk with respect to the counterparties to the credit default swap contract (whether a clearing corporation in the case of a cleared credit default swap or another third party in the case of an uncleared credit default swap). If a counterparty's credit becomes significantly impaired, multiple requests for collateral posting in a short period of time could increase the risk that the Fund may not receive adequate collateral. The Fund may exit its obligations under a credit default swap only by terminating the contract and paying applicable breakage fees, or by entering into an offsetting credit default swap position, which may cause the Fund to incur more losses.

## Counterparty Risk

The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts and other instruments entered into by the Fund or held by special purpose or structured vehicles in which the Fund invests. In the event that the Fund enters into a derivative transaction with a counterparty that subsequently becomes insolvent or becomes the subject of a bankruptcy case, the derivative transaction may be terminated in accordance with its terms and the Fund's ability to realize its rights under the derivative instrument and its ability to distribute the proceeds could be adversely affected. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery (including recovery of any collateral it has provided to the counterparty) in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If the Fund is owed this fair market value in the termination of the derivative transaction and its claim is unsecured, the Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to any underlying security or asset. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

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PIMCO Income Strategy Fund II

**Mortgage-Related and Other Asset-Backed Securities Risk**

The Fund may invest in a variety of mortgage-related and other asset-backed securities issued by government agencies or other governmental entities or by private originators or issuers.

The mortgage-related securities in which the Fund may invest include, without limit, mortgage pass-through securities, collateralized mortgage obligations ("CMOs"), commercial or residential mortgage-backed securities, mortgage dollar rolls, CMO residuals, stripped mortgage-backed securities ("SMBSs") and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The Fund may also invest in other types of asset-backed securities, including collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. See "Portfolio Contents—Mortgage-Related and Other Asset-Backed Securities" in this prospectus and "Investment Objective and Policies—Mortgage-Related and Other Asset-Backed Securities" in the Statement of Additional Information for a description of the various mortgage-related and other asset-backed securities in which the Fund may invest and their related risks.

Mortgage-related and other asset-backed securities represent interests in "pools" of mortgages or other assets such as consumer loans or receivables held in trust and often involve risks that are different from or possibly more acute than risks associated with other types of debt instruments. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, the Fund may exhibit additional volatility since individual mortgage holders are less likely to exercise prepayment options, thereby putting additional downward pressure on the value of these securities and potentially causing the Fund to lose money. This is known as extension risk. Mortgage-backed securities can be highly sensitive to rising interest rates, such that even small movements can cause the Fund to lose value. Mortgage-backed securities, and in particular those not backed by a government guarantee, are subject to credit risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns of the Fund because the Fund may have to reinvest that money at the lower prevailing interest rates. The Fund's investments in other asset-backed securities are subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the assets and the servicing of those assets. Payment of principal and interest on asset-backed securities may be largely dependent upon the cash flows generated by the assets backing the securities, and asset-backed securities may not have the benefit of any security interest in the related assets. See "Principal Risks of the Fund—Mortgage Market/Subprime Risk."

The Fund may also invest in the residual or equity tranches of mortgage-related and other asset-backed securities, which may be referred to as subordinate mortgage-backed or asset-backed securities and interest-only mortgage-backed or asset-backed securities. Subordinate mortgage-backed or asset-backed securities are paid interest only to the extent that there are funds available to make payments. To the extent the collateral pool includes a large percentage of delinquent loans, there is a risk that interest payment on subordinate mortgage-backed or asset-backed securities will not be fully paid. There are multiple tranches of mortgage-backed and asset-backed securities, offering investors various maturity and credit risk characteristics. Tranches are categorized as senior, mezzanine, and subordinated/equity or "first loss," according to their degree of risk. The most senior tranche of a mortgage-backed or asset-backed security has the greatest collateralization and pays the lowest interest rate. If there are defaults or the collateral otherwise underperforms, scheduled payments to senior tranches take precedence over those of mezzanine tranches, and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. Lower tranches represent lower degrees of credit quality and pay higher interest rates intended to compensate for the attendant risks. The return on the lower tranches is especially sensitive to the rate of defaults in the collateral pool. The lowest tranche (i.e., the "equity" or "residual" tranche) specifically receives the residual interest payments (i.e., money that is left over after the higher tranches have been paid and expenses of the issuing entities have been paid) rather than a fixed interest rate. The Fund expects that investments in subordinate mortgage-backed and other asset-backed securities will be subject to risks arising from delinquencies and foreclosures, thereby exposing its investment portfolio to potential losses. Subordinate securities of mortgage-backed and other asset-backed securities are also subject to greater credit risk than those mortgage-backed or other asset-backed securities that are more highly rated.

### Privately-Issued Mortgage-Related Securities Risk

There are no direct or indirect government or agency guarantees of payments in pools created by non-governmental issuers. Privately-issued mortgage-related securities are also not subject to the same underwriting requirements for the underlying mortgages that are applicable to those mortgage-related securities that have a government or government-sponsored entity guarantee.

Privately-issued mortgage-related securities are not traded on an exchange and there may be a limited market for the securities, especially when there is a perceived weakness in the mortgage and real estate market sectors. Without an active trading market, mortgage-related securities held in the Fund's portfolio may be particularly difficult to value because of the complexities involved in assessing the value of the underlying mortgage loans.

### Mortgage Market/Subprime Risk

The mortgage markets in the United States and in various foreign countries have experienced extreme difficulties in the past that adversely affected the performance and market value of certain of the Fund's mortgage-related investments. Delinquencies and losses on residential and commercial mortgage loans (especially subprime and second-lien mortgage loans) generally increased during that period and may increase again, and a decline in or flattening of housing and other real property values (as has been experienced during that period and may continue to be experienced in many real estate markets) may exacerbate such delinquencies and losses. Borrowers with adjustable rate mortgage loans are more sensitive to changes in interest rates, which affect their monthly mortgage payments, and may be unable to secure replacement mortgages at comparably low interest rates. Also, a number of mortgage loan originators have experienced serious financial difficulties or bankruptcy in recent periods.

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Owing largely to the foregoing, reduced investor demand for mortgage loans and mortgage-related securities and increased investor yield requirements have caused limited liquidity in the secondary market for mortgage-related securities, which can adversely affect the market value of mortgage-related securities. It is possible that such limited liquidity in such secondary markets could continue or worsen.

### Distressed and Defaulted Securities Risk

As noted above, the Fund may invest in the debt securities of financially distressed issuers, including those that are in default or the issuers of which are in bankruptcy. Investments in the securities of financially distressed issuers involve substantial risks. These securities may present a substantial risk of default or may be in default at the time of investment. In addition, these securities may fluctuate more in price, and are typically less liquid than other higher-rated debt securities. The Fund also will be subject to significant uncertainty as to when, and in what manner, and for what value obligations evidenced by securities of financially distressed issuers will eventually be satisfied (e.g., through a liquidation of the issuer's assets, an exchange offer or plan of reorganization, or a payment of some amount in satisfaction of the obligation). Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. In any such proceeding relating to a defaulted obligation, the Fund may lose its entire investment or may be required to accept cash or securities with a value substantially less than its original investment. Moreover, any securities received by the Fund upon completion of a workout or bankruptcy proceeding may be illiquid, speculative, or restricted as to resale. Similarly, if the Fund participates in negotiations with respect to any exchange offer or plan of reorganization with respect to the securities of a distressed issuer, the Fund may be restricted from disposing of such securities. To the extent that the Fund becomes involved in such proceedings, the Fund may have a more active participation in the affairs of the issuer than that assumed generally by an investor. The Fund may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings.

Also among the risks inherent in investments in a troubled issuer is that it frequently may be difficult to obtain information as to the true financial condition of such issuer. PIMCO's judgments about the credit quality of a financially distressed issuer and the relative value of its securities may prove to be wrong.

### Equity Securities and Related Market Risk

The market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. See "Principal Risks of the Fund —Issuer Risk." The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater price volatility than bonds and other debt securities.

### Preferred Securities Risk

In addition to equity securities risk (see "Principal Risks of the Fund—Equity Securities and Related Market Risk"), credit risk (see "Principal Risks of the Fund—Credit Risk") and possibly high yield risk (see "Principal Risks of the Fund—High Yield Securities Risk"), investment in preferred securities involves certain other risks. Certain preferred securities contain provisions that allow an issuer under certain conditions to skip or defer distributions. If the Fund owns a preferred security that is deferring its distribution, the Fund may be required to include the amount of the deferred distribution in its taxable income for tax purposes although it does not currently receive such amount in cash. In order to receive the special treatment accorded to RICs and their shareholders under the Code and to avoid U.S. federal income and/or excise taxes at the Fund level, the Fund may be required to distribute this income to shareholders in the tax year in which the income is recognized (without a corresponding receipt of cash). Therefore, the Fund may be required to pay out as an income distribution in any such tax year an amount greater than the total amount of cash income the

Fund actually received, and to sell portfolio securities, including at potentially disadvantageous times or prices, to obtain cash needed for these income distributions. Preferred securities often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer's call. In the event of redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities are subordinated to bonds and other debt securities in an issuer's capital structure in terms of priority for corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt securities. Preferred securities may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than many other securities, such as common stocks, corporate debt securities and U.S. Government securities.

## Inflation-Indexed Security Risk

Inflation-indexed debt securities are subject to the effects of changes in market interest rates caused by factors other than inflation (real interest rates). In general, the value of an inflation-indexed security, including TIPS, tends to decrease when real interest rates increase and can increase when real interest rates decrease. Thus generally, during periods of rising inflation, the value of inflation-indexed securities will tend to increase and during periods of deflation, their value will tend to decrease. Interest payments on inflation-indexed securities are unpredictable and will fluctuate as the principal and interest are adjusted for inflation. There can be no assurance that the inflation index used (i.e., the CPI) will accurately measure the real rate of inflation in the prices of goods and services. Increases in the principal value of TIPS due to inflation are considered taxable ordinary income for the amount of the increase in the calendar year. Any increase in the principal amount of an inflation-indexed debt security will be considered taxable ordinary income, even though the Fund will not receive the principal until maturity. Additionally, a CPI swap can potentially lose value if the realized rate of inflation over the life of the swap is less than the fixed market implied inflation rate (fixed breakeven rate) that the investor agrees to pay at the initiation of the swap. With municipal inflation-indexed securities, the inflation adjustment is integrated into the coupon payment, which is federally tax exempt (and may be state tax exempt). For municipal inflation-indexed securities, there is no adjustment to the principal value. Because municipal inflation-indexed securities are a small component of the municipal bond market, they may be less liquid than conventional municipal bonds.

## Senior Debt Risk

Because it may invest in below-investment grade senior debt, the Fund may be subject to greater levels of credit risk than funds that do not invest in such debt. The Fund may also be subject to greater levels of liquidity risk than funds that do not invest in senior debt. Restrictions on transfers in loan agreements, a lack of publicly available information and other factors may, in certain instances, make senior debt more difficult to sell at an advantageous time or price than other types of securities or instruments. Additionally, if the issuer of senior debt prepays, the Fund will have to consider reinvesting the proceeds in other senior debt or similar instruments that may pay lower interest rates.

## Loans and Other Indebtedness; Loan Participations and Assignments Risk

Loan interests may take the form of direct interests acquired during a primary distribution and may also take the form of assignments of, novations of or participations in a loan acquired in secondary markets. In addition to credit risk and interest rate risk, the Fund's exposure to loan interests may be subject to additional risks. For example, purchasers of loans and other forms of direct indebtedness depend primarily upon the creditworthiness of the corporate borrower for payment of principal and interest. If the Fund does not receive scheduled interest or principal payments on such indebtedness, the Fund's share price and yield could be adversely affected. Loans that are fully secured offer the Fund more protection than an unsecured loan in the event of non-payment of scheduled interest or principal. However, there is no assurance that the liquidation of collateral from a secured loan would satisfy the corporate borrower's obligation, or that the collateral can be liquidated.

Acquisitions of loans through a purchase of a loan or a direct assignment of a financial institution's interests with respect to a loan may involve additional risks to the Fund. For example, if a loan is foreclosed, the Fund could become owner, in whole or in part, of any collateral, which could include, among other assets, real or personal property, and would bear the costs and liabilities associated with owning and holding or disposing of the collateral. In addition, it is conceivable that under emerging legal theories of lender liability, the Fund could be held liable as co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities law protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, the Fund will rely on PIMCO's research in an attempt to avoid situations where fraud or misrepresentation could adversely affect the Fund. The purchaser of an assignment typically succeeds to all the rights and obligations under the loan agreement with the same rights and obligations as the assigning lender. Assignments may, however, be arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the assigning lender.

In connection with purchasing loan participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower, and the Fund may not directly benefit from any collateral supporting the loan in which it has purchased the loan participation. As a result, the Fund may be subject to the credit risk of both the borrower and the lender that is selling the participation. In the event of the insolvency of the lender selling a participation, the Fund may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower. Certain loan participations may be structured in a manner designed to prevent purchasers of participations from being subject to the credit risk of the lender with respect to the participation, but even under such a structure, in the event of the lender's insolvency, the lender's servicing of the participation may be delayed and the assignability of the participation impaired.

The Fund may have difficulty disposing of loans and loan participations because to do so it will have to assign or sell such instruments to a third party. Because there is no liquid market for many such instruments, the Fund anticipates that such instruments could be sold only to a limited number of institutional purchasers. The lack of a liquid secondary market may have an adverse impact on the value of such instruments and the Fund's ability to dispose of particular loans and loan participations when that would be desirable, including in response to a specific economic event such as a deterioration in the creditworthiness of the borrower. The lack of a liquid secondary market for loans and loan participations also may make it more difficult for the Fund to assign a value to these instruments for purposes of valuing the Fund's portfolio.

To the extent the Fund acquires loans, including bank loans, the Fund may be subject to greater levels of credit risk, call risk, settlement risk and liquidity risk than funds that do not acquire such instruments. These instruments are considered predominantly speculative with respect to an issuer's continuing ability to make principal and interest payments and may be more volatile than other types of securities. The Fund may also be subject to greater levels of liquidity risk than funds that do not purchase such instruments. In addition, the loans that the Fund may participate in or acquire may not be listed on any exchange and a secondary market for such loans may be comparatively illiquid relative to markets for other more liquid fixed-income securities. Consequently, transactions in loans may involve greater costs than transactions in more actively traded securities. Restrictions on transfers in loan agreements, a lack of publicly-available information, irregular trading activity and wide bid/ask spreads among other factors, may, in certain circumstances, make loans more difficult to dispose of at an advantageous time or price than other types of securities or instruments. These factors may result in the Fund being unable to realize full value for the loans and/or may result in the Fund not receiving the proceeds from a sale of a loan for an extended period after such sale, each of which could result in losses to the Fund. Some loans may have extended trade settlement periods, including settlement periods of greater than 7 days, which may result in cash not being immediately available to the Fund. If an issuer of a loan prepays or redeems the loan prior to maturity, the

Fund may have to use the proceeds to acquire loans or similar instruments that may pay lower interest rates. Because of the risks involved in acquiring loans, an investment in the Fund should be considered speculative.

The Fund's acquisitions of subordinated and unsecured loans generally are subject to similar risks as those associated with acquisitions of secured loans. Subordinated or unsecured loans are lower in priority of payment to secured loans and are subject to the additional risk that the cash flow of the borrower and property securing the loan or debt, if any, may be insufficient to meet scheduled payments after giving effect to the senior secured obligations of the borrower. This risk is generally higher for subordinated unsecured loans or debt, which are not backed by a security interest in any specific collateral. Subordinated and unsecured loans generally have greater price volatility than secured loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in subordinated or unsecured loans, which would create greater credit risk exposure for the holders of such loans. Subordinate and unsecured loans share the same risks as other below investment grade securities.

There may be less readily available information about most loans and the underlying borrowers than is the case for many other types of securities, including securities issued in transactions registered under the Securities Act, or registered under the Securities Exchange Act of 1934 (the "Exchange Act"), and borrowers subject to the periodic reporting requirements of Section 13 of the Exchange Act. Loans may be issued by companies that are not subject to SEC reporting requirements and therefore may not be required to file reports with the SEC or may file reports that are not required to comply with SEC form requirements. In addition, such companies may be subject to a less stringent liability disclosure regime than companies subject to SEC reporting requirements. Loans may not be considered "securities," and purchasers, such as the Fund, therefore may not be entitled to rely on the anti-fraud protections of the federal securities laws. Because there is limited public information available regarding loan investments, the Fund is particularly dependent on the analytical abilities of the Fund's portfolio managers.

Economic exposure to loan interests through the use of derivative transactions may involve greater risks than if the Fund had invested in the loan interest directly during a primary distribution or through assignments of, novations of or participations in a loan acquired in secondary markets since, in addition to the risks described above, certain derivative transactions may be subject to leverage risk and greater illiquidity risk, counterparty risk, valuation risk and other risks. See "Principal Risks of the Fund —Derivatives Risk."

### Reinvestment Risk

Income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called debt obligations at market interest rates that are below the portfolio's current earnings rate. For instance, during periods of declining interest rates, an issuer of debt obligations may exercise an option to redeem securities prior to maturity, forcing the Fund to invest in lower-yielding securities. The Fund also may choose to sell higher yielding portfolio securities and to purchase lower yielding securities to achieve greater portfolio diversification, because the portfolio managers believe the current holdings are overvalued or for other investment-related reasons. A decline in income received by the Fund from its investments is likely to have a negative effect on dividend levels and the market price, NAV and/or overall return of the Common Shares.

### Inflation/Deflation Risk

Inflation risk is the risk that the value of assets or income from the Fund's investments will be worth less in the future as inflation decreases the value of payments at future dates. As inflation increases, the real value of the Fund's portfolio could decline. Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund's portfolio and Common Shares.

### Tax Risk

The Fund has elected to be treated as a "regulated investment company" under the Code and intends each year to qualify and be eligible to be treated as such, so that it generally will not be subject to U.S. federal income tax on its net investment income or net short-term or long-term capital gains, distributed (or deemed distributed, as described below) to shareholders. In order to qualify for such treatment, the Fund must meet certain asset diversification tests and at least 90% of its gross income for such year must consist of certain types of qualifying income. Foreign currency gains will generally be treated as qualifying income for purposes of the 90% gross income requirement. However, the U.S. Treasury Department has authority to issue regulations in the future that could treat some or all of the Fund's foreign currency gains as non-qualifying income, thereby jeopardizing the Fund's status as a regulated investment company for all years to which the regulations are applicable. Income derived from some commodity-linked derivatives is not qualifying income, and the treatment of income from some other commodity-linked derivatives is uncertain, for purposes of the 90% gross income test.

If for any taxable year the Fund were to fail to meet the income or diversification test described above, the Fund could in some cases cure such failure, including by paying a fund-level tax and, in the case of a diversification test failure, disposing of certain assets. If, in any year, the Fund were to fail to qualify for treatment as a regulated investment company under the Code, and were ineligible to or did not otherwise cure such failure, the Fund would be subject to tax on its taxable income at corporate rates, and all distributions of such income generally would be taxable to shareholders as ordinary income to the extent of the Fund's current or accumulated earnings and profits. Some portions of such distributions may be eligible for the dividends-received deduction in the case of corporate shareholders and may be eligible to be treated as "qualified dividend income" in the case of shareholders taxed as individuals, provided, in both cases, that the shareholder meets certain holding period and other requirements in respect of the Fund's common shares. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before re-qualifying as a regulated investment company that is accorded special tax treatment. See "Taxation" in the Statement of Additional Information.

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PIMCO Income Strategy Fund II

## Segregation and Coverage Risk

Certain portfolio management techniques, such as, among other things, using reverse repurchase agreements or dollar rolls, purchasing securities on a when-issued or delayed delivery basis, entering into swap agreements, futures contracts or other derivative transactions, or engaging in short sales, may be considered senior securities unless steps are taken to segregate the Fund's assets or otherwise cover its obligations. To avoid having these instruments considered senior securities, the Fund may segregate liquid assets with a value equal (on a daily mark-to-market basis) to its obligations under these types of leveraged transactions, enter into offsetting transactions or otherwise cover such transactions. See "Use of Leverage" in this prospectus. The Fund may be unable to use such segregated assets for certain other purposes, which could result in the Fund earning a lower return on its portfolio than it might otherwise earn if it did not have to segregate those assets in respect of, or otherwise cover such portfolio positions. To the extent the Fund's assets are segregated or committed as cover, it could limit the Fund's investment flexibility. Segregating assets and covering positions will not limit or offset losses on related positions.

In addition, the Fund is required to satisfy various asset coverage requirements with respect to its ARPS under the terms of the Bylaws. See "Description of Capital Structure-- Rating Agency Guidelines and Asset Coverage" for additional detail.

## Convertible Securities Risk

Convertible securities are fixed-income securities, preferred securities or other securities that are convertible into or exercisable for common stock of the issuer (or cash or securities of equivalent value) at either a stated price or a stated rate. The market values of convertible securities may decline as interest rates increase and, conversely, may increase as interest rates decline. A convertible security's market value, however, tends to reflect the market price of the common stock of the issuing company when that stock price approaches or is greater than the convertible security's "conversion price." The conversion price is defined as the predetermined price at which the convertible security could be exchanged for the associated stock. As the market price of the underlying common stock declines, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, it may not decline in price to the same extent as the underlying common stock. In the event of a liquidation of the issuing company, holders of convertible securities may be paid before the company's common stockholders but after holders of any senior debt obligations of the company. Consequently, the issuer's convertible securities generally entail less risk than its common stock but more risk than its debt obligations. Convertible securities are often rated below investment grade or not rated because they fall below debt obligations and just above common equity in order of preference or priority on the issuer's balance sheet. See "Principal Risks of the Fund—High Yield Securities Risk."

## Synthetic Convertible Securities Risk

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

## Contingent Convertible Securities Risk

Contingent convertible securities ("CoCos") have no stated maturity, have fully discretionary coupons and are typically issued in the form of subordinated debt instruments. CoCos generally either convert into equity or have their principal written down upon the occurrence of certain triggering events ("triggers") linked to regulatory capital thresholds or regulatory actions relating to the issuer's continued viability. As a result, an investment by the Fund in CoCos is subject to the risk that coupon (i.e., interest) payments may be cancelled by the issuer or a regulatory authority in order to help the issuer absorb losses. An investment by the Fund in CoCos is also subject to the risk that, in the event of the liquidation, dissolution or winding-up of an issuer prior to a trigger event, the Fund's rights and claims will generally rank junior to the claims of holders of the issuer's other debt obligations. In addition, if CoCos held by the Fund are converted into the issuer's underlying equity securities following a trigger event, the Fund's holding may be further subordinated due to the conversion from a debt to equity instrument. Further, the value of an investment in CoCos is unpredictable and will be influenced by many factors and risks, including interest rate risk, credit risk, market risk, liquidity risk and valuation risk. An investment by the Fund in CoCos may result in losses to the Fund.

## Valuation Risk

When market quotations are not readily available or are deemed to be unreliable, the Fund values its investments at fair value as determined in good faith pursuant to policies and procedures approved by the Board of Trustees. See "Net Asset Value." Fair value pricing may require subjective determinations about the value of a security or other asset. As a result, there can be no assurance that fair value pricing will result in adjustments to the prices of securities or other assets, or that fair value pricing will reflect actual market value, and it is possible that the fair value determined for a security or other asset will be materially different from quoted or published prices, from the prices used by others for the same security or other asset and/or from the value that actually could be or is realized upon the sale of that security or other asset.

## Currency Risk

The Fund may engage in practices and strategies that will result in exposure to fluctuations in foreign exchange rates, in which case the Fund will be subject to foreign currency risk. The Fund's Common Shares are priced in U.S. dollars and the distributions paid by the Fund to Common Shareholders are paid in U.S. dollars. However, a substantial portion of the Fund's assets may be denominated directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in derivatives that provide exposure to foreign (non-U.S.) currencies, it will be subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged.

Currency rates in foreign (non-U.S.) countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, rates of inflation, balance of payments and governmental surpluses or deficits, intervention (or the failure to intervene) by U.S. or foreign (non-U.S.) governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. These fluctuations may have a significant adverse impact on the value of the Fund's portfolio and/or the level of Fund distributions made to Common Shareholders. As noted above, the Fund may (but is not required to) seek exposure to foreign currencies, or attempt to hedge exposure to reduce the risk of loss due to fluctuations in currency exchange rates relative to the U.S. dollar. There is no assurance, however, that these strategies will be available or will be used by the Fund or, if used, that they will be successful. As a result, the Fund's investments in foreign currency-denominated securities may reduce the returns of the Fund.

Currency risk may be particularly high to the extent that the Fund invests in foreign (non-U.S.) currencies or engages in foreign currency transactions that are economically tied to emerging market countries. These currency transactions may present market, credit, currency, liquidity, legal, political and other risks different from, or greater than, the risks of investing in developed foreign (non-U.S.) currencies or engaging in foreign currency transactions that are economically tied to developed foreign countries.

## U.S. Government Securities Risk

The Fund may invest in debt securities issued or guaranteed by agencies, instrumentalities and sponsored enterprises of the U.S. Government. Some U.S. Government securities, such as U.S. Treasury bills, notes and bonds, and mortgage-related securities guaranteed by the Government National Mortgage Association ("GNMA"), are supported by the full faith and credit of the United States; others, such as those of the Federal Home Loan Banks ("FHLBs") or the Federal Home Loan Mortgage Corporation ("FHLMC"), are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association ("FNMA"), are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations; and still others are supported only by the credit of the agency, instrumentality or corporation Although legislation has been enacted to support certain government sponsored entities, including the FHLBs, the FHLMC and FNMA, there is no assurance that the obligations of such entities will be satisfied in full, or that such obligations will not decrease in value or default. It is difficult, if not impossible, to predict the future political, regulatory or economic changes that could impact the government sponsored entities and the values of their related securities or obligations. In addition, certain governmental entities, including FNMA and FHLMC, have been subject to regulatory scrutiny regarding their accounting policies and practices and other concerns that may result in legislation, changes in regulatory oversight and/or other consequences that could adversely affect the credit quality, availability or investment character of securities issued by these entities. See "Investment Objective and Policies—Mortgage-Related and Other Asset-Backed Securities" in the Statement of Additional Information. U.S. Government debt securities generally involve lower levels of credit risk than other types of debt securities of similar maturities, although, as a result, the yields available from U.S. Government debt securities are generally lower than the yields available from such other securities. Like other debt securities, the values of U.S. Government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in the Fund's NAV.

## Foreign (Non-U.S.) Government Securities Risk

The Fund's investments in debt obligations of foreign (non-U.S.) governments or their sub-divisions, agencies and government sponsored enterprises and obligations of international agencies and supranational entities (together "Foreign Government Securities") can involve a high degree of risk. The foreign governmental entity that controls the repayment of debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject. Foreign governmental entities also may be dependent on expected disbursements from other governments, multilateral agencies and others abroad to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on the implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the foreign governmental entity, which may further impair such debtor's ability or willingness to timely service its debts. Consequently, foreign governmental entities may default on their debt. Holders of Foreign Government Securities may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In the event of a default by a governmental entity, there may be few or no effective legal remedies for collecting on such debt. These risks are particularly severe with respect to the Fund's investments in Foreign Government Securities of emerging market countries. See "Principal Risks of the Fund—Emerging Markets Risk." Among other risks, if the

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Fund's investments in Foreign Government Securities issued by an emerging market country need to be liquidated quickly, the Fund could sustain significant transaction costs. Also, governments in many emerging market countries participate to a significant degree in their economies and securities markets, which may impair investment and economic growth, and which may in turn diminish the value of the Fund's holdings in emerging market Foreign Government Securities and the currencies in which they are denominated and/or pay revenues.

## Portfolio Turnover Risk

The Investment Manager manages the Fund without regard generally to restrictions on portfolio turnover. Trading in fixed-income securities does not generally involve the payment of brokerage commissions, but does involve indirect transaction costs. Higher portfolio turnover involves correspondingly greater expenses to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. The higher the rate of portfolio turnover of the Fund, the higher these transaction costs borne by the Fund generally will be. Such sales may result in realization of taxable capital gains (including short-term capital gains, which are generally taxed to shareholders at ordinary income tax rates when distributed net of short-term capital losses and net long-term capital losses), and may adversely affect the Fund's after-tax returns. See "Tax Matters."

## Confidential Information Access Risk

In managing the Fund, PIMCO may from time to time have the opportunity to receive material, non-public information ("Confidential Information") about the issuers of certain investments, including, without limit, senior floating rate loans, other bank loans and related investments being considered for acquisition by the Fund or held in the Fund's portfolio. For example, a bank issuer of privately placed senior floating rate loans considered by the Fund may offer to provide PIMCO with financial information and related documentation regarding the bank issuer that is not publicly available. Pursuant to applicable policies and procedures, PIMCO may (but is not required to) seek to avoid receipt of Confidential Information from the issuer so as to avoid possible restrictions on its ability to purchase and sell investments on behalf of the Fund and other clients to which such Confidential Information relates (e.g., other securities issued by the bank used in the example above). In such circumstances, the Fund (and other PIMCO clients) may be disadvantaged in comparison to other investors, including with respect to the price the Fund pays or receives when it buys or sells an investment. Further, PIMCO's and the Fund's abilities to assess the desirability of proposed consents, waivers or amendments with respect to certain investments may be compromised if they are not privy to available Confidential Information. PIMCO may also determine to receive such Confidential Information in certain circumstances under its applicable policies and procedures. If PIMCO intentionally or unintentionally comes into possession of Confidential Information, it may be unable, potentially for a substantial period of time, to purchase or sell investments to which such Confidential Information relates.

## Operational Risk

An investment in the Fund, like any fund, can involve operational risks arising from factors such as processing errors, human errors, inadequate or failed internal or external processes, failures in systems and technology, changes in personnel and errors caused by third-party service providers. The occurrence of any of these failures, errors or breaches could result in a loss of information, regulatory scrutiny, reputational damage or other events, any of which could have a material adverse effect on the Fund. While the Fund seeks to minimize such events through controls and oversight, there may still be failures that could cause losses to the Fund.

## Rule 144A Securities Risk

The Fund may invest in securities that have not been registered for public sale, but that are eligible for purchase and sale pursuant to Rule 144A under the Securities Act. Rule 144A permits certain qualified institutional buyers, such as the Fund, to trade in privately placed securities that have not been registered for sale under the Securities Act. Rule 144A securities may be deemed illiquid, although the Fund may determine that certain Rule 144A securities are liquid in accordance with written procedures adopted by the Board.

## Focused Investment Risk

To the extent that the Fund focuses its investments in a particular industry, the NAV of the Common Shares will be more susceptible to events or factors affecting companies in that industry. These may include, but are not limited to, governmental regulation, inflation, rising interest rates, cost increases in raw materials, fuel and other operating expenses, technological innovations that may render existing products and equipment obsolete, competition from new entrants, high research and development costs, increased costs associated with compliance with environmental or other regulation and other economic, market, political or other developments specific to that industry. Also, the Fund may invest a substantial portion of its assets in companies in related sectors that may share common characteristics, are often subject to similar business risks and regulatory burdens and whose securities may react similarly to the types of events and factors described above, which will subject the Fund to greater risk. The Fund also will be subject to focused investment risk to the extent that it invests a substantial portion of its assets in a particular country or geographic region. See "Principal Risks of the Fund—Foreign (Non-U.S.) Investment Risk," "Principal Risks of the Fund—Emerging Markets Risk" and "Principal Risks of the Fund—Currency Risk."

## Cyber Security Risk

As the use of technology has become more prevalent in the course of business, the Fund has become potentially more susceptible to operational and informational security risks resulting from breaches in cyber security. A breach in cyber security refers to both intentional and unintentional cyber events that may, among other things, cause the Fund to lose proprietary information, suffer data corruption, and/or destruction, lose operational capacity, result in the unauthorized release or other misuse of confidential information, or otherwise disrupt normal business operations. Cyber security breaches may involve unauthorized access to the Fund's digital information systems (e.g., through "hacking" or malicious software coding), but may also result from outside attacks such as denial-of-service attacks (i.e., efforts to make network services unavailable to intended users). In addition, cyber security breaches involving the Fund's third party service providers (including but not limited to advisers, sub-advisers, administrators, transfer agents, custodians, distributors and other third parties), trading counterparties or issuers in which the Fund invests can also subject the Fund to many of the same risks associated with direct cyber security breaches. Moreover, cyber security breaches involving trading counterparties or issuers in which the Fund invests could adversely impact such counterparties or issuers and cause the Fund's investment to lose value.

Cyber security failures or breaches may result in financial losses to the Fund and its shareholders. These failures or breaches may also result in disruptions to business operations, potentially resulting in financial losses; interference with the Fund's ability to calculate its NAV, process shareholder transactions or otherwise transact business with shareholders; impediments to trading; violations of applicable privacy and other laws; regulatory fines; penalties; reputational damage; reimbursement or other compensation costs; additional compliance and cyber security risk management costs and other adverse consequences. In addition, substantial costs may be incurred in an attempt to prevent any cyber incidents in the future.

Like with operational risk in general, the Fund has established risk management systems and business continuity plans designed to reduce the risks associated with cyber security. However, there are inherent limitations in these plans and systems, including that certain risks may not have been identified, in large part because different or unknown threats may emerge in the future. As such, there is no guarantee that such efforts will succeed, especially because the Fund does not directly control the cyber security systems of issuers in which the Fund may invest, trading counterparties or third party service providers to the Fund. There is also a risk that cyber security breaches may not be detected. The Fund and its shareholders could be negatively impacted as a result.

## Other Investment Companies Risk

The Fund may invest in securities of other open- or closed-end investment companies, including without limit ETFs and money market funds, to the extent that such investments are consistent with the Fund's investment objective and policies and permissible under the 1940 Act. As a shareholder in an investment company, the Fund will bear its ratable share of that investment company's expenses, and would remain subject to payment of the Fund's investment management fees with respect to the assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, these other investment companies may utilize leverage, in which case an investment would subject the Fund to additional risks associated with leverage. Money market mutual funds in which the Fund may invest are subject to Rule 2a-7 of the 1940 Act, and invest in a variety of short-term, high quality, dollar-denominated money market instruments. Money market funds are not designed to offer capital appreciation. Effective October 14, 2016, amendments to money market fund regulations could affect a money market fund's operations and possibly negatively affect its return. In addition, certain money market funds may impose a fee upon the sale of shares or may temporarily suspend the ability of investors to redeem shares if such fund's liquidity falls below required minimums, which may adversely affect the Fund's returns or liquidity. Due to its own financial interest or other business considerations, the Investment Manager may choose to invest a portion of the Fund's assets in investment companies sponsored or managed by the Investment Manager or its related parties in lieu of investments by the Fund directly in portfolio securities, or may choose to invest in such investment companies over investment companies sponsored or managed by others. Applicable law may limit the Fund's ability to invest in other investment companies. See "Principal Risks of the Fund —Leverage Risk."

## Potential Conflicts of Interest Risk—Allocation of Investment Opportunities

The Investment Manager is involved worldwide with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Fund. The Investment Manager may provide investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Fund. Subject to the requirements of the 1940 Act, the Investment Manager intends to engage in such activities and may receive compensation from third parties for its services. The results of the Fund's investment activities may differ from those of the Fund's affiliates, or another account managed by the Fund's affiliates, and it is possible that the Fund could sustain losses during periods in which one or more of the Fund's affiliates and/or other accounts achieve profits on their trading for proprietary or other accounts. The Investment Manager has adopted policies and procedures reasonably designed to allocate investment opportunities on a fair and equitable basis over time.

## Real Estate Risk

To the extent that the Fund invests in real estate related investments, including REITs, real estate-related loans or real estate-linked derivative instruments, it will be subject to the risks associated with owning real estate and with the real estate industry generally. These include difficulties in valuing and disposing of real estate, the possibility of declines in the value of real estate, risks related to general and local economic conditions, the possibility of adverse changes in the climate for real estate, environmental liability risks, the risk of increases in property taxes and operating expenses, possible adverse changes in zoning laws, the risk of casualty or condemnation losses, limitations on rents, the possibility of adverse changes in interest rates and in the credit markets and the possibility of borrowers paying off mortgages sooner than expected, which may lead to reinvestment of assets at lower prevailing interest rates. To the extent that the Fund invests in REITs, it will also be subject to the risk that a REIT may default on its obligations or go bankrupt. By investing in REITs indirectly through the Fund, a shareholder will indirectly bear his or her proportionate share of the expenses of the REITs. The Fund's investments in REITs could cause the Fund to recognize income in excess of cash received from those securities and, as a result, the Fund may be required to sell portfolio securities, including when it is not advantageous to do so, in order to make distributions. An investment in a REIT or a real estate-linked derivative instrument that is linked to the value of a REIT is subject to

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additional risks, such as poor performance by the manager of the REIT, adverse changes to the tax laws or failure by the REIT to qualify for favorable tax treatment under the Internal Revenue Code of 1986 as amended (the "Code"). In addition, some REITs have limited diversification because they invest in a limited number of properties, a narrow geographic area, or a single type of property. Also, the organizational documents of a REIT may contain provisions that make changes in control of the REIT difficult and time-consuming. Finally, private REITs are not traded on a national securities exchange. As such, these products are generally illiquid. This reduces the ability of the Fund to redeem its investment early. Private REITs are also generally harder to value and may bear higher fees than public REITs.

## Risk of Regulatory Changes

Legal, tax and regulatory changes could occur and may adversely affect the Fund and its ability to pursue its investment strategies and/or increase the costs of implementing such strategies. New (or revised) laws or regulations may be imposed by the U.S. Commodity Futures Trading Commission ("CFTC"), the SEC, the U.S. Internal Revenue Service ("IRS"), the U.S. Federal Reserve or other banking regulators, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets that could adversely affect the Fund. In particular, these agencies are implementing a variety of new rules pursuant to financial reform legislation in the United States. The EU (and some other countries) are implementing similar requirements. The Fund also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental regulatory authorities or self-regulatory organizations.

In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The CFTC, the SEC, the Federal Deposit Insurance Corporation, other regulators and self-regulatory organizations and exchanges are authorized under these statutes, regulations and otherwise to take extraordinary actions in the event of market emergencies. The Fund and the Investment Manager have historically been eligible for exemptions from certain regulations. However, there is no assurance that the Fund and the Investment Manager will continue to be eligible for such exemptions. The CFTC and certain futures exchanges have established limits, referred to as "position limits," on the maximum net long or net short positions which any person may hold or control in particular options and futures contracts.

The CFTC has proposed position limits for certain swaps. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if the Fund does not intend to exceed applicable position limits, it is possible that different clients managed by the Investment Manager and their related parties may be aggregated for this purpose. Therefore it is possible that the trading decisions of Investment Manager may have to be modified and that positions held by the Fund may have to be liquidated in order to avoid exceeding such limits. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the performance of the Fund.

The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain *de minimis* threshold and may adopt rules requiring monthly public disclosure in the future. In addition, other non-U.S. jurisdictions where the Fund may trade have adopted reporting requirements. If the Fund's short positions or its strategy become generally known, it could have a significant effect on the Investment Manager's ability to implement its investment strategy. In particular, it would make it more likely that other investors could cause a short squeeze in the securities held short by the Fund forcing the Fund to cover its positions at a loss. Such reporting requirements may also limit the Investment Manager's ability to access management and other personnel at certain companies where the Investment Manager seeks to take a short position. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as the Fund, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to the Fund could decrease drastically. Such events could make the Fund unable to execute its investment strategy. In addition, if the SEC were to adopt restrictions regarding short sales, they could restrict the Fund's ability to engage in short sales in certain circumstances, and the Fund may be unable to execute its investment strategies as a result.

The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases, have adopted) bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for the Fund to execute certain investment strategies and may have a material adverse effect on the Fund's ability to generate returns.

Recently adopted rules implementing the credit risk retention requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), for asset-backed securities will require the sponsor of certain securitization vehicles (or a majority owned affiliate of such sponsor) to retain, and to refrain from transferring, selling, conveying to a third party, or hedging 5% of the credit risk in assets transferred, sold, or conveyed through the issuance of the asset-backed securities of such vehicle, subject to certain exceptions. The rules apply to offerings of residential mortgage-backed securities (RMBS) occurring on and after December 24, 2015 and to offerings of other types of asset-backed securities occurring on and after December 24, 2016, subject to certain exceptions. In addition, a refinancing of, or a significant amendment to, a securitization that closed prior to such date may in certain cases result in the application of the rules to a securitization that was previously not subject to the Dodd-Frank risk retention requirements. The impact of the risk retention rules on the securitization markets is uncertain. These requirements may increase the costs to originators, securitizers, and, in certain cases, collateral managers of securitization vehicles in which the Fund may invest, which costs could be passed along to such Fund as an investor in such vehicles. In addition, the costs imposed by the risk retention rules on originators, securitizers and/or collateral managers may result in a reduction of the number of new offerings of asset-backed securities and thus in fewer investment opportunities for the Fund. A reduction in the number of new securitizations could also reduce liquidity in the markets for certain types of financial assets that are typically held by securitization vehicles, which in turn could negatively affect the returns on the Fund's investment in asset-backed securities.

### Regulatory Risk—Commodity Pool Operator

The CFTC has adopted regulations that subject registered investment companies and their investment advisers to regulation by the CFTC if the registered investment company invests more than a prescribed level of its liquidation value in futures, options on futures or commodities, swaps, or other financial instruments regulated under the Commodity Exchange Act ("CEA") and the rules thereunder ("commodity interests"), or if the Fund markets itself as providing investment exposure to such instruments. The Investment Manager is registered as a "commodity pool operator" ("CPO") under the CEA, however, with respect to the Fund, the Investment Manager has claimed an exclusion from registration as a CPO pursuant to CFTC Rule 4.5. For the Investment Manager to remain eligible for this exclusion, the Fund must comply with certain limitations, including limits on its ability to use any commodity interests and limits on the manner in which the Fund holds out its use of such commodity interests. These limitations may restrict the Fund's ability to pursue its investment objective and strategies, increase the costs of implementing its strategies, result in higher expenses for the Fund, and/or adversely affect the Fund's total return. Further, in the event the Investment Manager becomes unable to rely on the exclusion in CFTC Rule 4.5 with respect to the Fund and is required to register as a CPO with respect to the Fund, the Investment Manager will be subject to additional regulation and its expenses may increase.

### Repurchase Agreements Risk

The Fund may enter into repurchase agreements, in which the Fund purchases a security from a bank or broker-dealer, which agrees to repurchase the security at the Fund's cost plus interest within a specified time. If the party agreeing to repurchase should default, the Fund will seek to sell the securities which it holds. This could involve procedural costs or delays in addition to a loss on the securities if their value should fall below their repurchase price. Repurchase agreements maturing in more than seven days and which may not be terminated within seven days at approximately the amount at which the Fund has valued the agreements are considered illiquid securities. These events could also trigger adverse tax consequences for the Fund.

### Structured Investments Risk

The Fund may invest in structured products, including, structured notes, credit-linked notes and other types of structured products. Holders of structured products bear risks of the underlying investments, index or reference obligation and are subject to counterparty risk. The Fund may have the right to receive payments only from the structured product, and generally does not have direct rights against the issuer or the entity that sold the assets to be securitized. While certain structured products enable the investor to acquire interests in a pool of securities without the brokerage and other expenses associated with directly holding the same securities, investors in structured products generally pay their share of the structured product's administrative and other expenses. Although it is difficult to predict whether the prices of indices and securities underlying structured products will rise or fall, these prices (and, therefore, the prices of structured products) are generally influenced by the same types of political and economic events that affect issuers of securities and capital markets generally. If the issuer of a structured product uses shorter term financing to purchase longer term securities, the issuer may be forced to sell its securities at below market prices if it experiences difficulty in obtaining such financing, which may adversely affect the value of the structured products owned by the Fund. Structured products generally entail risks associated with derivative instruments. See "Principal Risks of the Fund—Derivatives Risk."

### Collateralized Loan Obligations Risk

The Fund may invest in CLOs. A CLO is a trust typically collateralized by a pool of loans issued by banks, corporations or any other public or private entity or person, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate or mezzanine loans, including loans that may be rated below investment grade or equivalent unrated loans. CLOs may charge management fees and administrative expenses. The cash flows from the trust are split into two or more portions, called tranches, varying in risk and yield. The riskiest portion is the equity tranche which generally bears losses in connection with the first defaults, if any, on the bonds or loans in the trust and serves to provide some measure of protection to the other, more senior tranches from defaults. A senior tranche from a CLO trust typically has higher ratings and lower yields than the underlying securities, and can be rated investment grade. Despite the protection from the equity tranche, CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults and aversion to CLO securities as a class. The risks of an investment in a CLO depend largely on the type of the collateral securities and the class of the CLO in which the Fund invests. Normally, CLOs are privately offered and sold, and thus are not registered under the securities laws. As a result, investments in CLOs may be characterized by the Fund as illiquid securities; however, an active dealer market may exist for CLOs allowing a CLO to qualify under Rule 144A under the Securities Act. In addition to the normal risks associated with debt instruments (e.g., interest rate risk and credit risk), CLOs carry additional risks including, but not limited to: (i) the possibility that distributions from the collateral will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the risk that the Fund may invest in CBOs, CLOs or other CDOs that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or others and may produce unexpected investment results.

## Certain Affiliations

Certain broker-dealers may be considered to be affiliated persons of the Fund and/or the Investment Manager due to their possible affiliations with Allianz SE, the ultimate parent of the Investment Manager. Absent an exemption from the SEC or other regulatory relief, the Fund is generally precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker, or to utilize affiliated brokers for agency transactions, is subject to restrictions. This could limit the Fund's ability to engage in securities transactions and take advantage of market opportunities.

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## Anti-Takeover Provisions

The Fund's Amended and Restated Agreement and Declaration of Trust (the "Declaration") includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. See "Anti-Takeover and Other Provisions in the Declaration of Trust." These provisions in the Declaration could have the effect of depriving the Common Shareholders of opportunities to sell their Common Shares at a premium over the then-current market price of the Common Shares or at NAV.

## Fund Distribution Rates

Although the Fund may seek to maintain stable distributions, the Fund's distribution rates may be affected by numerous factors, including but not limited to changes in realized and projected market returns, fluctuations in market interest rates, Fund performance, and other factors. There can be no assurance that a change in market conditions or other factors will not result in a change in the Fund's distribution rate or that the rate will be sustainable in the future.

For instance, during periods of low or declining interest rates, the Fund's distributable income and dividend levels may decline for many reasons. For example, the Fund may have to deploy uninvested assets (whether from purchases of Fund shares, proceeds from matured, traded or called debt obligations or other sources) in new, lower yielding instruments. Additionally, payments from certain instruments that may be held by the Fund (such as variable and floating rate securities) may be negatively impacted by declining interest rates, which may also lead to a decline in the Fund's distributable income and dividend levels.

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## Summary of Fund Expenses

The following table is intended to assist investors in understanding the fees and expenses (annualized) that an investor in Common Shares of the Fund would bear, directly or indirectly, as a result of an offering. The table reflects the use of leverage attributable to the Fund's outstanding Preferred Shares and reverse repurchase agreements in an amount equal to 22.88% of the Fund's total managed assets (including assets attributable to such leverage), which reflects approximately the percentage of the Fund's total managed assets attributable to such leverage as of January 31, 2018, and shows Fund expenses as a percentage of net assets attributable to Common Shares. The percentage above and information below do not reflect the Fund's use of other forms of economic leverage, such as credit default swaps or other derivative instruments. The table and example below are based on the Fund's capital structure as of January 31, 2018. The extent of the Fund's assets attributable to leverage following an offering, and the Fund's associated expenses, are likely to vary (perhaps significantly) from these assumptions.

## Shareholder Transaction Expenses

| | |
|---|---|
| Sales load (as a percentage of offering price)[(1)] | [--]% |
| Offering Expenses Borne by Common Shareholders (as a percentage of offering price)[(2)] | [--]% |
| Dividend Reinvestment Plan Fees[(3)] | None |

1 In the event that the Common Shares to which this prospectus relates are sold to or through underwriters or dealer managers, a corresponding prospectus supplement will disclose the applicable sales load and/or commission.

2 The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by the Fund and indirectly by all of its Common Shareholders as a percentage of the offering price.

3 You will pay brokerage charges if you direct your broker or the plan agent to sell your Common Shares that you acquired pursuant to a dividend reinvestment plan. You may also pay a pro rata share of brokerage commissions incurred in connection with open-market purchases pursuant to the Fund's Dividend Reinvestment Plan. See "Dividend Reinvestment Plan."

## Annual Expenses

| | **Percentage of Net Assets Attributable to Common Shares (reflecting leverage attributable to reverse repurchase agreements)** |
|---|---|
| Management Fees[(1)] | 1.03% |
| Dividend Cost on Preferred Shares[(2)] | 0.40% |
| Interest Payments on Borrowed Funds[(3)] | 0.22% |
| Other Expenses[(4)] | 0.02% |
| **Total Annual Expenses** | **1.68%** |

1 Management Fees include fees payable to the Investment Manager for advisory services and for supervisory, administrative and other services. The Fund pays for the advisory, supervisory and administrative services it requires under what is essentially an all-in fee structure (the "unified management fee"). Pursuant to an investment management agreement, PIMCO is paid a Management Fee of 0.83% based on the Fund's average weekly total managed assets. "Total managed assets" includes the total assets of the Fund (including any assets attributable to any preferred shares or other forms of leverage that may be outstanding) minus accrued liabilities (other than liabilities representing leverage). The Fund (and not PIMCO) will be responsible for certain fees and expenses, which are reflected in the table above, that are not covered by the unified management fee under the investment management agreement. Please see "Management of the Fund — Investment Manager" for an explanation of the unified management fee.

2 Reflects the Fund's outstanding Preferred Shares as of January 31, 2018, which represented 11.62% of the Fund's total managed assets (including the liquidation preference of outstanding Preferred Shares and assets attributable to reverse repurchase agreements) as of that date, at an estimated annual dividend rate to the Fund of 3.20% (based on the Preferred Share dividend rate as of July 31, 2018) and assumes the Fund will continue to pay Preferred Share dividends at the "maximum applicable rate" called for under the Fund's Bylaws due to the ongoing failure of auctions for the ARPS. The actual dividend rate paid on the ARPS will vary over time in accordance with variations in market interest rates. See "Use of Leverage" and "Description of Capital Structure."

3 Reflects the Fund's use of leverage in the form of reverse repurchase agreements as of January 31, 2018, which represented 11.26% of the Fund's total managed assets (including the liquidation preference of outstanding Preferred Shares and assets attributable to reverse repurchase agreements) as of that date, at an estimated annual interest rate cost to the Fund of 2.02% (based on market interest rates as of July 31, 2018). See "Leverage—Effects of Leverage." The actual amount of borrowings expenses borne by the Fund will vary over time in accordance with the level of the Fund's use of reverse repurchase agreements, dollar rolls and/or borrowings and variations in market interest rates. Borrowing expense is required to be treated as an expense of the Fund for accounting purposes. Any associated income or gains (or losses) realized from leverage obtained through such instruments is not reflected in the Annual Expenses table above, but would be reflected in the Fund's performance results.

4 Other expenses are estimated for the Fund's current fiscal year ending July 31, 2019.

## Example

The following example illustrates the expenses that you would pay on a $1,000 investment in Common Shares of the Fund, assuming (1) that the Fund's net assets do not increase or decrease, (2) that the Fund incurs total annual expenses of 1.68% of net assets attributable to Common Shares in years 1 through 10 (assuming outstanding Preferred Shares and reverse repurchase agreements representing 22.88% of the Fund's total managed assets) and (3) a 5% annual return(1):

| | **1 Year** | **3 Years** | **5 Years** | **10 Years** |
|---|---|---|---|---|
| Total Expenses Incurred | $17 | $53 | $91 | $198 |

(1) **The example above should not be considered a representation of future expenses. Actual expenses may be higher or lower than those shown.** The example assumes that the estimated Interest Payments on Borrowed Funds, Dividend Cost on Preferred Shares and Other Expenses set forth in the Annual Expenses table are accurate, that the rate listed under Total Annual Expenses remains the same each year and that all dividends and distributions are reinvested at NAV. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% annual return shown in the example. The example does not include commissions or estimated offering expenses, which would cause the expenses shown in the example to increase. In connection with an offering of Common Shares, the prospectus supplement will set forth an example including sales load and estimated offering costs.

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## Financial Highlights

The information in the table below for the fiscal years ended July 31, 2017, 2016, 2015, 2014 and 2013 is derived from the Fund's financial statements for the fiscal year ended July 31, 2017 audited by PricewaterhouseCoopers LLP ("PwC"), whose report on such financial statements is contained in the Fund's July 31, 2017 Annual Report and is incorporated by reference into the Statement of Additional Information. The information shown for the six months ended January 31, 2018 is unaudited. The information in the table below for the fiscal years ended July 31, 2012, 2011, 2010, 2009 and 2008 is derived from the Fund's financial statements for the fiscal year ended July 31, 2012.

The information shown for the six months ended January 31, 2018 is unaudited.

| | | Investment Operations | | Less Distributions to Preferred Shareholders(b) | | | Less Distributions to Common Shareholders(b) | | | | | | | | Co |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Selected Per Share Data for the Year or Period Ended^: PIMCO Income Strategy Fund II | Net Asset Value Beginning of Year or Period | Net Investment Income (Loss)(a) | Net Realized/ Unrealized Gain (Loss) | From Net Investment Income | From Net Realized Capital Gains | Net Increase (Decrease) in Net Assets Applicable to Common Shareholders Resulting from Operations | From Net Investment Income | From Net Realized Capital Gains | Tax Basis Return of Capital | Total | Increase Resulting from At-the-market Offering | Offering Cost Charged to Paid in Capital | Increase Resulting from Tender and Repurchase of Auction-Rate Preferred Shares(c) | Net Asset Value End of Year or Period | |
| 08/01/2017 - 01/31/2018+ | $10.33 | $0.39 | $ 0.10 | $ (0.02) | $0.00 | $ 0.47 | $(0.48) | $ 0.00 | $0.00 | $(0.48) | N/A | N/A | $ 0.00 | $10.32 | |
| 07/31/2017 | 9.42 | 0.80 | 1.10 | (0.03) | 0.00 | 1.87 | (0.96) | 0.00 | 0.00 | (0.96) | N/A | N/A | 0.00 | 10.33 | |
| 07/31/2016 | 10.27 | 0.87 | (0.67) | (0.02) | 0.00 | 0.18 | (1.03) | 0.00 | 0.00 | (1.03) | N/A | N/A | 0.00 | 9.42 | |
| 07/31/2015 | 10.88 | 0.70 | (0.29) | (0.03) | 0.00 | 0.38 | (1.11) | 0.00 | 0.00 | (1.11) | N/A | N/A | 0.12 | 10.27 | |
| 07/31/2014 | 10.29 | 0.72 | 0.87 | (0.04) | 0.00 | 1.55 | (0.96) | 0.00 | 0.00 | (0.96) | N/A | N/A | 0.00 | 10.88 | |
| 07/31/2013 | 10.23 | 0.88 | 0.68 | (0.04) | 0.00 | 1.52 | (1.46) | 0.00 | 0.00 | (1.46) | N/A | N/A | 0.00 | 10.29 | |
| 07/31/2012 | 10.04 | 1.03 | 0.03 | (0.04) | 0.00 | 1.02 | (0.83) | 0.00 | 0.00 | (0.83) | N/A | N/A | 0.00 | 10.23 | |
| 07/31/2011 | 9.29 | 1.03 | 0.73 | (0.04) | 0.00 | 1.72 | (0.97) | 0.00 | 0.00 | (0.97) | N/A | N/A | 0.00 | 10.04 | |
| 07/31/2010 | 7.98 | 1.18 | 2.20 | (0.05) | 0.00 | 3.33 | (1.64) | 0.00 | 0.00 | (1.64) | N/A | N/A | (0.38) | 9.29 | |
| 07/31/2009 | 14.16 | 1.44 | (6.40) | (0.20) | 0 | $ 4,314 | $ 0 | | $ 91,779 | | | | | | |
| Carlos J. Barroso | $ 32,000 | $ 28,829 | $ 992 | $ 47,000 | | $ 2,390 | $ 63,227(6) | | $ 174,438 | | | | | | |
| Ellen Oran Kaden | $ 47,000 | $ 10,400 | $ 56,136 | $ 0 | | $ 6,747 | $ 89,004(7) | | $ 209,287 | | | | | | |

(1) See page 27 for a description of the Company s Personal Choice program

(2) See page 41 for a description of the supplemental 401(k) program.

 

(3) This amount is unvested and is subject to forfeiture if the vesting criteria are not met. See page 39 for a description of the Executive Retirement Contribution.

(4) Other compensation consists of driver, vehicle and transportation expenses.

(5) Other compensation consists of amounts paid post-retirement for accrued, unused vacation time.

(6) Other compensation consists of commuting and other expenses associated with relocation.

(7) Other compensation consists of driver expenses.

**Total Compensation (Column J)**

The amounts reported in this column are the sum of columns C through I for each of the NEOs. All compensation amounts reported in this column include amounts paid and amounts deferred.

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**Grants of Plan-Based Awards in Fiscal 2014**

| Name | Type of Award | Grant Date | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Threshold ($) | Target ($) | Maximum ($) | Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#) | Target (#) | Maximum (#) | All Other Stock Awards: # of Stock Units (#) | Grant Date Fair Value of Stock Awards ($) |
|---|---|---|---|---|---|---|---|---|---|---|
| Denise M. Morrison | SPU Grant | 10/1/2013 | | | | 11,934 | 47,738 | 95,476 | | $ 1,967,283 |
| | TSR Grant | 10/1/2013 | | | | 23,868 | 47,737 | 95,474 | | $ 1,730,839 |
| | EPS Grant | 10/1/2013 | | | | 40,918 | 40,918 | 40,918 | | $ 1,686,231 |
| | AIP | | $ 0 | $ 1,470,000 | $ 2,940,000 | | | | | |
| Anthony P. DiSilvestro | SPU Grant | 10/1/2013 | | | | 1,542 | 6,171 | 12,342 | | $ 254,307 |
| | TSR Grant | 10/1/2013 | | | | 3,085 | 6,171 | 12,342 | | $ 223,747 |
| | EPS Grant | 10/1/2013 | | | | 5,290 | 5,290 | 5,290 | | $ 218,001 |
| | AIP | | $ 0 | $ 399,000 | $ 798,000 | | | | | |
| B. Craig Owens | SPU Grant | 10/1/2013 | | | | 3,998 | 15,994 | 31,988 | | $ 659,113 |
| | TSR Grant | 10/1/2013 | | | | 7,996 | 15,993 | 31,986 | | $ 579,871 |
| | EPS Grant | 10/1/2013 | | | | 13,710 | 13,710 | 13,710 | | $ 564,989 |
| | AIP | | $ 0 | $ 633,225 | $ 1,266,450 | | | | | |
| Mark R. Alexander | SPU Grant | 10/1/2013 | | | | 3,386 | 13,547 | 27,094 | | $ 558,272 |
| | TSR Grant | 10/1/2013 | | | | 6,773 | 13,547 | 27,094 | | $ 491,184 |
| | EPS Grant | 10/1/2013 | | | | 11,612 | 11,612 | 11,612 | | $ 478,531 |
| | AIP | | $ 0 | $ 563,175 | $ 1,126,350 | | | | | |
| Carlos J. Barroso | Time-Lapse Grant | 8/1/2013 | | | | | | | 16,237 | $ 771,582 |
| | SPU Grant | 10/1/2013 | | | | 1,380 | 5,520 | 11,040 | | $ 227,479 |
| | TSR Grant | 10/1/2013 | | | | 2,760 | 5,520 | 11,040 | | $ 200,143 |
| | EPS Grant | 10/1/2013 | | | | 4,732 | 4,732 | 4,732 | | $ 195,006 |
| | AIP | | $ 0 | $ 305,500 | $ 611,000 | | | | | |
| Ellen Oran Kaden | SPU Grant | 10/1/2013 | | | | 3,466 | 13,864 | 27,728 | | $ 571,335 |
| | TSR Grant | 10/1/2013 | | | | 6,931 | 13,863 | 27,726 | | $ 502,642 |
| | EPS Grant | 10/1/2013 | | | | 11,884 | 11,884 | 11,884 | | $ 489,740 |
| | AIP | | $ 0 | $ 731,850 | $ 1,463,700 | | | | | |

The Committee sets annual grant targets for NEOs under the LTI Program. The dollar targets are expressed as a percentage of salary and converted to units based upon Campbell s average closing stock price during the last 20 trading days in the month of August prior to the grant date. The Committee s practice is to approve LTI grants at its September meeting with a grant date of October 1. The performance period for TSR, SPU and EPS performance-based grants made during fiscal 2014 is fiscal years 2014-2016. The target units are credited to the NEOs on the grant date. For units granted in fiscal 2014, dividend equivalents will not be paid on the units during the performance period. Instead, accumulated dividend equivalents will be paid in cash on the restricted share units that vest at the end of the performance period when the grants are paid out.

The Committee certifies the attainment of performance goals, and any earned shares are distributed to participants following the end of the applicable performance period. See the description in the CD&A beginning on page 23 for information about targets, performance goals and payment of shares. The grants have specific rules related to the treatment of the units in the event of termination for cause, voluntary resignation, retirement, involuntary termination and change in control. These provisions are described under Potential Payments Upon Termination or Change in Control beginning on page 41.

The amounts listed under the Estimated Possible Payments under Non-Equity Incentive Plan Awards columns represent the minimum, target and maximum payouts for each executive under the AIP for fiscal 2014. Actual amounts awarded for fiscal 2014 to each NEO are listed in the Fiscal 2014 Summary Compensation Table on page 30.

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**Outstanding Equity Awards at 2014 Fiscal Year-End**

The following table provides information on the holdings of restricted share units by each of the NEOs at fiscal year-end. This table includes unvested time-lapse restricted share units; and unvested performance-restricted share units. None of the NEOs held any vested, unexercised stock options at 2014 fiscal year-end. Each equity grant is shown separately for each NEO. The vesting schedule for the unvested stock awards is shown following this table, and is organized based on the grant date. The market value of the stock awards is based on the closing market price of Campbell stock on August 1, 2014, which was $41.96. The performance-restricted share units, which were initially granted on October 1, 2011, October 1, 2012 and October 1, 2013, are subject to specific goals during the performance period as explained in the CD&A beginning on page 23. The market value as of August 1, 2014, shown below assumes the satisfaction of these goals. The information shown in the table below for Mr. Owens reflects the pro-rated portion of his outstanding equity awards following his retirement on May 1, 2014. For additional information about the stock awards, see the description of the LTI Program in the CD&A beginning on page 23.

| | | Stock Awards | | | |
|---|---|---|---|---|---|
| **Name** | **Grant Date for Restricted Units** | **Number of Unvested Stock Units (#)** | **Market Value of Unvested Stock Units ($)** | **Equity Incentive Plan Awards: Number of Unvested Stock Units (#)** | **Equity Incentive Plan Awards: Market Value of Unvested Stock Units ($)** |
| **Denise M. Morrison** | 10/1/2012(1) | | | 50,685 | $ 2,126,743 |
| | 10/1/2013(1) | | | 47,737 | $ 2,003,045 |
| | 10/1/2012(2) | | | 50,686 | $ 2,126,785 |
| | 10/1/2013(3) | | | 47,738 | $ 2,003,086 |
| | 10/1/2011(4) | | | 15,655 | $ 656,884 |
| | 10/1/2012(4) | | | 28,964 | $ 1,215,329 |
| | 10/1/2013(4) | | | 40,918 | $ 1,716,919 |
| **Anthony P. DiSilvestro** | 10/1/2012(1) | | | 7,211 | $ 302,574 |
| | 10/1/2013(1) | | | 6,171 | $ 258,935 |
| | 10/1/2012(2) | | | 7,211 | $ 302,574 |
| | 10/1/2013(3) | | | 6,171 | $ 258,935 |
| | 10/1/2011(4) | | | 2,332 | $ 97,851 |
| | 10/1/2012(4) | | | 4,122 | $ 172,959 |
| | 10/1/2013(4) | | | 5,290 | $ 221,968 |
| **B. Craig Owens** | 10/1/2012(1) | | | 11,654 | $ 489,002 |
| | 10/1/2013(1) | | | 3,110 | $ 130,496 |
| | 10/1/2012(2) | | | 17,482 | $ 733,545 |
| | 10/1/2013(3) | | | 3,110 | $ 130,496 |
| | 10/1/2011(4) | | | 7,211 | $ 302,574 |
| | 10/1/2012(4) | | | 12,618 | $ 529,451 |
| | 10/1/2013(4) | | | 13,710 | $ 575,272 |
| **Mark R. Alexander** | 10/1/2012(1) | | | 16,493 | $ 692,046 |
| | 10/1/2013(1) | | | 13,547 | $ 568,432 |
| | 10/1/2012(2) | | | 16,493 | $ 692,046 |
| | 10/1/2013(3) | | | 13,547 | $ 568,432 |
| | 10/1/2011(4) | | | 3,910 | $ 164,064 |
| | 10/1/2012(4) | | | 9,426 | $ 395,515 |
| | 10/1/2013(4) | | | 11,612 | $ 487,240 |
| **Carlos J. Barroso** | 8/1/2013(5) | 10,825 | $ 454,217 | | |
| | 10/1/2013(1) | | | 5,520 | $ 231,619 |
| | 10/1/2013(3) | | | 5,520 | $ 231,619 |
| | 10/1/2013(4) | | | 4,732 | $ 198,555 |
| **Ellen Oran Kaden** | 10/1/2012(1) | | | 19,047 | $ 799,212 |
| | 10/1/2013(1) | | | 13,863 | $ 581,691 |
| | 10/1/2012(2) | | | 19,047 | $ 799,212 |
| | 10/1/2013(3) | | | 13,864 | $ 581,733 |
| | 10/1/2011(4) | | | 5,627 | $ 236,109 |
| | 10/1/2012(4) | | | 10,885 | $ 456,735 |
| | 10/1/2013(4) | | | 11,884 | $ 498,653 |

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(1) These are TSR performance-restricted share units which vest 100% in 3 years, provided the Company achieves a TSR ranking that results in a 100% payment (see pages 24 and 26 of the CD&A).
(2) These are SPUs which vest 100% in 2 years provided the Company meets the net sales and EPS growth targets required for 100% payment (see page 24 of the CD&A).
(3) These are SPUs which vest 100% in 3 years, provided the Company meets the net sales and EPS growth targets required for 100% payment (see page 26 of the CD&A).
(4) These are EPS performance-restricted share units which vest 1/3 in 1 year; 1/3 in 2 years; and 1/3 in 3 years, provided the fiscal year EPS performance goal is achieved (see pages 25 and 26 of the CD&A).
(5) These are time-lapse restricted share units which vest in equal installments on each of the first three anniversaries of the grant date.

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**Option Exercises and Stock Vested in Fiscal 2014**

The following table provides information for the NEOs on (1) stock option exercises during fiscal 2014, including the number of shares acquired upon exercise and the value realized, and (2) the number of shares acquired upon the vesting of stock awards and the value realized, each before payment of any applicable withholding tax.

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| Name (a) | Number of Shares Acquired on Exercise (#)(b) | Value Realized on Exercise ($)(c) | Number of Shares Acquired on Vesting (#)(d) | Value Realized on Vesting ($)(e) |
| Denise M. Morrison(1) | 0 | $ 0 | 171,323 | $ 6,974,559 |
| Anthony P. DiSilvestro(2) | 0 | $ 0 | 26,463 | $ 1,077,309 |
| B. Craig Owens(3) | 0 | $ 0 | 82,311 | $ 3,350,881 |
| Mark R. Alexander(4) | 0 | $ 0 | 45,204 | $ 1,840,255 |
| Carlos J. Barroso(5) | 0 | $ 0 | 5,412 | $ 227,088 |
| Ellen Oran Kaden(6) | 75,900 | $ 1,322,208 | 64,794 | $ 2,637,764 |

(1) Ms. Morrison received an aggregate of 171,323 shares at a market price of $40.71 on September 30, 2013, upon the vesting of 136,973 SPUs and 34,350 EPS performance-restricted share units.

(2) Mr. DiSilvestro received an aggregate of 26,463 shares at a market price of $40.71 on September 30, 2013, upon the vesting of 20,403 SPUs and 6,060 EPS performance-restricted share units.

(3) Mr. Owens received an aggregate of 82,311 shares at a market price of $40.71 on September 30, 2013, upon the vesting of 63,091 SPUs and 19,220 EPS performance-restricted share units.

(4) Mr. Alexander received an aggregate of 45,204 shares at a market price of $40.71 on September 30, 2013, upon the vesting of 34,207 SPUs and 10,997 EPS performance-restricted share units.

(5) Mr. Barroso received an aggregate of 5,412 shares at a market price of $41.96 on August 1, 2014, upon the vesting of time-lapse restricted share units.

(6) The dollar value realized on the exercise of Ms. Kaden s stock options reflects the total pre-tax value realized (Campbell stock price at exercise minus the option s exercise price).

Ms. Kaden received an aggregate of 64,794 shares at a market price of $40.71 on September 30, 2013, upon the vesting of 49,233 SPUs and 15,561 EPS performance-restricted share units.

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**Pension Benefits    Fiscal 2014**

| Name<br>(a) | Plan Name<br>(b) | Number of Years of Credited Service (#)<br>(c) | Present Value of Accumulated Benefit ($)<br>(d) | Payments During Last Fiscal Year ($)<br>(e) |
|---|---|---|---|---|
| **Denise M. Morrison** | Retirement and Pension Plan | 11.3 | $ 261,743 | $ 0 |
| | Mid-Career Hire Pension Plan | 11.3 | $ 6,882,379 | $ 0 |
| **Anthony P. DiSilvestro** | Retirement and Pension Plan | 18.2 | $ 682,361 | $ 0 |
| | Mid-Career Hire Pension Plan | 18.2 | $ 2,911,977 | $ 0 |
| **B. Craig Owens** | Retirement and Pension Plan | 5.6 | $ 151,242 | $ 0 |
| | Mid-Career Hire Pension Plan | 5.6 | $ 7,194,683 | $ 0 |
| **Mark R. Alexander** | Retirement and Pension Plan | 21.9 | $ 640,985 | $ 0 |
| | Mid-Career Hire Pension Plan | 21.9 | $ 2,291,343 | $ 0 |
| **Carlos J. Barroso** | Not applicable | 0 | $ 0 | $ 0 |
| | Not applicable | 0 | $ 0 | $ 0 |
| **Ellen Oran Kaden** | Retirement and Pension Plan | 16.3 | $ 788,855 | $ 0 |
| | Mid-Career Hire Pension Plan | 16.3 | $ 6,750,187 | $ 0 |

Eligible NEOs participate in two defined benefit plans: (1) the Retirement and Pension Plan ( Qualified Plan ) and (2) the Mid-Career Hire Pension Plan ( MCHP ). Mr. Barroso is not eligible to participate in either plan, as both plans were closed to new participants prior to the start of his employment with the Company.

**The Qualified Plan**

The Qualified Plan was established and designed to provide funded, tax-qualified pension benefits for eligible U.S.-based employees of the Company up to the limits allowed under the IRC. The Qualified Plan became a cash balance pension plan on May 1, 1999. Participants who had an accrued benefit as of April 30, 1999, including Mr. Alexander, Mr. DiSilvestro and Ms. Kaden, are eligible to receive the greater of their pension benefit under the prior plan formula, which is based on final average pay, or the cash balance benefit. Employees who became participants in the Qualified Plan on or after May 1, 1999, including Ms. Morrison and Mr. Owens, are eligible only for the cash balance benefit.

In January 2010, the Board took action to close the Qualified Plan to new participants, effective December 31, 2010, and, instead, offer eligible employees new enhancements to the Company s 401(k) plan. This action is consistent with the Company s efforts to move towards defined contribution plans as the vehicle for offering retirement benefits to its employees. The Qualified Plan remains available to all active participants as of December 31, 2010.

A participant in the Qualified Plan receives an account consisting of an opening account balance, pay credits and interest credits.

- *Opening Account Balance:* If an employee was an active participant on April 30, 1999, he or she would receive an opening account balance consisting of an age 65 benefit accrued under the Qualified Plan as of December 31, 1998, converted to a lump sum cash value using an interest rate of 5.25% and the 1983 unisex Group Annuity Mortality table. If an employee became a participant on or after May 1, 1999, the opening account balance is zero.

- *Pay Credits:* Pay credits equal a percentage of a participant s eligible compensation, which is limited by the IRC. Pay credits are credited as of the last day of each calendar year and made based upon the following formula:

| **Age as of December 31** | **Pay Credit Rate** |
|---|---|

| **of Prior Calendar Year** | |
|---|---|
| Less than 30 | 4.5% |
| 30 but less than 40 | 5.5% |
| 40 but less than 50 | 7.0% |
| 50 but less than 60 | 8.0% |
| 60 or more | 9.0% |

If a participant terminates employment before the end of a calendar year, he or she will be credited with pay credits as of the last day of the month in which employment ended.

· *Interest Credits:* Interest is credited to a participant s cash balance account as of the last day

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of each calendar year and is based on the average annual yield on the 30-year U.S. Treasury securities for November of the prior calendar year. Interest credits will never be less than 2.5% or more than 10%.

Eligible compensation includes non-deferred base pay and AIP payments, deferred compensation attributable to pre-tax contributions for medical and dental premiums and 401(k) plan deferrals. Under the Qualified Plan, the participating named executive officers are not eligible for unreduced benefits before attaining the normal retirement age of 65. The exceptions are Mr. Alexander, Mr. DiSilvestro and Ms. Kaden, who will each be eligible for an unreduced benefit after attaining age 62. In addition, the Company does not credit extra service beyond the actual years of an employee s participation in the plan. Qualified Plan participants are 100% vested in their accrued benefit after attaining three years of service. Lump sum payments are available as a form of distribution under the Qualified Plan.

The Present Value of Accumulated Benefit is the lump sum present value of the annual pension benefit that was earned as of August 3, 2014 and that would be payable at age 65. The present value of accumulated benefits for the Qualified Plan was determined in this manner for Ms. Morrison, but not for Mr. Alexander, Mr. DiSilvestro and Ms. Kaden. Because Mr. Alexander, Mr. DiSilvestro and Ms. Kaden had an accrued benefit on April 30, 1999, their benefits are determined using the prior plan formula of 1% of their Final Average Pay up to the Social Security Covered Compensation amount plus 1.5% of their Final Average Pay in excess of the Social Security Covered Compensation times their years of service. Final Average Pay is the average of eligible compensation earned in the highest 5 calendar years, whether or not consecutive, during the last 10 years of employment. Social Security Covered Compensation is the un-indexed average of the taxable wage base in effect for each calendar year during the 35-year period ending with the last day of the calendar year in which the participant ceases to be an employee of the Company. Under the prior plan formula, if a participant continues to work with the Company until at least age 55 with 5 years of service, the benefit is reduced 5% per year for each year that the benefit commences prior to age 62. If the participant terminates employment after attaining age 62, he or she is eligible for an unreduced benefit. The present value of Mr. Alexander s, Mr. DiSilvestro s and Ms. Kaden s accumulated benefit is the lump sum present value of the annual pension benefit that was earned as of August 3, 2014, and that would be payable at age 62.

**The Mid-Career Hire Pension Plan**

The MCHP was established as an unfunded, nonqualified plan for certain U.S.-based senior executives. It was intended to provide a participant with a pension benefit that approximates the pension earned by an employee who worked his or her entire career for the Company. The Company established the MCHP to attract and retain more experienced executives who were hired mid-career and would be unable to accumulate a full pension over an entire career with a single employer. The MCHP also provides benefits in excess of the IRC limits that are applicable to the Qualified Plan.

The benefit provided under the MCHP is payable as an annuity beginning on the first day of the seventh month following termination of employment. Depending on a participant s age and years of service, he or she will be eligible to receive an MCHP benefit under either the income replacement formula or the excess benefit formula. If a participant satisfies the eligibility criteria such that he or she is eligible for an MCHP benefit under both formulas, the formula resulting in the higher benefit will apply.

In May 2010, the Committee determined to close the MCHP to any new participants, effective December 31, 2010, and instead, offer eligible senior executives a new nonqualified defined contribution account, which is further described below under Executive Retirement Contribution. Like the closure of the Qualified Plan, this action is consistent with the Company s efforts to move toward defined contribution plans as the vehicle for offering retirement benefits to its employees. The current MCHP design will be maintained for all active participants.

**Income Replacement Formula**

A participant hired or promoted into an eligible salary grade on or before December 31, 2010 and who is age 55 with at least 5 years of employment is eligible for an MCHP benefit under the income replacement formula. If such a participant terminates employment on or after age 62, the MCHP benefit is calculated as an annual single life annuity equal to 37.5% of a participant s Adjusted Final Pay reduced by the Qualified Plan benefit. If the participant terminates before age 62, the single life annuity will be reduced by 5% per year for each year that the benefit commences prior to age 62. Adjusted Final Pay is equal to the average of eligible compensation earned in the highest 5 calendar years, whether or not consecutive, during the last 10 years of a participant s career as a covered employee. Participants are eligible for unreduced pensions under the income replacement formula beginning at age 62.

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**Excess Benefit Formula**

A participant hired or promoted into an eligible salary grade on or before December 31, 2010 and who has at least 3 years of service is eligible for an MCHP benefit under the excess benefit formula. If such a participant terminates employment on or after 3 years of service, the benefit is calculated using the pension formula under the Qualified Plan described above but only on eligible compensation in excess of the IRC limit on compensation. Participants shall receive reduced pensions under the excess benefit formula if they begin to receive payments before normal retirement age, which is age 65.

The MCHP defines eligible compensation in the same manner as in the Qualified Plan. In addition, the MCHP provides benefit accruals on base pay or AIP payments that are deferred. Ms. Morrison, Mr. DiSilvestro and Ms. Kaden are vested in the MCHP benefit using the income replacement formula as they have satisfied the age and service criteria. Currently, none of the NEOs, other than Ms. Kaden, have attained age 62. The Company does not grant extra years of service for the pension benefit portion of the MCHP benefit. The Present Value of Accumulated Benefit is the lump sum present value of the annual pension benefit that was earned as of August 3, 2014, and that would be payable under the MCHP at age 62. A lump sum form of payment was used for purposes of completing the Pension Benefit Table, although a lump sum form of payment is not available under the MCHP.

**Executive Retirement Contribution**

Following the closure of the MCHP to new participants, the Committee implemented an Executive Retirement Contribution for eligible U.S.-based senior executives who were hired on or after January 1, 2011. The Executive Retirement Contribution is intended to attract experienced executives and provide retirement benefits to these executives, who are not eligible to participate in the MCHP. Executive Retirement Contributions are subject to a vesting schedule, which is designed to balance attraction and retention objectives.

The Company will credit an eligible participant s Supplemental Retirement Plan account with an Executive Retirement Contribution equal to 10% of the participant s base salary and annual incentive. The Executive Retirement Contributions are subject to an age-graded vesting schedule and do not begin to vest until the participant has attained age 55 and completed at least five years of service with the Company. The table below provides details on the vesting criteria:

| Vesting Percentage | Criteria |
|---|---|
| 50% | Age 55 and at least 5 years of service |
| 60% | Age 56 and at least 5 years of service |
| 70% | Age 57 and at least 5 years of service |
| 80% | Age 58 and at least 5 years of service |
| 90% | Age 59 and at least 5 years of service |
| 100% | Age 60 and at least 5 years of service |

Mr. Barroso is the only NEO who received an Executive Retirement Contribution in fiscal 2014, and the amounts credited to him are unvested. For additional information on the Executive Retirement Contribution to Mr. Barroso, please see the Nonqualified Deferred Compensation Table and accompanying narrative beginning on page 40.

**Assumptions**

For purposes of determining the Present Value of Accumulated Benefits, the following assumptions were used:

| **Fiscal Year Ended** | **2014** | **2013** | **2012** |
|---|---|---|---|
| ASC 715 Discount Rate | 4.3% | 4.8% | 4.0% |
| Retirement Age for Qualified Plan | 65 for cash balance or 62 for the prior plan formula | 65 for cash balance or 62 for the prior plan formula | 65 for cash balance or 62 for the prior plan formula |
| Retirement Age for MCHP | 62 | 62 | 62 |
| Pre-retirement Mortality or Disability | None | None | None |
| Post-retirement Mortality | RP2000Proj2014 M/F | 1994 GAM M/F | 1994 GAM M/F |
| Cash Balance Interest Rate | 3.50% | 3.50% | 2.75% |
| Form of Payment | Lump sum using ASC 715 assumption methods | Lump sum using ASC 715 assumption methods | Lump sum using ASC 715 assumption methods |

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The accumulated benefit is calculated based on credited service and pay as of August 3, 2014. The values reported in the Present Value of Accumulated Benefit column are theoretical and are calculated and presented according to SEC requirements. These values are based on assumptions used in preparing the Company s consolidated audited financial statements for the year ended August 3, 2014. The Company s pension plans use a different method of calculating actuarial present value for the purpose of determining a lump sum payment, if any, under the plans. Using applicable plan assumptions, the lump sum present value of the two defined benefit plans combined as of August 3, 2014 and payable as of September 1, 2014 was as follows: Ms. Morrison: $6,915,815; Mr. DiSilvestro: $3,419,264; Mr. Alexander: $2,095,345; and Ms. Kaden: $7,635,231. Mr. Barroso is not eligible to participate in the plans and Mr. Owens retired from the Company prior to August 3, 2014. All benefit calculations set forth in this narrative and in the Pension Benefit Table are estimates only; actual benefits will be based on data, applicable plan assumptions, pay and service at the time of retirement.

**Nonqualified Deferred Compensation Fiscal 2014**

| Name | Plan Name | Executive Contributions in Last Fiscal Year ($)(1) | Registrant Contributions in Last Fiscal Year ($)(2) | Aggregate Earnings in Last Fiscal Year ($) | Aggregate Withdrawals/ Distributions in Last Fiscal Year ($) | Aggregate Balance at Fiscal Year End(3) ($) |
|---|---|---|---|---|---|---|
| Denise M. Morrison | Deferred Compensation Plan | $ 0 | $ 0 | $ (2,090) | $ 0 | $ 22,905 |
| | Supplemental Retirement Plan | $ 0 | $ 100,133 | $ (87,880) | $ 0 | $ 1,241,905 |
| Anthony P. DiSilvestro | Deferred Compensation Plan | $ 0 | $ 0 | $ (177) | $ 0 | $ 1,943 |
| | Supplemental Retirement Plan | $ 0 | $ 26,292 | $ (2,861) | $ 0 | $ 100,299 |
| B. Craig Owens | Deferred Compensation Plan | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| | Supplemental Retirement Plan | $ 834,365 | $ 57,916 | $ 145,385 | $ 0 | $ 2,176,741 |
| Mark R. Alexander | Deferred Compensation Plan | $ 0 | $ 0 | $ (82) | $ 0 | $ 898 |
| | Supplemental Retirement Plan | $ 0 | $ 45,065 | $ (8,022) | $ 0 | $ 206,456 |
| Carlos J. Barroso | Deferred Compensation Plan | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| | Supplemental Retirement Plan | $ 0 | $ 47,992(4) | $ 313 | $ 0 | $ 48,305 |
| Ellen Oran Kaden | Deferred Compensation Plan | $ 0 | $ 0 | $ (154,973) | $ 0 | $ 1,698,696 |
| | Supplemental Retirement Plan | $ 0 | $ 56,136 | $ (19,546) | $ 0 | $ 375,224 |

(1) The amount listed for Mr. Owens was previously reported in a summary compensation table as an annual incentive payment.
(2) The amounts listed for Mses. Morrison and Kaden and Messrs. DiSilvestro, Owens, Alexander and Barroso are reported in the 2014 Summary Compensation Table under All Other Compensation.
(3) The amounts listed for Mses. Morrison and Kaden and Messrs. DiSilvestro, Owens and Alexander include amounts previously reported in summary compensation tables as salary, annual incentive payments or the value of grants of restricted stock.
(4) The amount listed for Mr. Barroso includes an Executive Retirement Contribution of $47,000 which is unvested.

The Deferred Compensation Plan and the Supplemental Retirement Plan are unfunded and maintained for the purpose of providing the Company s eligible U.S.-based executives and key managers the opportunity to defer a portion of their earned compensation. Currently, participants may defer a portion of their annual incentive compensation. The ability of executives to defer all or a portion of their long-term incentive awards was eliminated in fiscal 2009, and the ability to defer base salary was eliminated as of January 1, 2011.

Each participant s contributions to the plans are credited to an investment account in the participant s name. Gains and losses in the participant s account are based on the performance of the investment choices the participant has selected. For deferral accounts, seven investment choices are available, including the Campbell Stock Account. In addition to the Stock Account, participants have the opportunity to invest in: (i) Vanguard s

Institutional Index Fund; (ii) Vanguard s Extended Market Index Fund; (iii) Vanguard s Total International Stock Index Fund; (iv) Vanguard s Total Bond Market Index Fund; (v) Vanguard s Short-Term Bond Index Fund and (vi) BlackRock s Liquidity TempFund. A participant may reallocate his or her investment account at any time among the seven investment choices, except that reallocations of the Stock Account must be made in compliance with the Company s policies on trading Company stock. Dividends on amounts invested in the Stock Account may be reallocated among the seven investment accounts.

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The Company credits a participant s Supplemental Retirement Plan account with an amount equal to the matching contribution that the Company would have made to the participant s 401(k) plan account if the participant had not deferred compensation under the plans. In addition, for those individuals whose base salary and annual incentive compensation exceed the IRC indexed compensation limit for the 401(k) plan ($255,000 for calendar year 2013 and $260,000 for calendar year 2014) and who defer a certain percentage of eligible pay to the 401(k) plan, the Company credits such individual s account with an amount equal to the matching contribution the Company would have made to the 401(k) plan but for the compensation limit (supplemental 401(k) program). These Company contributions are fully vested. Except as described above, there is no Company match on deferred compensation.

The Company will also credit an eligible participant s Supplement Retirement Plan account with an Executive Retirement Contribution equal to 10% of the participant s base salary and annual incentive. Eligible participants are U.S.-based senior executives who were hired on or after January 1, 2011 and who do not participate in the MCHP. The Executive Retirement Contributions do not begin to vest until the participant has attained age 55 and completed at least five years of service with the Company. For additional information on the Executive Retirement Contribution and vesting criteria, please see page 39.

**Potential Payments upon Termination or Change in Control**

The following section describes potential incremental payments upon termination of a NEO s employment under various circumstances.

**Termination for Cause**

In the event of termination for cause, a NEO will forfeit:

- any annual incentive compensation for that fiscal year; and
- any unvested time-lapse restricted and performance-restricted share units.

The NEO will be entitled to any vested pension benefits and the vested balance in his or her deferred compensation account.

**Voluntary Resignation**

In the event of voluntary resignation prior to the end of a fiscal year, a NEO will forfeit:

- any annual incentive compensation for that fiscal year; and
- any unvested time-lapse restricted and performance-restricted share units.

The NEO will be entitled to any vested pension benefits and the vested balance in his or her deferred compensation account.

**Retirement**

In the event of retirement after attaining age 55 and five years of service, a NEO will be entitled to:

- A pro rata portion of any annual incentive compensation for the current fiscal year based upon length of employment during the fiscal year. The pro rata portion will be paid out based on business unit/function performance and individual performance as explained in the CD&A.
- 100% of any unvested time-lapse restricted share units, provided that the executive officer retires at least six months after the grant date.
- A pro rata portion of any TSR performance-restricted share units or SPUs based on length of employment during the applicable restriction period, provided the executive officer retires at least six months after the grant date. The pro rata portion will be paid out at the end of the restriction period based upon the vesting criteria being met, as explained in the CD&A.
- 100% of any EPS performance-restricted share units at the end of the restriction period based upon the Company s EPS performance as explained in the CD&A, provided the NEO retires at least six months after the grant date.

The NEO will be entitled to any vested pension benefits and the vested balance in his or her deferred compensation account.

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**Involuntary Termination**

In the event of involuntary termination by the Company for any reason other than cause, a NEO will be entitled to:

- A pro rata portion of any annual incentive compensation for the current fiscal year based on length of employment during the fiscal year, provided the officer was employed for at least three months in the fiscal year. The pro rata portion will be paid out based upon business unit/function performance and individual performance as explained in the CD&A.

- A pro rata portion of any unvested time-lapse restricted share units based on length of employment during the applicable restriction period, provided the officer was employed for at least six months following the grant date.

- A pro rata portion of any TSR performance-restricted share units or SPUs based on length of employment during the applicable restriction period, provided the executive officer was employed for at least six months after the grant date. The pro rata portion will be paid out at the end of the restriction period based upon the vesting criteria being met, as explained in the CD&A.

- A pro rata portion of any EPS performance-restricted share units based on length of employment during the restriction period, provided the executive officer s employment continued at least six months after the grant date. The pro rata portion will be paid out at the end of the restriction period based upon the Company s EPS performance as explained in the CD&A.

The NEO will be entitled to any vested pension benefits and the vested balance in any deferred compensation account.

The Company has a regular severance policy that applies to all executive officers, including the NEOs. An executive officer will receive severance benefits equal to two times the officer s base salary if the officer s employment is involuntarily terminated by the Company without cause, except for change in control severance benefits which are described below. The severance benefits also include the continuation of medical benefits and life insurance unless the executive obtains medical benefits or life insurance from another employer.

In order to receive severance payments, executive officers must execute severance agreements that contain provisions prohibiting the executive officer from disparaging the Company, soliciting Company employees to work elsewhere and competing with the Company.

**Change in Control**

Generally, a Change in Control will be deemed to have occurred in any of the following circumstances:

(i) the acquisition of 25% or more of the outstanding voting stock of the Company by any person or entity, with certain exceptions for Dorrance family members;

(ii) the persons serving as directors of the Company as of September 28, 2000, and those replacements or additions subsequently approved by a two-thirds vote of the Board, cease to make up more than 50% of the Board;

(iii) a merger, consolidation or share exchange in which the shareholders of the Company prior to the merger wind up owning 50% or less of the surviving corporation; or

(iv) a complete liquidation or dissolution of the Company or disposition of all or substantially all of the assets of the Company.

Under the CIC Agreements with the NEOs, severance pay would equal two and one half years base salary and annual incentive compensation. Medical benefits and life insurance would be provided at the expense of the Company for the lesser of (i) 30 months or (ii) the number of months remaining until the executive s 65th birthday. The Company would pay in a single payment an amount equal to the value of the benefit the executive would have accrued under the Company s pension and 401(k) plans had the executive remained in the employ of the Company for an additional 30 months or until his or her 65th birthday, if earlier. The payments of these amounts are listed as other payments in the following tables.

Upon a Change in Control and termination of employment within two years thereafter, all restrictions upon any time-lapse restricted share units would lapse immediately and all such units would become fully vested. An executive officer would become vested in, and restrictions would lapse on, the greater of (i) fifty percent (50%) of any performance-restricted share units or (ii) a pro rata portion of such performance-restricted share units based on the portion of the performance period that has elapsed prior to the date of the change in control.

During any fiscal year in which a Change in Control occurs, each participant in the Annual Incentive Plan (a) whose employment is terminated prior to the end of such year or (b) who is in the employ of the Company on the last day of such year would be entitled to receive, within 30 days thereafter, a cash payment equal to the greater of (i) his or her target bonus award for such year or (ii) the average of the awards paid or payable to him or her under the AIP for the two most recent fiscal years ended prior thereto. Any amount to be paid to a participant who is not employed for the entire fiscal year would be prorated.

The CIC Agreements provide for gross-up payments to cover any federal excise taxes owed on change in control-related severance payments and benefits. In March 2010, the Committee determined that effective for any change in control agreement entered into after January 1, 2011, the provision for gross-up payments to cover any federal excise taxes owed on change in control-related severance payments and benefits would be eliminated.

**Tables**

The following tables display the incremental payments that would be made and the value of equity awards that would vest in the event of termination of employment for the reasons listed. If an NEO is eligible to retire, the amounts listed below for voluntary resignation and retirement are the same. In addition to the amounts in the following tables, the NEOs would be entitled to any vested pension benefits and any vested amounts in deferred compensation accounts that are disclosed above under Pension Benefits and Nonqualified Deferred Compensation.

***Assumptions Ms. Morrison, Mr. DiSilvestro, Mr. Alexander, Mr. Barroso and Ms. Kaden***

The amounts listed for the NEOs named above assume that termination occurred as of August 3, 2014, and use a Company stock price of $41.96, which was the Company s stock price on August 1, 2014, the last business day of fiscal 2014. The amounts included in equity for these NEOs with respect to performance-based restricted share units assume that the applicable performance goal was attained and the units paid out at 100% of target, except in the event of a change in control, which assumes a payout in accordance with the terms of the CIC Agreements described above. Also included in the equity amount in the event of a change in control are accrued but unpaid dividend equivalents.

***Assumptions Mr. Owens***

Mr. Owens retired from the Company as of May 1, 2014. The amounts listed for Mr. Owens were calculated using a Company stock price of $45.20, which was the Company s closing stock price on May 1, 2014.

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**Denise M. Morrison**

| Incremental Benefits and Payments Upon Termination | Voluntary Resignation | Retirement | Involuntary Termination Without Cause | Change-in-Control |
|---|---|---|---|---|
| **Compensation:** | | | | |
| Annual Incentive Plan (AIP) Award | | | | |
| Equity | $ 7,951,168 | $ 7,951,168 | $ 7,951,168 | $ 7,094,325 |
| **Benefits & Perquisites:** | | | | |
| Health and Welfare Benefits | | | $ 25,620 | $ 32,025 |
| **Severance:** | | | | |
| Cash | | | $ 2,100,000 | $ 6,300,000 |
| Excise Tax Gross-Up | | | | $ 9,483,398 |
| Other Payments | | | | $ 3,627,290 |
| **TOTAL:** | $ 7,951,168 | $ 7,951,168 | $ 10,076,788 | $ 26,537,038 |

**Anthony P. DiSilvestro**

| Incremental Benefits and Payments Upon Termination | Voluntary Resignation | Retirement | Involuntary Termination Without Cause | Change-in-Control |
|---|---|---|---|---|
| **Compensation:** | | | | |
| Annual Incentive Plan (AIP) Award | | | | |
| Equity | $ 1,098,890 | $ 1,098,890 | $ 1,098,890 | $ 987,471 |
| **Benefits & Perquisites:** | | | | |
| Health and Welfare Benefits | | | $ 36,316 | $ 45,395 |
| **Severance:** | | | | |
| Cash | | | $ 1,120,000 | $ 2,397,500 |
| Excise Tax Gross-Up | | | | |
| Other Payments | | | | $ 1,013,263 |
| **TOTAL:** | $ 1,098,890 | $ 1,098,890 | $ 2,255,206 | $ 4,443,629 |

**B. Craig Owens**

| Incremental Benefits and Payments Upon Termination | Voluntary Resignation | Retirement | Involuntary Termination Without Cause | Change-in-Control |
|---|---|---|---|---|
| **Compensation:** | | | | |
| Annual Incentive Plan (AIP) Award | | | | |
| Equity | | $ 3,114,054 | | |
| **Benefits & Perquisites:** | | | | |
| Health and Welfare Benefits | | | | |
| **Severance:** | | | | |
| Cash | | | | |
| Excise Tax Gross-Up | | | | |
| Other Payments | | | | |
| **TOTAL:** | | $ 3,114,054 | | |

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**Mark R. Alexander**

| Incremental Benefits and Payments Upon Termination | Voluntary Resignation | Retirement | Involuntary Termination Without Cause | Change-in-Control |
|---|---|---|---|---|
| **Compensation:** | | | | |
| Annual Incentive Plan (AIP) Award | | | | $ 14,189 |
| Equity | | | $ 2,078,279 | $ 2,174,035 |
| **Benefits & Perquisites:** | | | | |
| Health and Welfare Benefits | | | $ 35,240 | $ 44,050 |
| **Severance:** | | | | |
| Cash | | | $ 1,251,500 | $ 3,007,784 |
| Excise Tax Gross-Up | | | | |
| Other Payments | | | | $ 1,190,345 |
| **TOTAL:** | | | $ 3,365,019 | $ 6,430,403 |

**Carlos J. Barroso**

| Incremental Benefits and Payments Upon Termination | Voluntary Resignation | Retirement | Involuntary Termination Without Cause | Change-in-Control |
|---|---|---|---|---|
| **Compensation:** | | | | |
| Annual Incentive Plan (AIP) Award | | | | |
| Equity | | | $ 418,971 | $ 801,710 |
| **Benefits & Perquisites:** | | | | |
| Health and Welfare Benefits | | | $ 35,084 | $ 43,855 |
| **Severance:** | | | | |
| Cash | | | $ 940,000 | $ 1,938,750 |
| Excise Tax Gross-Up | | | | |
| Other Payments | | | | $ 192,052 |
| **TOTAL:** | | | $ 1,394,055 | $ 2,976,367 |

**Ellen Oran Kaden**

| Incremental Benefits and Payments Upon Termination | Voluntary Resignation | Retirement | Involuntary Termination Without Cause | Change-in-Control |
|---|---|---|---|---|
| **Compensation:** | | | | |
| Annual Incentive Plan (AIP) Award | | | | $ 43,575 |
| Equity | $ 2,735,708 | $ 2,735,708 | $ 2,735,708 | $ 2,482,405 |
| **Benefits & Perquisites:** | | | | |
| Health and Welfare Benefits | | | $ 29,244 | $ 31,681 |
| **Severance:** | | | | |
| Cash | | | $ 1,463,700 | $ 3,659,250 |
| Excise Tax Gross-Up | | | | |
| Other Payments | | | | $ 951,070 |

| | | | | |
|---|---|---|---|---|
| **TOTAL:** | $ 2,735,708 | $ 2,735,708 | $ 4,228,652 | $ 7,167,981 |

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**Fiscal 2014 Director Compensation**

| Name ($) (a) | Fees Earned or Paid in Cash ($) (b) | Stock Awards (1) ($) (c) | Option Awards ($) (d) | Non-Equity Incentive Plan Compensation ($) (e) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (f) | All Other Compensation (2) ($) (g) | Total ($) (h) |
|---|---|---|---|---|---|---|---|
| Edmund M. Carpenter | $ 117,500 | $ 117,500 | $ 0 | $ 0 | $ 0 | | $ 235,000 |
| Paul R. Charron | $ 337,500 | $ 337,500 | $ 0 | $ 0 | $ 0 | | $ 675,000 |
| Bennett Dorrance | $ 117,500 | $ 117,500 | $ 0 | $ 0 | $ 0 | | $ 235,000 |
| Lawrence C. Karlson | $ 115,000 | $ 115,000 | $ 0 | $ 0 | $ 0 | | $ 230,000 |
| Randall W. Larrimore | $ 117,500 | $ 117,500 | $ 0 | $ 0 | $ 0 | | $ 235,000 |
| Marc B. Lautenbach | $ 65,625 | $ 65,625 | $ 0 | $ 0 | $ 0 | | $ 131,250 |
| Mary Alice D. Malone | $ 112,500 | $ 112,500 | $ 0 | $ 0 | $ 0 | | $ 225,000 |
| Sara Mathew | $ 122,500 | $ 122,500 | $ 0 | $ 0 | $ 0 | | $ 245,000 |
| Charles R. Perrin | $ 112,500 | $ 112,500 | $ 0 | $ 0 | $ 0 | | $ 225,000 |
| A. Barry Rand | $ 115,000 | $ 115,000 | $ 0 | $ 0 | $ 0 | | $ 230,000 |
| Nick Shreiber | $ 115,000 | $ 115,000 | $ 0 | $ 0 | $ 0 | | $ 230,000 |
| Tracey T. Travis | $ 115,000 | $ 115,000 | $ 0 | $ 0 | $ 0 | | $ 230,000 |
| Archbold D. van Beuren | $ 115,000 | $ 115,000 | $ 0 | $ 0 | $ 0 | | $ 230,000 |
| Les C. Vinney | $ 120,000 | $ 120,000 | $ 0 | $ 0 | $ 0 | | $ 240,000 |
| Charlotte C. Weber | $ 112,500 | $ 112,500 | $ 0 | $ 0 | $ 0 | | $ 225,000 |

(1) Amounts reported represent the aggregate grant date fair value of shares issued to each director during fiscal 2014, calculated in accordance with FASB ASC Topic 718. The assumptions used by the Company in calculating these amounts are included in Note 17 to the Company s 2014 Form 10-K. Directors who served on the Board on January 1, 2014, were issued shares representing the dollar value of 50% of their board retainer and committee fees based on the closing price on January 7, 2014 of the Company s common stock on the New York Stock Exchange ($42.87). Mr. Lautenbach was issued shares on July 1, 2014 representing the dollar value of 50% of his pro-rated board retainer based on the closing price on June 30, 2014 of the Company s common stock on the New York Stock Exchange ($45.81).

(2) The aggregate perquisites to any individual director did not exceed the SEC reporting threshold amount of $10,000.

The aggregate number of stock options outstanding for each non-employee director as of August 3, 2014, is set forth in the table below. The Company ceased issuing stock options to directors in fiscal 2006. Directors are fully vested in stock awards at the time of grant.

| Name | Options(#) |
|---|---|
| Edmund M. Carpenter | 19,656 |
| Paul R. Charron | 10,336 |
| Bennett Dorrance | 37,029 |
| Lawrence C. Karlson | 0 |
| Randall W. Larrimore | 19,656 |
| Marc B. Lautenbach | 0 |
| Mary Alice D. Malone | 19,656 |
| Sara Mathew | 10,336 |
| Charles R. Perrin | 0 |

| | |
|---|---|
| A. Barry Rand | 0 |
| Nick Shreiber | 0 |
| Tracey T. Travis | 0 |
| Archbold D. van Beuren | 0 |
| Les C. Vinney | 0 |
| Charlotte C. Weber | 19,656 |

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**Director Equity and Cash Retainers**

For fiscal 2014, each non-employee director received an annual unrestricted stock retainer valued at approximately $112,500, and an annual cash retainer of $112,500 for his or her services as a member of the Board. In addition, the members of the Audit Committee received an annual retainer of $5,000, half of which was paid in unrestricted stock and half of which was paid in cash, and the chairman of the Audit Committee received an annual retainer of $20,000, half of which was paid in unrestricted stock and half of which was paid in cash. The chairman of the Compensation and Organization Committee received an annual retainer of $15,000, half of which was paid in unrestricted stock and half of which was paid in cash, and the chairs of the Governance Committee and Finance and Development Committee each received an annual retainer of $10,000, half of which was paid in unrestricted stock and half of which was paid in cash. The non-executive chairman of the Board was paid an additional annual retainer of $450,000, half of which was paid in unrestricted stock and half of which was paid in cash. Directors may elect to receive unrestricted stock in lieu of cash payments.

**Deferred Compensation Plans for Non-Employee Directors**

Under the Deferred Compensation Plan and the Supplemental Retirement Plan, a non-employee director may elect to defer payment of all or a portion of his or her fees until termination of his or her directorship. Directors participate in the same plans as executives. See pages 40 through 41 for a description of the material terms of the Deferred Compensation Plan and the Supplemental Retirement Plan.

**Stock Ownership Requirements**

Under the Company s Corporate Governance Standards, directors are required to own at least 2,000 shares of Campbell stock within one year of election and 6,000 shares within three years of election.

**Additional Arrangements**

The Company pays for or provides (or reimburses directors for out-of-pocket costs incurred for) transportation, hotel, food and other incidental expenses related to attending Board and committee meetings or participating in director education programs and other director orientation or education meetings. In addition, non-employee directors are eligible to participate in the Company s charitable matching gift program, pursuant to which the Company will pay, on a one-to-one basis, up to $3,000 per year in contributions to educational and certain other charitable institutions.

**Item 2**

**Ratification of Appointment of Independent Registered Public Accounting Firm**

**Your Board of Directors Recommends a Vote For This Proposal**

The proxy, unless otherwise directed thereon, will be voted for a resolution ratifying action of the Audit Committee, reappointing the firm of PricewaterhouseCoopers LLP ( PwC ) Certified Public Accountants, as the independent registered public accounting firm to perform an audit of the financial statements and the effectiveness of internal control over financial reporting of the Company for fiscal 2015. The names of the directors serving on the Audit Committee are indicated on page 9, under the heading Board Committee Structure. The vote required for ratification is a majority of shares voting. If the resolution is rejected, or if PwC declines to act or becomes incapable of acting, or if their employment is discontinued, the Audit Committee will appoint other auditors whose continued employment

after the 2015 Annual Meeting of the Shareholders will be subject to ratification by the shareholders.

Representatives of PwC will be at the 2014 Annual Meeting to make a statement if they desire to do so and to answer questions.

For fiscal 2014, PwC also examined the separate financial statements of certain of the Company s foreign subsidiaries and provided other audit and non-audit services to the Company in connection with SEC filings, review of quarterly financial statements, debt offerings, accounting consultations, pension plan audits, other agreed-upon procedures reports, tax compliance and tax assistance with tax audits and transfer pricing.

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**Item 3**

**Advisory Vote on Executive Compensation**

**Your Board of Directors Recommends a Vote For This Proposal**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires that shareholders be given the opportunity to cast an advisory (non-binding) vote on executive compensation. This vote, commonly known as a say-on-pay vote, gives shareholders the opportunity to express their views on named executive officer ( NEO ) compensation during a given fiscal year. Shareholders votes are not intended to address any specific item of the compensation program, but rather to address the overall approach to executive compensation at Campbell as disclosed in this proxy statement in accordance with the SEC s rules.

As described in detail in the Compensation Discussion and Analysis beginning on page 17, Campbell offers a total compensation package that is designed to attract, motivate and retain talent of the caliber needed to deliver successful business performance in absolute terms and relative to competition. Campbell s compensation program is designed to link pay to Company, business unit and individual performance. The objectives of the executive compensation program are to:

- align the financial interests of the Company s NEOs with those of its shareholders, in both the short and long term;
- provide incentives for achieving and exceeding the Company s short-term and long-term goals;
- attract, motivate and retain highly competent executives by providing total compensation that is competitive with compensation paid at other well-managed companies in the food, beverage and consumer products industries; and
- differentiate the level of compensation based on individual and business unit performance, leadership potential, and level of responsibility within the organization. Individual performance is rated based upon demonstrated leadership skills, accomplishment of objectives, business unit or functional accountabilities and personal contributions.

The Compensation and Organization Committee annually reviews the Company s compensation strategy, principles and policies, including the apportionment of pay between fixed compensation elements and incentive compensation, and the design of the incentive compensation programs to ensure they achieve the desired objectives. The executive compensation program at Campbell reflects many best practices in governance and executive compensation including:

- all members of the Compensation and Organization Committee are independent directors within the meaning of the NYSE listing standards;
- the Compensation and Organization Committee engages and receives advice from an independent compensation consultant who does not perform any services for management;
- Campbell annually reviews the risk profile of its compensation programs and maintains risk mitigators, such as limits on incentive awards, use of multiple performance measures in incentive plans, and stock ownership guidelines;

- Campbell maintains an insider trading policy that prohibits executive officers from engaging in derivative or hedging transactions in Campbell securities, and has a policy that prohibits future pledging of shares by directors and executive officers;

- Campbell eliminated change in control excise tax gross-ups for new participants entering into change in control agreements after January 1, 2011;

- Campbell has stock ownership guidelines for directors and executive officers that promote alignment of their interests with shareholders interests;

- Campbell s Annual Incentive Plan is designed to award annual bonus payments to its NEOs based on performance and for fiscal 2014 annual incentive payments, the Compensation and Organization Committee used four measurement areas relating to the Company s financial, marketplace, operational and strategic objectives for the year to assess performance;

- NEOs have a substantial portion of compensation at risk, based upon the achievement of performance goals for annual incentive payments and the performance goals for long-term incentives; and

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- consistent with the Company s principles and policies for executive compensation that link pay to performance, payout for strategic performance-restricted share units for the fiscal 2013-2014 performance period was 35% of the target amount, due to adjusted net sales and adjusted EPS results over the performance period, and the fiscal 2014 AIP pool was funded at 75% of the target amount, due to performance against the goals in the balanced scorecard.

In making its fiscal 2014 executive compensation decisions, particularly the decision to fund the AIP pool at 75% of target, the Committee noted the following:

- the challenging environment for packaged food companies;
- net sales of $8.268 billion and adjusted EPS of $2.53 fell short of the scorecard targets set at the beginning of the fiscal year, but were consistent with the Company s revised guidance;
- sales growth in the Bolthouse Farms business, driven by brand-building investments and expanded distribution;
- encouraging growth in key emerging markets, led by Kelsen Group in China and expansion of the sweet biscuit business in Indonesia;
- successful divestiture of the European simple meals business;
- responsible cost-management across the organization;
- meaningful steps towards establishing a foundation for expansion into faster-growing spaces, such as packaged fresh, e-commerce, immediate consumption channels and emerging markets.

Please read the entire Compensation Discussion and Analysis beginning on page 17 and review the fiscal 2014 executive compensation tables beginning on page 30 for additional details about Campbell s executive compensation programs, including detailed information about fiscal year 2014 compensation of the NEOs. See Appendix B for a discussion of the adjustments to EPS and a reconciliation to the results as reported in accordance with generally accepted accounting principles.

The Board of Directors is asking shareholders to support Campbell s executive compensation, as disclosed in this proxy statement. The Compensation and Organization Committee and the Board of Directors believes that the compensation program effectively implements Campbell s compensation principles and policies, achieves the Company s compensation objectives, and aligns the interests of the NEOs and shareholders. Accordingly, the Board of Directors asks shareholders to cast a nonbinding vote FOR the following resolution at the 2014 Annual Meeting of Shareholders:

RESOLVED, that the shareholders of Campbell Soup Company approve, on an advisory basis, the compensation paid to Campbell Soup Company s named executive officers, as disclosed in the 2014 Proxy Statement pursuant to the Security and Exchange Commission s compensation disclosure rules, including the Compensation Discussion and Analysis, the executive compensation tables and related narrative discussion.

Campbell s executive compensation, as disclosed in this proxy statement, will be deemed approved by shareholders if it receives more votes FOR than votes AGAINST. Abstentions and broker non-votes will not be counted as votes cast on this proposal. This vote on executive compensation is advisory, and therefore will not be binding on Campbell Soup Company, the Compensation and Organization Committee or the Board of Directors, and it will not be construed as overruling any decision by the Company or the Board of Directors or creating or implying any change to, or additional fiduciary duties for, the Company or the Board of Directors.

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**Item 4**

**Re-Approval of Campbell Soup Company Annual Incentive Plan**

**Your Board of Directors Recommends a Vote For This Proposal**

The Campbell Soup Company Annual Incentive Plan ( AIP ), which is the annual bonus program, has been in effect for 57 years. The shareholders first approved the AIP at the 1957 Annual Meeting, and most recently at the 2009 Annual Meeting. The AIP must be resubmitted to shareholders for approval at least once every five years. The AIP is being submitted at the 2014 Annual Meeting for re-approval, which will be obtained if a majority of the votes cast at the meeting support the proposal. Abstentions and broker non-votes will not be counted as votes cast on this proposal. Except as otherwise specified in the proxy, proxies will be voted for approval. The AIP being submitted for shareholder re-approval at the 2014 Annual Meeting is substantially the same as the AIP that was approved at the 2009 Annual Meeting, with minor administrative changes to the definitions of Deferred Compensation Plan and Eligible Employee . The full text of the AIP is set forth in Appendix C and should be referred to for a complete description of its terms and conditions.

The purpose of the AIP is to attract, motivate and retain higher caliber employees and to provide meaningful individual and group incentives within the Company and its subsidiaries. The AIP is administered by the Compensation and Organization Committee of the Board of Directors. The Committee has the discretion to select eligible employees to whom awards may be granted and to determine the aggregate amount of money to be used for awards based upon competitive compensation practices and such measures of the Company s performance as the Committee selects from time to time. The Committee also determines the total bonus pool available for all participants. Approximately 1,715 key employees are eligible to receive incentive compensation under the AIP. Payments made to named executive officers under the AIP are set forth in the Summary Compensation Table on page 30. The AIP is also discussed in the Compensation Discussion and Analysis on pages 21 through 23. The Committee and the Board are prohibited from making any awards for a fiscal year in which no cash dividend is paid on Campbell stock, except following a Change of Control as described on pages C-5 through C-7.

Individual awards for executive officers are determined annually by the Committee in accordance with performance goals established by the Committee at the beginning of the fiscal year. For executive officers who are covered employees under Section 162(m) of the Internal Revenue Code, the performance goals will be comprised of specified annual levels of one or more of the following performance criteria as the Committee may deem appropriate: earnings per share, net earnings, operating earnings, unit volume, net sales, market share, balance sheet measures, revenue, economic profit, cash flow, cash return on assets, shareowner return, return on equity or return on capital. The Committee will disregard or offset the effect of certain extraordinary items, such as restructuring charges, gains or losses on the disposition of a business, changes in tax or accounting laws or the effects of a merger or acquisition, in determining the attainment of performance goals for these individuals. The Committee may reduce (but not increase) the amount payable to these individuals based on further considerations as the Committee, in its sole discretion, may determine. For awards not intended to comply with Section 162(m) of the Internal Revenue Code, the Committee may establish performance goals based on other performance criteria as it deems appropriate. No award or awards that exceed $5 million may be granted to any participant for any one fiscal year. The performance goals used for fiscal 2014 are described on page pages 22 through 23.

Awards under the AIP are payable in cash, unless the Committee approves the conversion of the award into stock options, restricted units or unrestricted stock units pursuant to the Company s shareholder-approved long-term incentive plan.

During any fiscal year in which a Change in Control (as described on pages C-5 through C-7) occurs, each participant whose employment is terminated prior to the end of such fiscal year (other than for cause ) or who is in the employ of the Company on the last day of such fiscal year will be entitled to an award payment equal to the greater of (1) such participant s target award for such fiscal year or (2) the average of the awards paid under the AIP to such participant for the two most recent fiscal years ended prior to the fiscal year in which the Change in Control occurs. In the case of a participant whose employment was terminated prior to the end of the fiscal year, the amount of the award will be prorated based on the date of termination and the amount of severance bonus received by such participant. Additionally, for a two-year period following a Change in Control, the AIP may not be terminated or amended with certain limited exceptions.

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Since the Committee determines awards under the AIP based upon the achievement of certain performance criteria which are not presently determinable, it is not possible to determine the amounts that will be received by any participant in the AIP at this time. In September 2014, the following amounts were awarded to the NEOs, all executive officers as a group, and all non-executive officer participants as a group under the AIP for fiscal 2014 performance:

| | |
|---|---|
| Denise M. Morrison | $ 1,102,500 |
| Anthony P. DiSilvestro | $ 299,250 |
| B. Craig Owens | $ 451,173 |
| Mark R. Alexander | $ 405,007 |
| Carlos J. Barroso | $ 274,950 |
| Ellen Oran Kaden | $ 548,888 |
| All executive officers as a group | $ 4,437,623 |
| All non-executive officer participants as a group | $ 37,371,567 |

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table provides information about the Company s stock that could have been issued under the Company s equity compensation plans as of August 3, 2014:

| **Plan Category** | **Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(a)** | **Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)** | **Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)(c)** |
|---|---|---|---|
| Equity Compensation Plans Approved by Security Holders(1) | 4,255,886 | $ 28.33 | 8,759,729 |
| Equity Compensation Plans Not Approved by Security Holders | N/A | N/A | N/A |
| Total | 4,255,886 | $ 28.33 | 8,759,729 |

(1) Column (a) represents stock options and restricted stock units outstanding under the 2005 Long-Term Incentive Plan and the 2003 Long-Term Incentive Plan. No additional awards can be made under the 2003 Long-Term Plan. Future equity awards under the 2005 Long-Term Incentive Plan may take the form of stock options, SARs, performance unit awards, restricted stock, restricted performance stock, restricted stock units or stock awards. Column (b) represents the weighted-average exercise price of the outstanding stock options only; the outstanding restricted stock units are not included in this calculation. Column (c) represents the maximum number of future equity awards that can be made under the 2005 Long-Term Incentive Plan as of August 3, 2014.

**Submission of Shareholder Proposals**

Under Rule 14a-8(e) of the Securities Exchange Act of 1934, shareholder proposals intended for inclusion in next year s proxy statement must be submitted in writing to the Company s Corporate Secretary at 1 Campbell Place, Camden, New Jersey 08103-1799, and must be received by June 3, 2015.

Any shareholder proposal submitted for consideration at next year s annual meeting but not submitted for inclusion in the proxy statement must be submitted in writing to the Company s Corporate Secretary at 1 Campbell Place, Camden, New Jersey 08103-1799, and must be received no earlier than August 21, 2015, and no later than September 20, 2015. Any proposal without the required notice will not be considered properly submitted under the Company s By-laws. Any proposal that is received by the Company after September 20, 2015, will not be considered filed on a timely basis with the Company under Rule 14a-4(c)(1). For such proposals that are not properly submitted or timely filed, the Company retains discretion to vote proxies it receives. For such proposals that are properly submitted and timely filed, the Company retains discretion to vote proxies it receives, provided that: (1) the Company includes in its proxy statement advice on the nature of the proposal and how it intends to exercise its voting discretion; and (2) the proponent does not issue a proxy statement.

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### Director and Executive Officer Stock Ownership Reports

The federal securities laws require the Company s directors and executive officers, and persons who own more than ten percent of the Company s stock, to file with the SEC and the New York Stock Exchange initial reports of ownership and reports of changes in ownership of any securities of the Company.

To the Company s knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended August 3, 2014, all the Company s executive officers, directors and greater-than-ten-percent beneficial owners made all required filings on a timely basis.

### Other Matters

The Board of Directors knows of no other matters to be presented for action at the meeting. If other matters come before the meeting, it is the intention of the directors proxy to vote on such matters in accordance with his or her best judgment.

### Proxies and Voting at the Meeting

The proxy materials are being provided for solicitation of proxies by the Board of Directors for the Annual Meeting of Shareholders of Campbell Soup Company called to be held on November 19, 2014. The mailing address of the Company s World Headquarters is 1 Campbell Place, Camden, New Jersey 08103-1799.

Proxies marked as abstaining on any matter to be acted upon by shareholders will be treated as present at the meeting for purposes of determining a quorum but will not be counted as votes cast on such matters. Similarly, broker non-votes will not be counted as votes cast.

This solicitation of proxies is made on behalf of the Board of Directors of the Company with authorization of the Board, and the Company will bear the cost. Proxy solicitation material will be distributed to shareholders, and employees of the Company may communicate with shareholders to solicit their proxies. Brokers, banks and others holding stock in their names, or in names of nominees, may request and forward proxy solicitation material to beneficial owners and seek authority for execution of proxies, and the Company will reimburse them for their expenses in so doing at the rates approved by the New York Stock Exchange.

When a proxy is returned properly dated and signed, the shares represented thereby, including any shares held under the Company s Dividend Reinvestment Plan, will be voted by the person named as the directors proxy in accordance with each shareholder s directions. Proxies will also be considered to be confidential voting instructions to the Trustee with respect to shares held in accounts under the Campbell Soup Company 401(k) Retirement Plan. If participants in this plan are also shareholders of record under the same account information, they will receive a single proxy that represents all shares. If the account information is different, then the participants will receive separate proxies. Shareholders of record and participants in the retirement plan may cast their vote by:

(1) using the Internet and voting at the Web site listed on the proxy card or the e-proxy notice;

(2) using the toll-free phone number listed on the proxy solicitation/voting instruction card; or

(3) signing, dating and mailing the proxy card in the enclosed postage paid envelope.

The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number. The procedure allows shareholders to appoint a proxy and the retirement plan participants to instruct a plan fiduciary to vote their shares and to confirm that their instructions have been properly recorded. Specific instructions to be followed are set forth on the proxy solicitation/voting instruction card or the e-proxy notice.

Shareholders are urged to cast their votes. If a proxy card is dated, signed and returned without specifying choices, the shares will be voted as recommended by the directors (or, in the case of participants in the retirement plan referred to above, may be voted at the discretion of the Trustee). Shareholders may vote their shares via the Internet or by telephone to the extent described on the proxy card or the e-proxy notice.

A shareholder giving a proxy may revoke it by notifying the Corporate Secretary in writing any time before it is voted. If a shareholder wishes to give a proxy to someone other than the directors proxy, all three names appearing on the proxy may be crossed out and the name of another person inserted. The signed proxy card must be presented at the meeting by the person representing the shareholder.

Each shareholder who plans to attend the meeting in person must follow the instructions provided below under Information about Attending the Meeting.

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## Shareholders Sharing the Same Address

In accordance with notices that we sent to certain shareholders, we are sending only one e-proxy notice or one copy of our annual report and proxy statement to shareholders who share the same last name and address, unless they have notified us that they want to continue receiving multiple copies. This practice, known as householding, is designed to reduce duplicate mailings and printing and postage costs. However, if any shareholder residing at such address wishes to receive a separate annual report, proxy statement, or e-proxy notice in the future, he or she may contact the Company s Corporate Secretary. If you are receiving multiple copies of the annual report and proxy statement or e-proxy notice, you can request householding by contacting the Company s Corporate Secretary. The contact information is set forth below.

## Information about Attending the Meeting

The 2014 Annual Meeting of Shareholders will be held at Campbell Soup Company World Headquarters, 1 Campbell Place, Camden, New Jersey 08103 on Wednesday, November 19, 2014. A map and directions appear at the back of this booklet. Doors to the meeting room will open at approximately 3:30 p.m.

Attendance at the Annual Meeting is limited to shareholders (or their authorized representatives) as of September 22, 2014, and members of their immediate family. All attendees must pre-register and obtain an admission ticket. An admission ticket and valid, government-issued photographic identification are required to enter the meeting. Cameras, audio and video recorders and similar electronic recording devices will not be allowed in the meeting room. We will also request that all cellular phones, smartphones, tablets, pagers and laptops be turned off.

If you would like to attend the Annual Meeting, please follow the instructions below to pre-register by November 12, 2014.

### Pre-Registration Instructions

If you are a registered shareholder (your shares are held in your name), you may pre-register and obtain an admission ticket by: checking the appropriate box on the Internet voting site, following the prompts on the telephone voting site, or marking the appropriate box on your proxy card. You may also pre-register and obtain an admission ticket by contacting the Company and providing your name as it appears on your stock ownership records and your mailing address. If a family member is attending with you, please indicate that when you pre-register.

If you are a beneficial owner (your shares are held through a broker or bank) you may pre-register and obtain an admission ticket by contacting the Company and providing your name and mailing address, and evidence of your stock ownership as of September 22, 2014. A copy of your brokerage or bank statement will suffice as evidence of ownership, or you can obtain a letter from your broker or bank. If a family member is attending with you, please indicate that when you pre-register.

If you are a shareholder as of the record date and intend to appoint an authorized representative to attend the meeting on your behalf, you may pre-register and obtain an admission ticket by submitting a request to the Company and providing: your name and mailing address, the name and mailing address of your authorized representative, evidence of stock ownership as of September 22, 2014, and a signed authorization appointing such individual to be your authorized representative at the meeting.

To pre-register for the meeting and obtain an admission ticket, you can write to the Company at Campbell Soup Company, Office of the Corporate Secretary, 1 Campbell Place, Camden, NJ 08103-1799, fax your request to (856) 342-3889, or call (856) 342-8590.

**It is important that your shares be represented and voted at the meeting. Please vote via the Internet or by phone or fill out, sign, date and return the accompanying proxy card as soon as possible, regardless of whether you plan to attend the meeting.**

By order of the Board of Directors,

Kathleen M. Gibson

Vice President and Corporate Secretary

Camden, New Jersey

October 1, 2014

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**Appendix A for 2014 Proxy Statement**

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*Note:* The documents listed above are also available on the Company s Web site (www.campbellsoupcompany.com) in the governance section. The Company s Code of Business Conduct and Ethics and the charters for the four standing committees of the Board are also posted on the same Web site.

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**Campbell Soup Company**

**Corporate Governance Standards**

**October 1, 2014**

**Composition of the Board and Qualifications of Directors**

1. Pursuant to the Company s By-Laws, the Board determines the number of directors. A substantial majority of the Board shall be composed of directors who meet the requirements for independence established by the New York Stock Exchange. The Board shall make a determination at least annually as to the independence of each director, in accordance with standards that are disclosed to the shareholders.

2. All directors should be persons of the highest integrity, who abide by exemplary standards of business and professional conduct. Directors should possess the skills and judgment, and the commitment to devote the time and attention, necessary to fulfill their duties and responsibilities.

3. Directors are elected by the shareholders at the Annual Meeting of Shareholders for a one-year term, to serve until the next Annual Meeting. In the event of vacancies on the Board, the Board may elect directors to serve until the next Annual Meeting.

   In any uncontested election of directors, a director nominee who receives more votes withheld than votes for his or her election shall immediately tender his or her resignation. The Board will accept the resignation unless there is a compelling reason for the director to remain on the Board, and will promptly disclose the action it has taken and the reasons for it.

4. The Chief Executive Officer is currently the only employee of the Company nominated by the directors to serve on the Board. The Board believes that, as a general rule, former Campbell executives should not serve as directors of the Company.

5. The Board believes that service on the boards of other companies, and of civic and charitable organizations, enhances the experience and perspective of directors, but may also limit their time and availability. To ensure that all members of the Board have sufficient time to devote proper attention to their responsibilities as directors of the Company, the Governance Committee shall annually review the other board commitments of each director on a case-by-case basis.

6. No person may serve as a director if he or she is employed by a major supplier, customer or competitor of Campbell. In addition, no person may serve as a director if he or she, or a member of his or her immediate family (as defined in the Listing Standards of the New York Stock Exchange), is an executive officer of another company for which an executive officer of Campbell serves on the compensation committee of the board of directors, or of a non-for-profit organization that receives substantial contributions from Campbell or the Campbell Soup Foundation.

7. A director shall notify the Chair of the Governance Committee prior to accepting an invitation to serve on the board of another company or to become affiliated with another business entity. The Governance Committee or its designee shall evaluate and advise the Board whether, by reason of conflicts in regular meeting schedules or business or competitive considerations, simultaneous service on the other board or affiliation with the other entity may impede the director s ability to fulfill his or her responsibilities to Campbell. The Governance Committee shall also administer and apply the Board s Policy Concerning Transactions with Related

Persons.

8. A director who changes his or her principal employment, position, or professional role or affiliation following election or re-election to the Board shall tender his or her resignation for consideration by the Governance Committee and decision by the Board.

9. Directors are required to own at least 2,000 Campbell shares within one year of election, and 6,000 shares within three years of election.

10. The Board believes that the judgment as to the tenure of an individual director should rest on an assessment by the Governance Committee of his or her performance and contributions to the Board. Accordingly, there is no predetermined limit on the number of one-year terms to which a director may be re-elected prior to his or her 72nd birthday. No person may stand for election to the Board after age 72.

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**Responsibilities of Directors**

11. The Board believes that the primary responsibilities of directors are to exercise their business judgment in good faith, to act in what they reasonably believe to be the best interest of all shareholders, and to ensure that the business of the Company is conducted so as to further the long-term interests of its shareholders.

12. Directors shall receive and review appropriate materials in advance of meetings relating to matters to be considered or acted upon by the Board and its committees. Directors are expected to prepare for, attend and participate actively and constructively in all meetings of the Board and of the committees on which they serve.

13. Directors are expected to become and remain well informed about the business, performance, operations and management of the Company; general business and economic trends affecting the Company; and principles and practices of sound corporate governance.

14. In consultation with the Governance Committee, management shall provide programs for director orientation in which all new directors are expected to participate, and information to all directors about programs for continuing director education in areas of importance to the Company.

15. A director shall not participate in the discussion of or decision on any matter in which he or she has a personal, business or professional interest other than his or her interest as a shareholder of the Company. Directors shall promptly inform the Chairman of the Board regarding any actual or potential conflict of interest.

**Composition of Board Committees**

16. The Board shall establish such standing committees as it deems appropriate and in the best interests of the Company. The current standing committees of the Board are the Audit Committee, the Compensation and Organization Committee, the Finance and Corporate Development Committee, and the Governance Committee.

17. The Governance Committee shall recommend and the Board shall appoint, annually and as vacancies or new positions occur, the members of the standing committees and the committee chairs. The Governance Committee shall annually review the membership of the committees, taking account of both the desirability of periodic rotation of committee members and the benefits of continuity and experience in committee service.

18. All members of the Audit, Governance, and Compensation and Organization Committees shall meet the independence requirements of the New York Stock Exchange.

19. Directors who serve on the Audit Committee shall also meet the requirements as to independence, experience and expertise for audit committee members established by the New York Stock Exchange and applicable laws and regulations. At least one member of the Audit Committee shall be an audit committee financial expert as defined by the rules of the U.S. Securities and Exchange Commission.

20. No member of the Audit Committee shall simultaneously serve on the audit committees of more than two other public companies.

**Board Operations**

21. The Board shall determine the number of regular meetings to be scheduled each year, and shall meet more frequently as circumstances may require.

22. The Governance Committee shall recommend and the Board shall appoint, annually and as vacancies occur, a Chairman of the Board. When the Chief Executive Officer of the Company also holds the position of Chairman of the Board, the Chair of the Governance Committee will serve as the Lead Director to preside at executive sessions of non-management directors and provide oversight for the effective functioning of the Board.

23. Upon consultation with the Chief Executive Officer, the Chairman shall annually establish an agenda of the matters that are expected to be considered and acted upon by the Board during the following year. The annual schedule shall be provided to the full Board for review and comment. In addition, the CEO shall review with the Chairman of the Board, prior to each Board meeting, the agenda for the meeting and the nature and scope of the materials that will be furnished to the directors in advance of the meeting.

24. The agenda will provide for an executive session of non-management directors (as defined by the New York Stock Exchange) at every regularly scheduled Board meeting and for an executive session of independent directors at least once a year. The Chairman of the Board, or, when appropriate, the Chair of the Governance Committee, acting in the capacity of Lead Director, shall preside at executive sessions.

25. Directors shall have unfettered access to management and employees of the Company and to its inside and outside counsel and auditors. Executive officers and other senior management are expected to be present at Board meetings at the invitation of the Board.

26. The Board shall establish methods by which interested parties may communicate directly with the Chairman or Lead Director, or with the non-management directors as a group, and shall cause such methods to be disclosed in the proxy statement.

27. The Board and each of its committees are authorized to retain such independent legal, financial or other advisors as they may deem necessary or appropriate to carry out their duties.

28. Directors  fees (including, in the case of a non-executive Chairman of the Board, the Chairman s annual retainer and any additional compensation approved by the Board) will be the sole compensation that any director who is not an employee of Campbell receives, directly or indirectly, from the Company. The form and amount of director compensation shall be based on principles recommended by the Governance Committee and adopted by the Board, and shall be reviewed annually by the Governance Committee. The current principles provide that annual director compensation shall be set at the median of a group of 23 food and consumer products companies, and shall be delivered 50% in unrestricted Campbell shares and 50% in cash unless a director elects to receive his or her compensation entirely in the form of Campbell stock.

29. The Governance Committee shall be furnished annually with a report identifying any charitable contributions or pledges made by the Company during the last year, in the aggregate amount of $25,000 or more, to any entity for which a director serves as an executive officer.

**Committee Operations**

30. Each standing committee of the Board will have a charter that is approved by the Board and sets forth the purposes, duties and responsibilities of the committee. At least annually, the members of each committee will evaluate the adequacy of the committee s charter, and will conduct an evaluation of its performance and effectiveness in fulfilling the duties and responsibilities set forth in the charter.

31. The chair of each standing committee, in consultation with management, shall annually establish agendas of the matters that are expected to be considered and acted upon by the committee during the following year. The annual schedule shall be provided to committee members for review and comment. Management will review with the chair of each committee, prior to each meeting, the agenda for the meeting and the nature and scope of the materials that will be furnished to the committee members in advance of the meeting.

32. The chair of each committee shall report to the Board following each meeting of the committee on the principal matters reviewed or approved by the committee and its recommendations as to actions to be taken by the Board. All directors will receive copies of all minutes of standing committee meetings.

33. The Audit Committee shall have the sole authority and responsibility to select, appoint, evaluate and replace the Company s independent auditors, subject only to ratification by the shareholders, and to approve audit engagement fees and terms. The Audit

Committee shall approve in advance all audit services and all permissible non-audit services to be provided by the independent auditors.

34. The Audit Committee shall meet periodically with senior management, the internal auditors, and the Company s independent auditors, in separate executive sessions.

35. The Governance Committee shall have sole authority to retain and terminate any search firm used to assist in the identification of director candidates, and any compensation consultant retained to assist in the design or evaluation of director compensation, including sole authority to approve their fees and other retention terms.

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36. The Governance Committee shall lead the Board in an annual self-evaluation of the performance and effectiveness of the Board and its committees, and shall report the results of the evaluation to the shareholders in the proxy statement. The Governance Committee shall also assess, on the basis of established criteria, the performance of each director standing for re-election at the next Annual Meeting of Shareholders.

37. The Compensation and Organization Committee shall have sole authority to retain and terminate any compensation consultant used to assist in the design or evaluation of executive compensation for the Chief Executive Officer or senior management, including sole authority to approve the consultant s fees and other retention terms.

**Oversight of the Business and Management**

38. The Board shall review and approve fundamental financial and business strategies and major corporate actions and an annual operating plan that integrates strategic plan milestones, and regularly evaluate business performance and results in light of the operating plan.

39. The Board shall develop principles and policies for the selection of the Chief Executive Officer and the assessment of his or her performance. The Compensation and Organization Committee shall lead the Board at least annually in an evaluation of the performance of the CEO. The results of the evaluation shall be reviewed in one or more meetings of non-management directors at which the CEO is not present.

40. The Compensation and Organization Committee shall recommend to the Board plans and policies regarding the succession of the CEO in the event of an emergency or the CEO s retirement. The CEO shall provide to the Board, on an ongoing basis, recommendations regarding a successor to be appointed in such an event.

41. The Chief Executive Officer will report at least annually to the Compensation and Organization Committee his or her evaluation of the senior management of the Company.

42. The Chief Executive Officer will report annually to the Compensation and Organization Committee on the Company s executive organization and principal programs for management development and planning for executive succession. The Committee will evaluate and report annually to the Board on the effectiveness of these processes.

43. The Board shall approve a Code of Business Conduct and Ethics applicable to directors, officers and employees of the Company, which prohibits retaliation in any form against anyone who reports suspected violations. Any amendments to the Code or waivers of its provisions for directors or executive officers shall be approved by the Audit Committee and promptly disclosed to shareholders.

**Executive Compensation**

44. With input from the other independent directors, the Compensation and Organization Committee shall annually approve the corporate goals and objectives relevant to the compensation of the Chief Executive Officer. The CEO will report to the Board on progress in achieving these goals. Together with the other independent directors, the Compensation and Organization Committee shall determine the CEO s compensation based on the Board s evaluation of his or her performance in light of these goals and objectives.

45. All equity-based compensation plans shall be approved by the shareholders.

46. Incentive compensation plans will be based on principles and policies for executive compensation recommended by the Compensation and Organization Committee and approved by the Board.

47. By the terms of the shareholder-approved incentive plan, stock options may not be repriced.

48. Pursuant to the Company s program relating to ownership of Campbell stock by executives, approximately the 35 most senior executives of the Company must retain a portion of the equity compensation they receive until they own Campbell stock valued at varying amounts ranging from two to six times base salary, depending upon their positions. Restricted stock and stock options, including vested stock options, do not count toward satisfaction of this requirement.

**Shareholders**

49. All shareholders have equal voting rights.

50. The Board will develop, approve and annually review Corporate Governance Standards that are disclosed each year to shareholders in the proxy statement.

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**STANDARDS FOR THE DETERMINATION OF**

**DIRECTOR INDEPENDENCE**

A director shall be considered independent if the Board determines that the director does not have, directly or indirectly, any material relationship with the Company. In making this determination the Board shall broadly consider all relevant facts and circumstances.

Under the Company s Corporate Governance Standards, directors fees are the sole compensation that any director who is not an employee of Campbell may receive, directly or indirectly, from the Company. The Board has established the following additional standards to assist it in determining director independence. For the purposes of these standards, the term immediate family member shall have the meaning given in the Listing Standards of the New York Stock Exchange.

1. A director will not be considered independent if, within the preceding three years:

   (a) the director was employed by the Company, or an immediate family member of the director was employed as an executive officer of the Company;

   (b) the director or an immediate family member of the director received direct compensation from the Company exceeding $120,000 during any twelve-month period, other than (i) director or committee fees, (ii) pension or other forms of deferred compensation for prior service that are not contingent on continued service, (iii) compensation for former service as an interim chairman or CEO, or (iv) compensation received by an immediate family member for services as a non-executive employee of the Company.

   (c) the director or an immediate family member of the director was a partner or employee of the Company s present or former independent auditor and personally worked on the Company s audit;

   (d) an executive of Campbell served on the compensation committee of the board of directors of another company that employed the director or a member of the director s immediate family as an executive officer;

   (e) the director is an employee or executive officer of, or an immediate family member of the director is an executive officer of, another company that does business with Campbell, and the annual sales to or purchases from that company account for the greater of $1 million or 2% of such company s gross revenues; or

   (f) the director is an executive officer of another company that is indebted to Campbell, or to which Campbell is indebted, and the total amount of either company s indebtedness to the other exceeds 1% of the total consolidated assets of the company where the director serves as an executive officer.

2. A director will not be considered independent if:

   (a) the director is a current employee or an immediate family member of the director is a current partner of a firm that is the Company s independent auditor; or

(b) the director has an immediate family member who is a current employee of the Company s independent auditor and who personally works on the Company audit.

3. A director who serves as an executive officer of a not-for-profit entity shall not be considered to have a material relationship with the Company if the discretionary contributions made to the entity by Campbell or the Campbell Soup Foundation (excluding matching grants) during the preceding three years are less than $25,000 or 2% (whichever is greater) of the entity s most recent publicly available operating budget.

4. With respect to any relationship that is not covered by the guidelines in paragraphs 1 and 2 above, the members of the Board who satisfy the standards for independence set forth in those guidelines shall make a determination, based on all relevant facts and circumstances, as to whether or not the relationship is material, and therefore whether the director who has the relationship shall be considered independent. The Company will disclose and explain the basis for any determination that such a relationship is not material in its next proxy statement. The Company will also disclose and explain the basis for any determination of independence for a director who does not satisfy the guidelines in paragraphs 1, 2 and 3 above.

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Pursuant to the requirements of U.S. law, the Company does not make any personal loans or extensions of credit to any director, or any arrangements for the extension of credit to any director.

The Company s conflicts of interest policy requires the disclosure of any personal interest, influence, relationship or other situation that might constitute or be perceived as a potential conflict of interest. Each director is required annually to submit a signed statement attesting to his or her awareness of and compliance with this policy. In addition, under the Company s Corporate Governance Standards, directors are required promptly to inform the Chairman of the Board regarding any actual or potential conflict of interest.

**COMMUNICATING CONCERNS TO THE BOARD OF DIRECTORS**

Any person who has a concern about Campbell s governance, corporate conduct, business ethics or financial practices may communicate that concern to the Board of Directors. Concerns may be submitted in writing to the Chairman of the Board or to the non-management directors as a group in care of the Office of the Corporate Secretary at the Company s headquarters, or by email to directors@campbellsoup.com. Concerns may also be communicated to the Board by calling the following toll-free Hotline telephone number in the U.S. and Canada: 1-800-210-2173. To place toll-free calls from other countries in which the Company has operations, please see the instructions listed in the governance section of the Company s Web site at www.campbellsoupcompany.com. Any concern relating to accounting, internal accounting controls or auditing matters will be referred both to the Chairman and to the Chair of the Audit Committee.

Campbell policy prohibits the Company and any of its employees from retaliating in any manner, or taking any adverse action, against anyone who raises a concern or helps to investigate or resolve it. However, anyone who prefers to raise a concern in a confidential, anonymous manner may do so by calling the Hotline.

Concerns communicated to the Board will be addressed through the Company s regular procedures for addressing such matters. Depending upon the nature of the concern, it may be referred to the Company s Internal Audit Department, the Legal or Finance Department, or other appropriate departments. As they deem necessary or appropriate, the Chairman of the Board or the Chair of the Audit Committee may direct that certain concerns communicated to them be presented to the Audit Committee or the full Board, or that they receive special treatment, including the retention of outside counsel or other outside advisors.

The status of concerns communicated to the Board will be reported periodically to the Chairman and/or the Chair of the Audit Committee, as appropriate.

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**Appendix B for 2014 Proxy Statement**

**Non-GAAP Financial Measures**

Included in this proxy statement are measures of financial performance, specifically adjusted net sales and adjusted EPS, that are not defined by generally accepted accounting principles ( GAAP ). Adjusted EPS was used to evaluate performance under the Annual Incentive Plan described on pages 22 and 23, and under the EPS Performance-Restricted Share Units described on page 25. Both adjusted net sales and adjusted EPS were used to evaluate performance under the Strategic Performance-Restricted Share Units described on pages 24 and 25.

The following information is provided to reconcile the non-GAAP financial measures disclosed in this proxy statement to reported results. The Company believes that the financial information excluding certain items not considered to be part of the ongoing business improves the comparability of year-to-year results. Consequently, the Company believes that investors may be able to better understand its results if these items are excluded from the results. These non-GAAP financial measures are the measures of performance not defined by accounting principles generally accepted in the United States and should be considered in addition to, not in lieu of, GAAP reported measures. Please see the Annual Report on Form 10-K for the fiscal year ended August 3, 2014 for a reporting of the Company s financial results in accordance with GAAP.

**Adjusted Net Sales**

| (dollars in millions) | **2014** |
|---|---|
| Net sales, as reported | **$ 8,268** |
| Impact of currency[1] | **133** |
| Adjusted Net sales | **$ 8,401** |
| | **2012** |
| Net sales, as reported | $ 7,175 |
| Compound annual growth rate | 8.21% |

[1] Includes impact of $13 in 2013 and $120 in 2014.

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**Items Impacting Earnings**

| | 2014 Diluted EPS Impact | 2012 Diluted EPS Impact | Compound Annual Growth Rate |
|---|---|---|---|
| Earnings from continuing operations attributable to Campbell Soup Company, as reported | **$ 2.33** | $ 2.29 | |
| Restructuring charges and related costs | **0.11** | 0.01 | |
| Pension settlement charges | **0.04** | | |
| Loss on foreign exchange forward contracts | **0.02** | | |
| Tax expense associated with the sale of the European simple meals business | **0.02** | | |
| Acquisition transaction costs | | 0.01 | |
| Adjusted Earnings from continuing operations attributable to Campbell Soup Company[(1)] | **$ 2.53** | $ 2.31 | 4.65% |

(1) The sum of the individual per share amounts may not add due to rounding.

In 2014, Earnings from continuing operations attributable to Campbell Soup Company were impacted by the following:

- $36 million ($.11 per share) of restructuring charges and related costs associated with initiatives in 2014 and 2013. In 2014, the company implemented initiatives to streamline its salaried workforce in North America and its workforce in the Asia Pacific region; restructure manufacturing and streamline operations for its soup and broth business in China; improve supply chain efficiency in Australia; and reduce overhead across the organization. In 2013, the company implemented initiatives to improve its U.S. supply chain cost structure and increase asset utilization across its U.S. thermal plant network; expand access to manufacturing and distribution capabilities in Mexico; improve its Pepperidge Farm bakery supply chain cost structure; and reduce overhead in North America.

- $14 million ($.04 per share) of pension settlement charges associated with a U.S. pension plan. The settlements resulted from the level of lump sum distributions from the plan s assets in 2014, primarily due to the closure of the facility in Sacramento, California;

- a $6 million ($.02 per share) loss on foreign exchange forward contracts used to hedge the proceeds from the sale of the European simple meals business; and

- a $7 million ($.02 per share) tax expense associated with the sale of the European simple meals business.

In 2012, Earnings from continuing operations attributable to Campbell Soup Company were impacted by the following:

- $4 million ($.01 per share) of restructuring charges associated with initiatives announced in June 2011 to improve supply chain efficiency, reduce overhead costs across the organization and exit the Russian market; and

- $3 million ($.01 per share) of transaction costs related to the acquisition of Bolthouse Farms.

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**Appendix C for 2014 Proxy Statement**

# CAMPBELL SOUP COMPANY

## Annual Incentive Plan

## As Amended November 19, 2014

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**CAMPBELL SOUP COMPANY**

**ANNUAL INCENTIVE PLAN**

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**ARTICLE I**

**PURPOSE**

§ 1.1 The purpose of the Plan is to provide annual financial incentives for selected employees of the Campbell Group, thereby promoting the growth and financial success of the Campbell Group by (1) attracting and retaining employees of outstanding ability, (2) strengthening the Campbell Group s capability to develop, maintain, and direct a competent management team, (3) motivating employees to achieve annual Performance Goals and objectives, and (4) providing incentive compensation opportunities competitive with those of other major corporations.

**ARTICLE II**

**DEFINITIONS**

The following words and phrases, as used in the Plan, shall have these meanings:

§ 2.1 **Board** means the Board of Directors of the Company.

§ 2.2 **Campbell Group** means the Company and all of its Subsidiaries.

§ 2.3 **Cause** except for purposes of Article VIII, means the termination of a Participant s employment by reason of his or her (1) engaging in gross misconduct that is injurious to the Campbell Group, monetarily or otherwise, (2) misappropriation of funds, (3) willful misrepresentation to the directors or officers of the Campbell Group, (4) gross negligence in the performance of the Participant s duties having an adverse effect on the business, operations, assets, properties or financial condition of the Campbell Group, (5) conviction of a crime involving moral turpitude, or (6) entering into competition with the Campbell Group. The determination of whether a Participant s employment was terminated for Cause shall be made by the Company in its sole discretion.

§ 2.4 **Campbell Stock** means Capital Stock of the Company.

§ 2.5 **Committee** means the Compensation and Organization Committee of the Board or a subcommittee thereof. All members of the Committee shall be Outside Directors, as defined or interpreted for purposes of Section 162(m) of the Code, and Non-Employee Directors, within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the 1934 Act ).

§ 2.6 **Company** means Campbell Soup Company and its successors and assigns.

§ 2.7 **Deferred Compensation Plan** means the Campbell Soup Company Deferred Compensation Plan and the Campbell Soup Company Supplemental Retirement Plan (and any successor plans).

§ 2.8 **Director** means a member of the Board who is not an Eligible Employee.

§ 2.9 **Eligible Employee** means a person who is a regular salaried employee of the Campbell Group and who, in the opinion of the Committee, is a key employee whose performance can contribute to the successful management of the Campbell Group, including a person whose services terminated before the end of the fiscal year, but not including a person serving only as a director of the Company or a Subsidiary.

§ 2.10 **Extraordinary Items** means (i) extraordinary, unusual and/or non-recurring items of gain or loss, including but not limited to, restructuring or restructuring-related charges, (ii) gains or losses on the disposition of a business, (iii) changes in tax or accounting regulations or laws, or (iv) the effect of a merger or acquisition, all of which are identified in the Company s audited financial statements or the Company s annual report to Shareowners.

§ 2.11 **Performance Goals** means the goals established by the Committee pursuant to Article V.

§ 2.12 **Participant** means a person to whom an award of incentive compensation has been made under the Plan.

§ 2.13 **Plan** means the Campbell Soup Company Annual Incentive Plan.

§ 2.14 **President** means the President of the Company.

§ 2.15 **Shareowners** means the Shareowners of the Company.

§ 2.16 **Subsidiary** means a corporation, domestic or foreign, the majority of the voting stock of which is owned directly or indirectly by the Company.

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## ARTICLE III

## ADMINISTRATION

§ 3.1 The Plan shall be administered by the Committee. The Committee shall have all necessary powers to administer and interpret the Plan, such powers to include the authority to select Eligible Employees to whom awards may be granted under the Plan and to determine the amount of any award of incentive compensation to be granted to any Eligible Employee, except that the amount of any incentive compensation to be granted by the Committee to any Eligible Employee who is also a Director of the Company shall be approved by the Board. A Director shall not participate in a vote approving the amount of the grant to himself or herself. The Committee shall have full power and authority to adopt such rules, regulations and instruments for the administration of the Plan and for the conduct of its business as the Committee deems necessary or advisable. The Committee s interpretations of the Plan, and all actions taken and determinations made by the Committee pursuant to the powers vested in it hereunder, shall be conclusive and binding on all parties concerned, including the Company, its Shareowners and any employee of the Campbell Group.

## ARTICLE IV

## PARTICIPATION

§ 4.1 Participants in the Plan shall be selected by the Committee from among Eligible Employees based upon such criteria as the Committee may from time to time determine.

## ARTICLE V

## AWARDS

§ 5.1 **Establishment of Performance Goals.** Prior to or during the beginning of each fiscal year (but in any event no later than 90 days into a fiscal year) the Committee will establish in writing one or more Performance Goals for the Company. The Performance Goals will be comprised of specified annual levels of one or more of the following performance criteria as the Committee may deem appropriate: earnings per share, net earnings, operating earnings, unit volume, net sales, market share, balance sheet measurements, revenue, economic profit, cash flow, cash return on assets, shareowner return, return on equity, or return on capital. In addition, for awards not intended to comply with Section 162(m) of the Internal Revenue Code, the Committee may establish Performance Goals based on other performance criteria as it deems appropriate.

§ 5.2 **Establishment of Award Categories.** Prior to the close of each fiscal year, the Committee shall:

(a) be advised by such appropriate officer of the Company as it may request, of the recommended estimated aggregate amount of awards of incentive compensation to be granted under the Plan for such fiscal year; and

(b) determine whether awards shall be granted under the Plan for the fiscal year and if so, determine, the classes of employees eligible to receive awards of incentive compensation based upon job grade and salary levels and such other procedures for the granting of the awards as the Committee may deem desirable.

The class of employees determined to be eligible for awards shall not be subject to change after the close of the fiscal year.

§ 5.3 **Establishment of Award Amounts.** After the close of the fiscal year, the Committee may fix a maximum aggregate dollar amount which may be granted for awards for that fiscal year. The amounts of awards to be granted with respect to particular employees within the eligible classes may be determined after the close of the fiscal year under procedures established by the Committee.

§ 5.4 **Grant of Awards.** The Committee shall, in granting awards to particular Eligible Employees for any fiscal year, take into consideration (a) the performance of the Company or the organizational unit of the Eligible Employee based upon attainment of Performance Goals and (b) as between Participants, the contribution of the Participant during the fiscal year to the success of the Company, including the Participant s
(i) position and level of responsibility, (ii) business unit, division or department achievements, and (iii) management assessment of individual performance. No award or awards may be granted to any Participant for the same fiscal year that exceeds in the aggregate $5 million. The Committee shall have no discretion to increase such awards.

§ 5.5 **Committee Discretion.** The Committee shall have complete discretion with respect to the determination of the Eligible Employees to whom awards of incentive compensation shall be granted and the granting of such awards, except that the amount of any incentive compensation to be granted by the Committee to any Eligible Employee who is also a Director of the Company shall be approved by the Board in accordance with Article III.

§ 5.6 **Limitation on Awards.** Notwithstanding any other provision of the Plan, the Committee may not grant any award for any fiscal year, prior to a Change in Control (as hereinafter defined), in which no cash dividend shall have been paid on Campbell Stock.

§ 5.7 **Payment of Awards.** Incentive compensation awards made pursuant to Article V shall be paid entirely in cash as soon as possible after grant approval, unless the Participant is eligible for and has elected to defer receipt of a portion or all of such award in accordance with the terms of the Deferred Compensation Plan or unless the Committee, in its discretion, approves the conversion of the award into stock options, restricted stock or unrestricted stock pursuant to the Company s long-term incentive plan.

§ 5.8 **Section 162(m) Participants.** Notwithstanding the foregoing, within the first 90 days of a fiscal year, the Committee will establish in writing the maximum amount to be paid under an award to an Eligible Employee who is or may be a covered employee within the meaning of Section 162 (m) of the Internal Revenue Code if one or more Performance Goals for the fiscal year are achieved. No amount shall be paid to a covered employee pursuant to an award unless and until the Committee has certified in writing that the applicable Performance Goals and any other material terms under such award (other than in cases where such relate solely to the increase in the value of Campbell Stock) have been satisfied. The Committee will disregard or offset the effect of any Extraordinary Items in determining the attainment of Performance Goals for this purpose. At any time, the Committee may reduce (but not increase) the amount payable under an award to a covered employee upon attainment of Performance Goals on the basis of such further considerations as the Committee in its sole discretion shall determine.

## ARTICLE VI

## LIMITATIONS

§ 6.1 **Rights Not Absolute.** No person shall at any time have any right to be granted an award hereunder for any fiscal year, and no person shall have authority to enter into an agreement committing the Company to make or pay an award, nor shall any person have authority to make any representation or warranty on behalf of the Company with respect thereto.

§ 6.2 **Participants Rights Limited to Plan.** Participants receiving awards shall have no rights to such awards except as set forth in this Plan.

§ 6.3 **No Right to Continued Employment.** Neither the action of the Company in establishing the Plan, nor any action taken by it or by the Board or the Committee under the Plan, nor any provision of the Plan, shall be construed as giving to any person the right to be retained in the employ of the Campbell Group.

## ARTICLE VII

## AMENDMENT, SUSPENSION OR TERMINATION OF

## THE PLAN IN WHOLE OR IN PART

§ 7.1 The Board may amend, suspend or terminate the Plan in whole or in part; but it may not affect adversely rights or obligations with respect to awards previously made. The Plan may be altered, changed or repealed by the Shareowners; but such action shall not affect adversely rights or obligations with respect to awards previously made.

## ARTICLE VIII

## CHANGE IN CONTROL OF THE COMPANY

§ 8.1 **Contrary Provisions.** Notwithstanding anything contained in the Plan to the contrary, the provisions of this Article VIII shall govern and supersede any inconsistent terms or provisions of the Plan.

§ 8.2 **Definitions of Change in Control and Cause.** For purposes of the Plan Change in Control shall mean any of the following events:

(a) The acquisition in one or more transactions by any Person (as the term person is used for purposes of Section 13(d) or 14(d) of the 1934 Act) of Beneficial Ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty-five percent (25%) or more of the combined voting power of the Company s then outstanding voting securities (the Voting Securities ), provided, however, that for purposes of this Section 8.2(a), the Voting

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Securities acquired directly from the Company by any Person shall be excluded from the determination of such Person s Beneficial Ownership of Voting Securities (but such Voting Securities shall be included in the calculation of the total number of Voting Securities then outstanding); or

(b) The individuals who, as of September 28, 2000, are members of the Board (the Incumbent Board ), cease for any reason to constitute more than fifty percent of the Board; provided, however, that if the election, or nomination for election by the Company s Shareowners, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of the Plan, be considered as a member of the Incumbent Board; or

(c) Approval by Shareowners of the Company of (1) a merger or consolidation involving the Company if the Shareowners of the Company, immediately before such merger or consolidation, do not own, directly or indirectly immediately following such merger or consolidation, more than fifty percent (50%) of the combined voting power of the outstanding Voting Securities of the corporation resulting from such merger or consolidation in substantially the same proportion as their ownership of the Voting Securities immediately before such merger or consolidation or (2) a complete liquidation or dissolution of the Company or an agreement for the sale or other disposition of all or substantially all of the assets of the Company; or

(d) Acceptance of Shareowners of the Company of shares in a share exchange if the Shareowners of the Company, immediately before such share exchange, do not own, directly or indirectly immediately following such share exchange, more than fifty percent (50%) of the combined voting power of the outstanding Voting Securities of the corporation resulting from such share exchange in substantially the same proportion as their ownership of the Voting Securities outstanding immediately before such share exchange.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because twenty-five percent (25%) or more of the then outstanding Voting Securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained by the Company or any of its Subsidiaries, (ii) any corporation which, immediately prior to such acquisition, is owned directly or indirectly by the Shareowners of the Company in the same proportion as their ownership of stock in the Company immediately prior to such acquisition, (iii) any Grandfathered Dorrance Family Shareowner (as hereinafter defined) or (iv) any Person who has acquired such Voting Securities directly from any Grandfathered Dorrance Family Shareowner but only if such Person has executed an agreement which is approved by two-thirds of the Board and pursuant to which such Person has agreed that he (or they) will not increase his (or their) Beneficial Ownership (directly or indirectly) to 30% or more of the outstanding Voting Securities (the Standstill Agreement ) and only for the period during which the Standstill Agreement is effective and fully honored by such Person. For purposes of this Section, Grandfathered Dorrance Family Shareowner shall mean at any time a Dorrance Family Shareowner (as hereinafter defined) who or which is at the time in question the Beneficial Owner solely of (v) Voting Securities Beneficially Owned by such individual on January 25, 1990, (w) Voting Securities acquired directly from the Company, (x) Voting Securities acquired directly from another Grandfathered Dorrance Family Shareowner, (y) Voting Securities which are also Beneficially Owned by other Grandfathered Dorrance Family Shareowners at the time in question, and (z) Voting Securities acquired after January 25, 1990 other than directly from the Company or from another Grandfathered Dorrance Family Shareowner by any Dorrance Grandchild (as hereinafter defined) provided that the aggregate amount of Voting Securities so acquired by each such Dorrance Grandchild shall not exceed five percent (5%) of the Voting Securities outstanding at the time of such acquisition. A Dorrance Family Shareowner who or which is at the time in question the Beneficial Owner of Voting Securities which are not specified in clauses (v), (w), (x), (y) and (z) of the immediately preceding sentence shall not be a Grandfathered Dorrance Family Shareowner at the time in question. For purposes of this Section, Dorrance Family Shareowners shall mean individuals who are descendants of the late Dr. John T. Dorrance, Sr. and/or the spouses, fiduciaries and foundations of such descendants. A Dorrance Grandchild means as to each particular grandchild of the late Dr. John T. Dorrance, Sr., all of the following taken collectively: such grandchild, such grandchild s descendants and/or the spouses, fiduciaries and foundations of such grandchild and such grandchild s descendants.

Moreover, notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the Subject Person ) acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

Notwithstanding anything contained in this Plan to the contrary, if a Participant s employment is terminated by the Company without Cause within one year prior to a Change in Control and such termination (1) was at the request of a third party who effectuates a Change in Control or (2) otherwise occurred in connection with or in anticipation of, a Change in Control, then for purposes of this Article VIII only, the date of a Change in Control shall mean the date immediately prior to the date of such Participant s termination of employment.

**Cause.** For purposes of this Article VIII only, the term Cause shall mean the termination of a Participant s employment by reason of his or her (a) conviction of a felony or (b) engaging in conduct which constitutes willful gross misconduct which is demonstrably and materially injurious to the Campbell Group, monetarily or otherwise. No act, nor failure to act, on the Employee s part, shall be considered willful unless he or she has acted, or failed to act, with an absence of good faith and without a reasonable belief that his or her action or failure to act was in the best interest of the Campbell Group.

§ 8.3 **Change in Control Award.** During any fiscal year in which a Change in Control occurs ( Change in Control Year ) each Eligible Employee who is a Participant on the date immediately prior to the Change in Control (a) whose employment with his or her employer is terminated prior to the end of the Change in Control Year for any reason (other than by his or her employer for Cause) or (b) who is in the employ of the Company or any Subsidiary on the last day of the Change in Control Year, shall be entitled to receive, in either case, within thirty (30) days thereafter, a cash payment equal to the greater of (x) his or her target award for the Change in Control Year or (y) the average of the awards paid or payable under the Plan for the two most recent fiscal years ended prior to the Change in Control Year (the Award ); provided, however, that the amount of the Award to be paid to each Participant as provided in clause (a) above shall be multiplied by a fraction, the numerator of which shall be the number of calendar days from and including the first day of the Change in Control Year through and including the date the Participant s employment is terminated and the denominator of which shall be 365; provided, further, however, that the Award to be paid to any Participant who is a party to an individual severance agreement shall be reduced by the amount of the Pro Rata Bonus (as defined in the severance agreement) that such Participant receives under the severance agreement.

§ 8.4 **Continuation of the Plan.** For a period of two (2) years following a Change in Control, the Plan shall not be terminated or amended in any way (including, but not limited to, restricting or limiting any Eligible Employee s right to participate in the Plan), nor shall the manner in which the Plan is administered be changed in a way that adversely affects the level of participation or reward opportunities of any Participant; provided, however, that the Plan shall be amended as necessary to make appropriate adjustments for (a) any negative effect that the costs and expenses incurred by the Company and its Subsidiaries in connection with the Change in Control may have on the benefits payable under the Plan and (b) any changes to the Company and/or its Subsidiaries (including, but not limited to, changes in corporate structure, capitalization and increased interest expense as a result of the incurrence or assumption by the Company of acquisition indebtedness) following the Change in Control so as to preserve the reward opportunities and performance targets for comparable performance under the Plan as in effect on the date immediately prior to the Change in Control.

§ 8.5 **Amendment or Termination.** This Article VIII shall not be amended or terminated at any time if any such amendment or termination would adversely affect the rights of any Participants under the Plan.

§ 8.6 **Amendment or Termination prior to a Change in Control.** Any amendment or termination of the Plan prior to a Change in Control which (1) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control or (2) otherwise arose in connection with or in anticipation of a Change in Control, shall be null and void and shall have no effect whatsoever.

## ARTICLE IX

## MISCELLANEOUS

§ 9.1 **Non-alienation.** No amounts payable under the Plan shall be subject in any manner to anticipation, assignment, or voluntary or involuntary alienation.

§ 9.2 **Governing Law.** This Plan shall be governed by and construed in accordance with the laws of the State of New Jersey to the extent not preempted by federal law.

§ 9.3 **Incapacity.** If the Committee, in its sole discretion, deems a Participant who is eligible to receive any payment hereunder to be incompetent to receive the same due to age, illness or any infirmity or incapacity of any kind, the Committee may direct the employer to apply such payment directly for the benefit of such person, or to make pay-

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ment to any person selected by the Committee to disburse the same for the benefit of the Participant. Payments made pursuant to this Section shall operate as a discharge, to the extent thereof, of all liabilities of the employer, the Committee and the Plan to the person for whose benefit the payments are made.

§ 9.4 **Trust Arrangement.** All benefits under the Plan represent an unsecured promise to pay by the Company. The Plan shall be unfunded and the benefits hereunder shall be paid only from the general assets of the Company; provided, however, nothing herein shall prevent or prohibit the Company from establishing a trust or other arrangement for the purpose of providing for the payment of the benefits payable under the Plan.

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**DIRECTIONS AND MAP**

**Campbell Soup Company**

**World Headquarters**

**1 Campbell Place**

**Camden, New Jersey 08103-1799**

**DIRECTIONS**

**From the North:**

- Take the NJ Turnpike South to EXIT 4
- After exiting, turn right onto Rt. 73-North
- Use right lane follow short distance to Rt. 295-South
- Drive one mile to EXIT 34, Rt. 70-West
- Follow Rt. 70-West for 5 miles to Rt. 30-West
- Once on Rt. 30-West, use the right lane; in less than two miles an overhead sign will indicate Campbell Place
- Make a sharp right turn and drive down the ramp, staying to the left
- At the light, turn left into the main entrance for Campbell Soup Company

**From the South:**

- Follow Interstate 95-North into Delaware
- Drive North to the Delaware Memorial Bridge
- After the toll, follow Rt. 295-North (look for State Aquarium signs along the highway)
- At EXIT 26, the road splits; bear right, use the left lane while driving down the ramp and bear left at bottom of ramp and drive straight to Rt. 676-North
- At the base of the Walt Whitman Bridge (do not cross bridge) Rt. 676-North begins in the right lanes
- Proceed on Rt. 676-North for approximately 3 miles to EXIT 5A
- At bottom of ramp, turn left at the light on to 11th St.
- At the second light, turn right into the main entrance for Campbell Soup Company

**From Philadelphia International Airport:**

· Follow Interstate 95-North (approximately 10 miles) to EXIT 22 sign reads Central Philadelphia, Independence Hall, Callowhill Street
· Go straight at traffic signal at bottom of ramp (3rd & Callowhill)
· Proceed in left lane of Callowhill to 6th Street.
· Turn left and follow to Benjamin Franklin Bridge.
· Proceed in left lanes, after toll booths (no toll) the road in front will divide bear left.
· Follow Rt. 30 East (Admiral Wilson Blvd.), and move to the right lane while proceeding 4/10 of a mile.
· Take the first exit on the right; there will be a sign that reads Memorial Avenue make the first right on to Memorial Ave.
· Go straight at the first light over 11th St. and into the main entrance for Campbell Soup Company

**From 30th Street Train Station & Center City Philadelphia:**

· Follow Interstate 676-East to the exit for the Benjamin Franklin Bridge.
· Take the exit and get into the left lane, make a right turn at the end of the ramp
· Make the first left turn onto the Benjamin Franklin Bridge
· Proceed in left lanes, after toll booths (no toll) the road in front will divide bear left.
· Follow Rt. 30 East (Admiral Wilson Blvd.), and move to the right lane while proceeding 4/10 of a mile.
· Take the first exit on the right; there will be a sign that reads Memorial Avenue make the first right on to Memorial Ave.
· Go straight at the first light over 11th St. and into the main entrance for Campbell Soup Company

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**Campbell Soup Company**

1 Campbell Place, Camden, NJ 08103-1799

investor.campbellsoupcompany.com

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x

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

**Electronic Voting Instructions**

**Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or telephone must be received by 1:00 a.m. Eastern Time on November 19, 2014.**

**Vote by Internet**

Go to **www.envisionreports.com/cpb**

Or scan the QR code with your smartphone

Follow the steps outlined on the secure website

**Vote by telephone**

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone

Follow the instructions provided by the recorded message

q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

**A Proposals The Board of Directors recommends a vote FOR all nominees and FOR Items 2, 3 and 4.**

| | | | | | |
|---|---|---|---|---|---|
| 1. Election of Directors: | 01 - Paul R. Charron | 02 - Bennett Dorrance | 03 - Lawrence C. Karlson | 04 - Randall W. Larrimore | |
| | 05 - Marc B. Lautenbach | 06 - Mary Alice D. Malone | 07 - Sara Mathew | 08 - Denise M. Morrison | + |
| | 09 - Charles R. Perrin | 10 - A. Barry Rand | 11 - Nick Shreiber | 12 - Tracey T. Travis | |
| | 13 - Archbold D. van Beuren | 14 - Les C. Vinney | | | |

| | | 01 | 02 | 03 | 04 | 05 | 06 | 07 |
|---|---|---|---|---|---|---|---|---|
| .. | **Mark here to vote FOR all nominees** | | | | | | | |
| | | .. | .. | .. | .. | .. | .. | .. |
| .. | **Mark here to WITHHOLD vote from all nominees** | | | | | | | |
| | | 08 | 09 | 10 | 11 | 12 | 13 | 14 |
| .. | **For All EXCEPT** - To withhold a vote for one or more nominees, mark the box to the left and the corresponding numbered box(es) to the right. | .. | .. | .. | .. | .. | .. | .. |

**For Against Abstain** **For Against Abstain**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2. Ratification of appointment of the Independent Registered Public Accounting Firm. | ¨ | ¨ | ¨ | 3. Advisory vote on executive compensation. | ¨ | ¨ | ¨ |
| 4. Re-approval of Campbell Soup Company Annual Incentive Plan. | ¨ | ¨ | ¨ | | | | |

**B Non-Voting Items**

**Change of Address** Please print new address below.

Mark this box with an X to pre-register and obtain a ticket of admission to the meeting. ¨

**C Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below**

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

| Date (mm/dd/yyyy) Please print date below. | Signature 1 Please keep signature within the box. | Signature 2 Please keep signature within the box. |
|---|---|---|
| / / | | |

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**Campbell Soup Company s Annual Meeting of Shareholders will be held on November 19, 2014 at**

**Campbell Soup Company, One Campbell Place, Camden, New Jersey 08103, at 4:00p.m. Eastern Time.**

**DIRECTIONS**

**From the North:**

Take the NJ Turnpike South to EXIT 4

After exiting, turn right onto Rt. 73-North

Use right lane - follow short distance to Rt. 295-South

Drive one mile to EXIT 34B., Rt. 70-West

Follow Rt. 70-West for 5 miles to Rt. 30-West

Once on Rt. 30-West, use the right lane; in less than two miles an overhead sign will indicate Campbell Place

Make a sharp right turn and drive down the ramp staying to the left

At the light, turn left into the main entrance for Campbell Soup Company

**From Philadelphia International Airport:**

Follow Interstate 95-North (approximately 10 miles) to EXIT 22 - sign reads Central Philadelphia, Independence Hall, Callowhill Street

Go straight at traffic signal at bottom of ramp (3rd & Callowhill)

Proceed in left lane of Callowhill to 6th Street

Turn left and follow to Ben Franklin Bridge

Proceed in left lanes, after toll booths (no toll) the road in front will divide - bear left

Follow Rt. 30 East (Admiral Wilson Blvd.), and move to the right lane while proceeding 4/10 of a mile

Take the first exit on the right; there will be a sign that reads Memorial Avenue - make the first right on to Memorial Ave

Go straight at the first light over 11th St. and into the main entrance for Campbell Soup Company

**From the South:**

Follow Interstate 95-North into Delaware

Drive North to the Delaware Memorial Bridge

After the toll, follow Rt. 295-North (look for State Aquarium signs along the highway)

At EXIT 26 road splits; bear right, use the left lane driving down the ramp and bear left at bottom of ramp and drive straight to Rt. 676-North

At the base of the Walt Whitman Bridge (do not cross bridge) Rt. 676-North begins in the right lanes

Proceed on 676-North for approximately 3 miles to EXIT 5A

At bottom of ramp, turn left at the light on to 11th St.

At the second light, turn right into the main entrance for Campbell Soup Company

**From 30th Street Train Station & Center City Philadelphia:**

Follow Interstate 676-East to the exit for the Ben Franklin Bridge

Take the exit and get into the left lane, make a right turn at the end of the ramp

Make the first left turn onto the Ben Franklin Bridge

Proceed in left lanes, after toll booths (no toll) the road in front will divide - bear left

Follow Rt. 30 East (Admiral Wilson Blvd.), and move to the right lane while proceeding 4/10 of a mile

Take the first exit on the right; there will be a sign that reads Memorial Avenue - make the first right on to Memorial Ave.

Go straight at the first light over 11th St. and into the main entrance for Campbell Soup Company

q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

**Proxy CAMPBELL SOUP COMPANY**

**This Proxy is Solicited on Behalf of the Board of Directors**

**for the Annual Meeting on November 19, 2014**

The undersigned hereby appoints Denise M. Morrison, or, in her absence, Ellen O. Kaden or, in the absence of both of them, Kathleen M. Gibson, and each or any of them, proxies with full power of substitution in each, to vote all shares the undersigned is entitled to vote, at the Annual Meeting of Shareholders of Campbell Soup Company to be held at Campbell Soup Company, One Campbell Place, Camden, New Jersey 08103, at 4:00 p.m., Eastern Time on November 19, 2014, and at any adjournments thereof, on all matters coming before the meeting, including the proposals referred to on the reverse side hereof. If the undersigned is a participant in the Campbell Soup Company 401(K) Retirement Plan (the Plan ), then the undersigned hereby directs the respective trustee of the Plan to vote all shares of Campbell Soup Company Stock in the undersigned s Plan account at the aforesaid Annual Meeting and at any adjournments thereof, on all matters coming before the meeting, including the proposals referred to on the reverse side hereof.

If an address change has been made, mark appropriate box on the reverse side of this card.

**Your shares will be voted as recommended by the Board of Directors (or, in the case of shares held in the Plan, will be voted at the discretion of the trustee) unless you otherwise indicate in which case they will be voted as marked.**

**To vote in accordance with the Board of Directors recommendations just sign the reverse side; no boxes need to be marked. If you do not vote by telephone or over the Internet, please fold and return your proxy card promptly using the enclosed envelope.**

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**Vote by Internet**

Go to **www.envisionreports.com/cpb**

Or scan the QR code with your smartphone

Follow the steps outlined on the secure website

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders**

**of Campbell Soup Company to be Held on November 19, 2014**

Under Securities and Exchange Commission rules, you are receiving this notice that the proxy materials for the annual shareholders meeting are available on the Internet. Follow the instructions below to view the materials and vote online or request a paper or e-mail copy. The items to be voted on and location of the annual meeting are on the reverse side. Your vote is important!

**This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting. The proxy statement and annual report to shareholders, including the Form 10-K, are available at:**

**Easy Online Access A Convenient Way to View Proxy Materials and Vote**

**When you go online to view materials, you can also vote your shares.**

**Step 1:** Go to **www.envisionreports.com/cpb** to view the materials**.**

**Step 2:** Click on **Cast Your Vote or Request Materials**.

**Step 3:** Follow the instructions on the screen to log in.

**Step 4:** Make your selection as instructed on each screen to select delivery preferences and vote.

**When you go online, you can also help the environment by consenting to receive electronic delivery of future materials.**

**Obtaining a Copy of the Proxy Materials If you want to receive a paper or e-mail copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed on the reverse side on or before November 7, 2014 to facilitate timely delivery.**

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**Campbell Soup Company s Annual Meeting of Shareholders will be held on November 19, 2014 at**

**Campbell Soup Company, One Campbell Place, Camden, New Jersey 08103, at 4:00 p.m. Eastern Time.**

**Proposals to be voted on at the meeting are listed below along with the Board of Directors recommendations.**

**The Board of Directors recommends a vote FOR all nominees and FOR Items 2, 3 and 4.**

1. Election of Directors:

| | | | |
|---|---|---|---|
| 01 - Paul R. Charron | 02 - Bennett Dorrance | 03 - Lawrence C. Karlson | 04 - Randall W. Larrimore |
| 05 - Marc B. Lautenbach | 06 - Mary Alice D. Malone | 07 - Sara Mathew | 08 - Denise M. Morrison |
| 09 - Charles R. Perrin | 10 - A. Barry Rand | 11 - Nick Shreiber | 12 - Tracey T. Travis |
| 13 - Archbold D. van Beuren | 14 - Les C. Vinney | | |

2. Ratification of appointment of the Independent Registered Public Accounting Firm.

3. Advisory vote on executive compensation.

4. Re-approval of Campbell Soup Company Annual Incentive Plan.

**PLEASE NOTE YOU CANNOT VOTE BY RETURNING THIS NOTICE. To vote your shares you must vote online or request a paper copy of the proxy materials to receive a proxy card. If you wish to attend and vote at the meeting, please see the instructions at www.envisionreports.com/cpb to pre-register ad obtain an admission ticket.**

**When voting on the internet, there will be an opportunity to request an Admission Ticket if you are interested in attending the Annual Meeting.**

**DIRECTIONS**

**From the North:**

Take the NJ Turnpike South to EXIT 4. After exiting, turn right onto Rt. 73-North. Use the right lane and follow Rt. 73 a short distance to Rt. 295-South. Take Rt. 295-South one mile to EXIT 34, Rt. 70-West. Follow Rt. 70-West for 5 miles to Rt. 30-West. Once on Rt. 30-West, use the right lane; in less than two miles an overhead sign will indicate

Campbell Place . Make a sharp right turn and drive down the ramp, staying to the left. At the light, turn left into the main entrance for Campbell Soup Company.

**From the South:**

Follow Interstate 95-North into Delaware; cross over the Delaware Memorial Bridge. After the toll, follow Rt. 295-North (look for State Aquarium signs along the highway). At EXIT 26, the road splits; bear right, use the left lane while driving down the ramp. Bear left at the bottom of ramp and drive straight to Rt. 676-North. At the base of the Walt Whitman Bridge (do not cross bridge) Rt. 676-North begins in the right lanes. Proceed on Rt. 676-North for approximately 3 miles to EXIT 5A. At bottom of ramp, turn left at the light on to 11th St. At the second light, turn right into the main entrance for Campbell Soup Company.

**From Philadelphia International Airport:**

Follow Interstate 95-North (approximately 10 miles) to EXIT 22; the sign reads Central Philadelphia, Independence Hall, Callowhill Street . Stay straight at traffic signal at bottom of ramp (3rd & Callowhill), and proceed in left lane of Callowhill St. to 6th Street. Turn left on 6th Street and follow to the Ben Franklin Bridge. Proceed in left lanes, after toll booths (no toll) the road in front will divide - bear left. Follow Rt. 30 East (Admiral Wilson Blvd.), and move to the right lane while proceeding 4/10 of a mile. Take the first exit on the right; there will be a sign that reads Memorial Avenue make the first right on to Memorial Ave. Go straight at the first light over 11th St. and into the main entrance for Campbell Soup Company.

**From 30th Street Train Station & Center City Philadelphia:**

Follow Interstate 676-East to the exit for the Ben Franklin Bridge. Take the exit and get into the left lane, make a right turn at the end of the ramp and make the first left turn onto the Ben Franklin Bridge. Proceed in left lanes, after toll booths (no toll) the road in front will divide - bear left. Follow Rt. 30 East (Admiral Wilson Blvd.), and move to the right lane while proceeding 4/10 of a mile. Take the first exit on the right; there will be a sign that reads Memorial Avenue make the first right on to Memorial Ave. Go straight at the first light over 11th St. and into the main entrance for Campbell Soup Company.

**Here s how to order a copy of the proxy materials and select a future delivery preference:**

**Paper copies:** Current and future paper delivery requests can be submitted using the telephone, Internet or email options below.

**Email copies:** Current and future email delivery requests must be submitted via the Internet following the instructions below. If you request an email copy of current materials you will receive an email with a link to the materials.

**PLEASE NOTE:** You must use the number in the shaded bar on the reverse side when requesting a set of proxy materials.

g **Internet** Go to www.**envisionreports.com/cpb**. Click Cast Your Vote or Request Materials. Follow the instructions to log in and order a paper or email copy of the current meeting materials and submit your preference for email or paper delivery of future meeting materials.

g **Telephone** Call us free of charge at 1-866-641-4276 using a touch-tone telephone and follow the instructions to log in and order a paper copy of the materials by mail for the current meeting. You can also submit a preference to receive a paper copy for future meetings.

g **Email** Send email to investorvote@computershare.com with Proxy Materials Campbell Soup Company in the subject line. Include in the message your full name and address, plus the number located in the shaded bar on the reverse, and state in the email that you want a paper copy of current meeting materials. You can also state your preference to receive a paper copy for future meetings.

To facilitate timely delivery, all requests for a paper copy of the proxy materials must be received by November 7, 2014.

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