VAN KAMPEN HIGH INCOME TRUST II
Form N-14 8C
March 18, 2005

As filed with the Securities and Exchange Commission on March 18, 2005

Securities Act File No. 333-
Investment Company Act File No. 811-05769

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-14
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

[ ] PRE-EFFECTIVE AMENDMENT NO. __

[ ] POST-EFFECTIVE AMENDMENT NO. __

(CHECK APPROPRIATE BOX OR BOXES)

VAN KAMPEN HIGH INCOME TRUST II
(EXACT NAME OF REGISTRANT AS SPECIFIED IN DECLARATION OF TRUST)

(800) 847-2424
(AREA CODE AND TELEPHONE NUMBER)

1221 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

AMY R. DOBERMAN, ESQ.
MANAGING DIRECTOR
VAN KAMPEN INVESTMENTS INC.
1221 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020
(NAME AND ADDRESS OF AGENT FOR SERVICE)

COPIES TO:

WAYNE W. WHALEN, ESQ.
CHARLES B. TAYLOR, ESQ.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
333 WEST WACKER DRIVE
CHICAGO, ILLINOIS 60606
(312) 407-0700

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Approximate Date of Proposed Offering: As soon as practicable after this

Registration Statement becomes effective.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

TITLE OF SECURITIES BEING REGISTERED	AMOUNT BEING REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROPOSE AGGREGAT PR
Common Shares ($0.01 par value)	1,000	$ 4.81 (1)	$
Auction Preferred Shares ($0.01 par value)	40	$ 25,000	$ 1,00

(1) Average of high and low reported price for common shares on March 16, 2005.

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 which 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.

EXPLANATORY NOTE

This Registration Statement is organized as follows:

- Questions and Answers to Van Kampen High Income Trust Shareholders and Van Kampen High Income Trust II Shareholders
- Notice of Special Meeting of Shareholders of Van Kampen High Income Trust and Van Kampen High Income Trust II
- Joint Proxy Statement/Prospectus for Van Kampen High Income Trust and Van Kampen High Income Trust II
- Statement of Additional Information regarding the Reorganization of Van Kampen High Income Trust into Van Kampen High Income Trust II
- Part C Information
- Exhibits

-- MAY 2005 --

IMPORTANT NOTICE

TO SHAREHOLDERS OF VAN KAMPEN

HIGH INCOME TRUST
AND
VAN KAMPEN HIGH INCOME TRUST II

QUESTIONS & ANSWERS

Although we recommend that you read the complete Joint Proxy Statement/ Prospectus, we have provided for your convenience a brief overview of the issues to be voted on.

Q WHY IS A SHAREHOLDER MEETING BEING HELD?

A Shareholders of Van Kampen High Income Trust: You are being asked to vote on a reorganization (the "Reorganization") of Van Kampen High Income Trust (the "Target Fund") into Van Kampen High Income Trust II (the "Acquiring Fund"), a closed-end investment company that has a substantially similar investment objective and substantially similar investment policies as the Target Fund. Shareholders of Van Kampen High Income Trust II: You are being asked to vote on the issuance of common shares of beneficial interest by the Acquiring Fund in connection with the Reorganization.

Q WHY IS THE REORGANIZATION BEING RECOMMENDED?

A The Board of Trustees of each Fund has determined that the Reorganization will benefit holders of common shares of the each Fund. After the Reorganization, it is anticipated that common shareholders of the Funds will experience a reduced overall operating expense ratio, while Target Fund shareholders remain invested in a closed-end fund that has a substantially similar investment objective and substantially similar investment policies and which is managed by the same investment advisory personnel. It is not anticipated that the Reorganization will directly benefit holders of preferred shares; however, the Reorganization will not adversely affect preferred shareholders, and none of the expenses of the Reorganization will be borne by preferred shareholders.

Q HOW WILL THE REORGANIZATION AFFECT ME?

A Assuming shareholders of the Target Fund approve the Reorganization and shareholders of the Acquiring Fund approve the issuance of common shares of beneficial interest by that Fund, the assets and liabilities of the Target Fund will be combined with those of the Acquiring Fund and the Target Fund will be dissolved.

Shareholders of the Target Fund: You will become a shareholder of the Acquiring Fund. If you are a holder of common shares of the Target Fund, you will receive newly-issued common shares of the Acquiring Fund, and if you are a holder of preferred shares of the Target Fund, you will receive newly-issued preferred shares of the Acquiring Fund. The aggregate net asset value of the shares you receive in the Reorganization will equal the aggregate net asset value of the shares you own immediately prior to the Reorganization less the costs of the Reorganization (though you may receive cash for fractional shares). No certificates for shares of the Acquiring Fund will be issued in connection with the Reorganization, although such certificates will be available upon request.

Shareholders of the Acquiring Fund: You will remain a shareholder of the Acquiring Fund.

Q WILL I HAVE TO PAY ANY SALES LOAD, COMMISSION OR OTHER SIMILAR FEE IN CONNECTION WITH THE REORGANIZATION?

A You will pay no sales loads

or commissions in connection with the Reorganization. However, if the Reorganization is completed, the costs associated with the Reorganization, including the costs associated with the shareholder meeting, will be borne by the Target Fund and the Acquiring Fund in proportion to their projected benefits as a result of the Reorganization.

Q WILL I HAVE TO PAY ANY FEDERAL TAXES AS A RESULT OF THE REORGANIZATION?

A The Reorganization is intended to qualify as a "reorganization" within the meaning of Section 368(a)(1) of the Internal Revenue Code of 1986, as amended. If the Reorganization so qualifies, in general, shareholders of the Target Fund will recognize no gain or loss upon the receipt solely of shares of the Acquiring Fund in connection with the Reorganization. Additionally, the Target Fund will not recognize any gain or loss as a result of the transfer of all of its assets and liabilities in exchange for the shares of the Acquiring Fund or as a result of its dissolution. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss in connection with the Reorganization.

Q WHY IS THE VOTE OF SHAREHOLDERS OF THE ACQUIRING FUND BEING SOLICITED?

A Although the Acquiring Fund will continue its legal existence and operations after the Reorganization, the rules of the New York Stock Exchange (on which the Acquiring Fund's common shares are listed) require holders of common shares of the Acquiring Fund to approve the issuance of additional common shares of beneficial interest by the Acquiring Fund in connection with the Reorganization.

Q HOW DOES THE BOARD OF TRUSTEES OF MY FUND SUGGEST THAT I VOTE?

A After careful consideration, the Board of Trustees of each Fund recommends that you vote "FOR" each of the items proposed.

Q HOW DO I VOTE MY PROXY?

A You may cast your vote by mail, phone or internet. To vote by mail, please mark your vote on the enclosed proxy card and sign, date and return the card in the postage-paid envelope provided. If you choose to vote via phone or internet, please refer to the instructions found on the proxy card accompanying this Joint Proxy Statement/Prospectus. To vote by phone or internet, you will need the "control number" that appears on the proxy card.

Q WHOM DO I CONTACT FOR FURTHER INFORMATION?

A You can contact your financial adviser for further information. You may also call Van Kampen's Client Relations Department at (800) 847-2424 (Telecommunication Device for the Deaf users may call (800) 421-2833) or visit our web site at www.vankampen.com where you can send us an e-mail message by selecting "Contact Us."

ABOUT THE PROXY CARD

Please vote on the proposals using blue or black ink to mark an X in one of the boxes provided on the proxy card.

SHAREHOLDERS OF VAN KAMPEN HIGH INCOME TRUST:

Approval of Reorganization -- mark "For," "Against" or "Abstain."

SHAREHOLDERS OF VAN KAMPEN HIGH INCOME TRUST II:

Approval of the Issuance of Common Shares -- mark "For," "Against" or "Abstain."

Sign, date and return the proxy card in the enclosed postage-paid envelope. All registered owners of an account, as shown in the address, must sign the card. When signing as attorney, trustee, executor, administrator, custodian, guardian or corporate officer, please indicate your full title.

[ ] X PLEASE MARK VOTES AS IN THIS EXAMPLE

VAN KAMPEN XXXXX
JOINT SPECIAL MEETING OF SHAREHOLDERS
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

	FOR	AGAINST	ABSTAIN
1. Authority for the Reorganization.	[ ]	[ ]	[ ]
2. Authority to issue additional common shares.	[ ]	[ ]	[ ]

3. To transact such other business as may prop come before the Meeting.

Please be sure to sign and date this Proxy, Date

Shareholder sign here Co-owner sign here

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
SAMPLE

VAN KAMPEN HIGH INCOME TRUST
AND
VAN KAMPEN HIGH INCOME TRUST II
1221 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020
(800) 847-2424

NOTICE OF JOINT SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 22, 2005

Notice is hereby given that a joint special meeting of shareholders (the "Special Meeting") of Van Kampen High Income Trust (the "Target Fund") and Van Kampen High Income Trust II (the "Acquiring Fund") will be held at the offices of Van Kampen Investments Inc., 1 Parkview Plaza, Oakbrook Terrace, Illinois 60181-5555 on June 22, 2005 at 3:00 p.m. for the following purposes:

For shareholders of the Target Fund:

1. To approve an Agreement and Plan of Reorganization (the "Reorganization Agreement") between the Target Fund and Acquiring Fund;

For shareholders of the Acquiring Fund:

2. To approve the issuance of common shares of beneficial interest, par value $0.01 per share, by the Acquiring Fund ("Acquiring Fund Common Shares") in connection with and as contemplated by the Reorganization Agreement; and

For shareholders of both Funds:

3. To transact such other business as may properly be presented at the Special Meeting or any adjournment thereof.

Shareholders of record as of the close of business on April 25, 2005 are entitled to vote at the Special Meeting or any adjournment thereof.

THE BOARD OF TRUSTEES OF EACH FUND REQUESTS THAT YOU VOTE YOUR SHARES BY INDICATING YOUR VOTING INSTRUCTIONS ON THE ENCLOSED PROXY CARD, DATING AND SIGNING SUCH PROXY CARD AND RETURNING IT IN THE ENVELOPE PROVIDED, WHICH IS ADDRESSED FOR YOUR CONVENIENCE AND NEEDS NO POSTAGE IF MAILED IN THE UNITED STATES.

THE BOARD OF TRUSTEES OF THE TARGET FUND RECOMMENDS THAT YOU CAST YOUR VOTE "FOR" THE REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS.

THE BOARD OF TRUSTEES OF THE ACQUIRING FUND RECOMMENDS THAT YOU CAST YOUR VOTE "FOR" THE ISSUANCE OF ADDITIONAL ACQUIRING FUND COMMON SHARES IN CONNECTION WITH THE REORGANIZATION AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS.

IN ORDER TO AVOID THE ADDITIONAL EXPENSE OF FURTHER SOLICITATION, WE ASK THAT YOU MAIL YOUR PROXY CARD PROMPTLY.

For the Board of Trustees,

Lou Anne McInnis
Assistant Secretary
Van Kampen High Income Trust
Van Kampen High Income Trust II

May , 2005

YOUR VOTE IS IMPORTANT.
PLEASE VOTE PROMPTLY BY SIGNING AND RETURNING THE
ENCLOSED PROXY CARD NO MATTER HOW MANY SHARES YOU OWN.

THE INFORMATION IN THIS PROXY STATEMENT/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 PROXY STATEMENT/PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED MARCH 18, 2005

JOINT PROXY STATEMENT/PROSPECTUS

VAN KAMPEN HIGH INCOME TRUST
AND
VAN KAMPEN HIGH INCOME TRUST II
1221 AVENUE OF THE AMERICAS

NEW YORK, NEW YORK 10020
(800) 847-2424

JOINT SPECIAL MEETING OF SHAREHOLDERS
ON
JUNE 22, 2005

This Joint Proxy Statement/Prospectus is furnished to you as a shareholder of Van Kampen High Income Trust (the "Target Fund") or Van Kampen High Income Trust II (the "Acquiring Fund"). A joint special meeting of shareholders of the Funds (the "Special Meeting") will be held at the offices of Van Kampen Investments Inc., 1 Parkview Plaza, Oakbrook Terrace, Illinois 60181-5555 on June 22, 2005 at 3:00 p.m. to consider the items listed below and discussed in greater detail elsewhere in this Joint Proxy Statement/Prospectus. If you are unable to attend the Special Meeting or any adjournment thereof, the Board of Trustees of each Fund requests that you vote your shares by completing and returning the enclosed proxy card. The approximate mailing date of this Joint Proxy Statement/ Prospectus is May , 2005.

The purposes of the Special Meeting are:

For shareholders of the Target Fund:

1. To approve an Agreement and Plan of Reorganization (the "Reorganization Agreement") between the Target Fund and Van Kampen High Income Trust II (the "Acquiring Fund");

For shareholders of the Acquiring Fund:

2. To approve the issuance of common shares of beneficial interest, par value $0.01 per share by the Acquiring Fund ("Acquiring Fund Common Shares") in connection with and as contemplated by the Reorganization Agreement; and

For shareholders of both Funds:

3. To transact such other business as may properly be presented at the Special Meeting or any adjournment thereof.

The Reorganization Agreement that you are being asked to consider involves a transaction that will be referred to in this Joint Proxy Statement/Prospectus as the "Reorganization." The Reorganization seeks to combine two similar funds to achieve certain economies of scale and other operational efficiencies. The investment objective of the Acquiring Fund is to provide to its common shareholders high current income, while seeking to preserve shareholders' capital, through investment in a professionally managed diversified portfolio of high income producing fixed-income securities. The investment objective of the Target Fund is to provide to its common shareholders high current income, while seeking to preserve shareholders' capital, through investment in a professionally managed portfolio of high yield fixed-income producing securities. The Target Fund and the Acquiring Fund are sometimes referred to herein each as a "Fund" and collectively as the "Funds."

In the Reorganization, the Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange for an equal aggregate value of newly-issued Acquiring Fund Common Shares, and newly-issued auction preferred shares of the Acquiring Fund with a par value of $0.01 per share and a liquidation preference of $25,000 per share ("Acquiring Fund APS"). The Target Fund will distribute Acquiring Fund Common Shares to holders of common shares of the Target Fund ("Target Fund Common Shares") and Acquiring Fund APS to holders of auction market preferred shares of the Target Fund ("Target Fund AMPS"), and will then terminate its registration under the Investment Company Act of 1940, as amended (the "1940 Act"), and dissolve under applicable state law. The aggregate net asset value of Acquiring Fund Common Shares will equal the aggregate net asset value of Target Fund Common Shares, less the costs of the Reorganization (though shareholders may receive cash for fractional shares). The aggregate liquidation preference of Acquiring Fund APS received in the Reorganization will equal the aggregate liquidation preference of Target Fund AMPS held immediately prior to the Reorganization. The Acquiring Fund will continue to operate as a registered closed-end investment company with the investment objective and policies described in this Joint Proxy Statement/Prospectus.

In connection with the Reorganization, holders of Acquiring Fund Common Shares are being asked to approve the issuance of additional Acquiring Fund Common Shares.

In the event that Target Fund shareholders do not approve the Reorganization or holders of Acquiring Fund Common Shares do not approve the issuance of additional Acquiring Fund Common Shares, the Target Fund will continue to exist and the Board of Trustees of the Target Fund will consider what additional action, if any, to take.

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The Board of Trustees of each Fund has determined that including both proposals in one Joint Proxy Statement/Prospectus will reduce costs and is in the best interests of each Fund's shareholders.

This Joint Proxy Statement/Prospectus sets forth concisely the information shareholders of the Funds should know before voting on the proposals and constitutes an offering of Acquiring Fund Common Shares and Acquiring Fund APS. Please read it carefully and retain it for future reference. A Reorganization Statement of Additional Information, dated   , 2005, relating to this Joint Proxy Statement/Prospectus (the "Reorganization Statement of Additional Information") has been filed with the Securities and Exchange Commission (the "SEC") and is incorporated herein by reference. If you wish to request the Reorganization Statement of Additional Information, please ask for the "Reorganization Statement of Additional Information." Copies of each Fund's most recent annual report and semi-annual report can be obtained on a web site maintained by Van Kampen Investments Inc. at www.vankampen.com. In addition, each Fund will furnish, without charge, a copy of its most recent annual report and most recent semi-annual report to any shareholder upon request. Any such request should be directed to the Van Kampen Client Relations Department by calling (800) 847-2424 (TDD users may call (800) 421-2833) or by writing to the respective Fund at 1 Parkview Plaza, P.O. Box 5555, Oakbrook Terrace, Illinois 60181-5555. The principal executive office of the Funds is 1221 Avenue of the Americas, New York, New York 10020, and the telephone number is (800) 847-2424.

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports, proxy statements, proxy material and other information with the SEC. Materials filed with the SEC can be reviewed and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 or downloaded from the SEC's web site at www.sec.gov. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC at (202) 942-8090. You can also request copies of these materials, upon payment at the prescribed rates of a duplicating fee, by electronic request to the SEC's e-mail address (publicinfo@sec.gov) or by writing the Public Reference Branch, Office of Consumer Affairs and Information Services, SEC, Washington, DC, 20549-0102.

The Acquiring Fund Common Shares are listed on the New York Stock Exchange (the "NYSE") and the Chicago Stock Exchange ("CSX") under the ticker symbol "VLT" and will continue to be so listed subsequent to the Reorganization. The Target Fund Common Shares are listed on the NYSE and the CSX under the ticker symbol "VIT." Reports, proxy statements and other information concerning the Funds may be inspected at the offices of the NYSE, 20 Broad, New York, New York 10005.

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This Joint Proxy Statement/Prospectus serves as a prospectus of the Acquiring Fund in connection with the issuance of the Acquiring Fund Common Shares and the Acquiring Fund APS in the Reorganization. No person has been authorized to give any information or make any representation not contained in this Joint Proxy Statement/Prospectus and, if so given or made, such information or representation must not be relied upon as having been authorized. This Joint Proxy Statement/Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer or solicitation.

The Board of Trustees of each Fund knows of no business other than that discussed above that will be presented for consideration at the Special Meeting. If any other matter is properly presented, it is the intention of the persons named in the enclosed proxy to vote in accordance with their best judgment.

THE SEC HAS NOT APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS JOINT PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Joint Proxy Statement/Prospectus is , 2005.

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SUMMARY

The following is a summary of certain information contained elsewhere in this Joint Proxy Statement/Prospectus and is qualified in its entirety by reference to the more complete information contained in this Joint Proxy Statement/Prospectus and in the Statement of Additional Information. Shareholders should read the entire Joint Proxy Statement/Prospectus carefully.

PROPOSAL 1: REORGANIZATION OF THE TARGET FUND

THE PROPOSED REORGANIZATION. The Board of Trustees of the Target Fund (the "Target Fund Board"), including the trustees who are not "interested persons," as defined in the 1940 Act, of the each Fund, has unanimously approved the Reorganization Agreement. If the shareholders of the Target Fund approve the Reorganization Agreement and the shareholders of the Acquiring Fund approve the issuance of Acquiring Fund Common Shares (see Proposal 2), Acquiring Fund Common Shares and Acquiring Fund APS will be issued to holders of Target Fund Common

Shares and Target Fund AMPS, respectively, in exchange for substantially all of the assets of the Target Fund and the assumption of substantially all of the liabilities of the Target Fund. The Target Fund will then terminate its registration under the 1940 Act and dissolve under applicable state law. The aggregate net asset value of Acquiring Fund Common Shares received in the Reorganization will equal the aggregate net asset value of Target Fund Common Shares held immediately prior to the Reorganization, less the costs of the reorganization, and the aggregate liquidation preference of the Acquiring Fund APS received in the Reorganization will equal the aggregate liquidation preference of Target Fund AMPS held immediately prior to the Reorganization.

BACKGROUND AND REASONS FOR THE PROPOSED REORGANIZATION. The Reorganization seeks to combine two substantially similar funds to achieve certain economies of scale and other operational efficiencies. Each Fund is a diversified, closed-end management investment company registered under the 1940 Act. The investment objective of the Acquiring Fund is to provide to its common shareholders high current income, while seeking to preserve shareholders' capital, through investment in a professionally managed diversified portfolio of high income producing fixed-income securities. The investment objective of the Target Fund is to provide to its common shareholders high current income, while seeking to preserve shareholders' capital, through investment in a professionally managed portfolio of high yield fixed-income producing securities. The term "high yield fixed-income securities" may hereinafter be referred to as "high income producing fixed-income securities."

Each Fund seeks to achieve its investment objective by investing primarily in fixed-income securities rated in the medium- and lower-grade categories by established rating agencies, or in unrated securities considered by the investment

adviser to be of comparable quality. The Funds are managed by the same investment advisory personnel.

The proposed Reorganization will combine the assets of these similar funds by reorganizing the Target Fund into the Acquiring Fund. The Target Fund Board and the Board of the Trustees of the Acquiring Fund (the "Acquiring Fund Board"), based upon their evaluation of all relevant information, anticipate that the Reorganization will benefit holders of Target Fund Common Shares and holders of Acquiring Fund Common Shares. In particular, Board of Trustees of each Fund believes, based on data presented by Van Kampen Asset Management, the investment adviser to each of the Funds (the "Adviser"), that holders of common shares of the Funds will experience a reduced overall operating expense ratio as a result of the Reorganization. The combined fund resulting from the proposed Reorganization will have a larger asset base than either fund has currently; certain fixed administrative costs, such as costs of printing shareholder reports and proxy statements, legal expenses, audit fees, mailing costs and other expenses, will be spread across this larger asset base, thereby lowering the expense ratio for common shareholders of the combined fund. Moreover, the asset base of the combined fund should provide for a more liquid trading environment with more favorable execution and reduced prices and may attract more analyst and investor attention.

The table below sets forth the fees and expenses that investors may pay to buy and hold common shares of each of the Target Fund and the Acquiring Fund, including (i) the fees and expenses paid by the Target Fund for the twelve-month period ended December 31, 2004, (ii) the fees and expenses paid by the Acquiring Fund for the twelve-month period ended December 31, 2004, and (iii) the pro forma fees and expenses for the Acquiring Fund for the twelve-month period ended

December 31, 2004, assuming the Reorganization had been completed at the beginning of such period.

FEE AND EXPENSE TABLE FOR COMMON SHAREHOLDERS OF THE TARGET FUND AND THE ACQUIRING FUND AS OF DECEMBER 31, 2004

	ACTUAL		PRO FORMA
	TARGET FUND	ACQUIRING FUND	ACQUIRING FUND
Common Shareholder Transaction Expenses(a):			
Maximum Sales Load (as a percentage of offering price)(b).............	None	None	None
Dividend Reinvestment Plan Fees.....	None	None	None
Annual Expenses (as a percentage of net assets attributable to common shares):			
Investment Advisory Fees(c).........	1.23%	1.23%	1.23%
Interest Payments on Borrowed Funds............................	0.00%	0.00%	0.00%
Other Expenses......................	0.76%	0.89%	0.58%
Total Annual Expenses(c)..........	1.99%	2.12%	1.81%

(a) No information is presented with respect to preferred shares because holders of preferred shares do not bear any operating expenses of either Fund and will not bear any operating expenses of the combined fund. Generally, preferred shares are sold at a fixed liquidation preference.

(b) Common shares purchased in the secondary market may be subject to brokerage commissions or other charges. No sales load will be charged on the issuance of shares in the Reorganization. Common Shares are not available for purchase from the Funds but may be purchased through a broker-dealer subject to individually negotiated commission rates.

(c) If assets attributable to preferred shares were included, the investment advisory fees for each of the Target Fund, the Acquiring Fund and the Acquiring Fund on a pro forma basis would be 0.70%, 0.70% and 0.70%, respectively, and the Total Annual Expenses would be 1.13%, 1.21% and 1.03%, respectively.

EXAMPLE. The following example is intended to help you compare the costs of investing in the Acquiring Fund, both before and pro forma after the Reorganization, with the costs of investing in the Target Fund. An investor would pay the following expenses on a $1,000 investment, assuming (1) the operating expense

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ratio for each Fund (as a percentage of net assets attributable to common shares) set forth in the table above and (2) a 5% annual return throughout the period:

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Target Fund..........................	$20	$62	$107	$232
Acquiring Fund.......................	$22	$66	$114	$245
Pro Forma -- Acquiring Fund..........	$18	$57	$ 98	$213

The example set forth above assumes common shares of each Fund were purchased in the initial offerings and the reinvestment of all dividends and distributions and uses a 5% annual rate of return as mandated by SEC regulations. The example should not be considered a representation of past or future expenses or annual rates of return. Actual expenses or annual rates of return may be more or less than those assumed for purposes of the example.

FURTHER INFORMATION REGARDING THE PROPOSED REORGANIZATION. The Target Fund Board has determined that the Reorganization is in the best interests of holders of Target Fund Common Shares and that the interests of such shareholders will not be diluted as a result of the Reorganization. Similarly, the Acquiring Fund Board has determined that the Reorganization is in the best interests of holders of Acquiring Fund Common Shares and that the interests of such shareholders will not be diluted as a result of the Reorganization. It is not anticipated that the Reorganization will directly benefit the holders of preferred shares of either Fund; however, the Reorganization will not materially adversely affect the holders of preferred shares of either Fund and the expenses of the Reorganization will not be borne by the holders of preferred shares of either Fund. As a result of the Reorganization, however, a shareholder of either Fund will hold a reduced percentage of ownership in the larger combined fund than he or she did in either of the separate Funds.

The Reorganization is intended to qualify as a "reorganization" within the meaning of Section 368(a)(1) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code" or "Code"). If the reorganization so qualifies, in general, a shareholder of the Target Fund will recognize no gain or loss upon the receipt solely of shares of the Acquiring Fund in connection with the Reorganization. Additionally, the Target Fund will not recognize any gain or loss as a result of the transfer of substantially all of its assets and liabilities in exchange for the shares of the Acquiring Fund or as a result of its dissolution.

The Target Fund Board requests that shareholders of the Target Fund approve the proposed Reorganization at the Special Meeting to be held on June 22, 2005. Subject to the requisite approval of the shareholders of each Fund with regard to the Reorganization, it is expected that the closing date of the transaction (the "Closing Date") will be after the close of business on or about June 30, 2005, but it may be at a different time as described herein.

The Target Fund Board recommends that you vote "FOR" the proposed Reorganization.

PROPOSAL 2: ISSUANCE OF ACQUIRING FUND COMMON SHARES

In connection with the proposed Reorganization, as described in the section entitled, "Proposal: Reorganization of the Target Fund," the Acquiring Fund will issue additional Acquiring Fund Common Shares and list such shares on the NYSE.

The Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange for the newly-issued Acquiring Fund Common Shares and newly-issued Acquiring Fund APS. The aggregate net asset value of the Acquiring Fund Common Shares received by the Target Fund in the Reorganization will equal the aggregate net asset value of the Target Fund Common Shares immediately prior to the Reorganization, less the costs of the Reorganization. The Reorganization will result in no reduction of net asset value of the Acquiring Fund Common Shares, other than to reflect the costs of the Reorganization. No gain or loss will be recognized by the Acquiring Fund or its shareholders in connection with the Reorganization. The Acquiring Fund Board, based upon its evaluation of all relevant information, anticipates that the Reorganization will benefit holders of Acquiring Fund Common Shares by achieving certain economies of scale and other operational efficiencies.

The Acquiring Fund Board requests that shareholders of the Acquiring Fund approve the issuance of additional Acquiring Fund Common Shares at the Special Meeting to be held on June 22, 2005. Subject to the requisite approval of the shareholders of each Fund with regard to the Reorganization, it is expected that the Closing Date will be after the close of business on or about June 30, 2005, but it may be at a different time as described herein.

The Acquiring Fund Board recommends that you vote "FOR" the issuance of additional Acquiring Fund Common Shares in connection with the Reorganization.

PROPOSAL 1: REORGANIZATION OF THE TARGET FUND

In the Reorganization, the Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange for an equal aggregate value of newly-issued Acquiring Fund Common Shares, and newly-issued Acquiring Fund APS. The Target Fund will distribute Acquiring Fund Common Shares to holders of Target Fund Common Shares and Acquiring Fund APS to holders target Fund AMPS, and will then terminate its registration under the 1940 Act, and dissolve under applicable state law. The aggregate net asset value of Acquiring Fund Common Shares will equal the aggregate net asset value of Target Fund Common Shares held immediately prior to the Reorganization, less the costs of the Reorganization (though shareholders may receive cash for fractional shares). The aggregate liquidation preference of Acquiring Fund APS received in the Reorganization will equal the aggregate liquidation preference of Target Fund AMPS held immediately prior to the Reorganization. The Acquiring Fund will continue to operate as a registered closed-end investment company with the investment objective and policies described in this Joint Proxy Statement/ Prospectus.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Because each Fund has a substantially similar investment objective and substantially similar investment policies, the Funds are subject to the same risks, which will also apply to the combined fund after the proposed Reorganization. A description of these risks follows.

MEDIUM- AND LOWER-GRADE SECURITIES RISK

Each Fund invests primarily in fixed-income securities rated in the medium- and lower-grade categories by established rating agencies, or in unrated securities of comparable quality. Medium- and lower-grade securities are those rated at the time of purchase Baa or lower by Moody's Investors Service, Inc. ("Moody's") or rated BBB or lower by Standard & Poor's ("S&P"), and securities that are not rated by either such rating agency, but are believed by the Adviser to be of comparable quality at the time of purchase. With respect to such investments, neither Fund has established a limit on the percentage of its portfolio which may be invested in securities in any one rating category. Securities rated Ba or lower by Moody's or BB or lower by S&P and unrated securities of comparable quality are commonly referred to as junk bonds and involve greater risks than investments in higher-grade securities. Because of the characteristics of such securities, the ability of the Funds to preserve shareholders' capital may be adversely affected. The values of such securities tend to reflect individual corporate developments to a greater extent than higher rated securities, which react primarily to fluctuations in the

general level of interest rates. Such medium- and lower-grade securities frequently are subordinated to the prior payment of senior indebtedness.

CREDIT RISK

Credit risk relates to the issuer's ability to make timely payment of interest and principal when due. Medium- and lower-grade securities are considered more susceptible to nonpayment of interest and principal or default than higher-grade securities. Increases in interest rates or changes in the economy may significantly affect the ability of issuers of medium- or lower-grade income securities to pay interest and to repay principal, to meet projected financial goals or to obtain additional financing. In the event that an issuer of securities held by each Fund experiences difficulties in the timely payment of principal and interest and such issuer seeks to restructure the terms of its borrowings, each Fund may incur additional expenses and may determine to invest additional assets with respect to such issuer or the project or projects to which each Fund's securities relate. Further, each Fund may incur additional expenses to the extent that it is required to seek recovery upon a default in the payment of interest or the repayment of principal on its portfolio holdings, and each Fund may be unable to obtain full recovery on such amounts.

MARKET RISK

Market risk relates to changes in market value of a security that occur as a result of variation in the level of prevailing interest rates and yield relationships in the income securities market and as a result of real or perceived changes in credit risk. The value of each Fund's investments can be expected to fluctuate over time. When interest rates decline, the value of a portfolio invested in fixed income securities generally can be expected to rise. Conversely, when interest rates rise, the value of a portfolio invested in fixed income securities generally can be expected to decline. Income securities with longer maturities, which may have higher yields, may increase or decrease in value more than income securities with shorter maturities. However, the secondary market prices of medium- or lower-grade securities generally are less sensitive to changes in interest rates and are more sensitive to general adverse economic changes or specific developments with respect to the particular issuers than are the secondary market prices of higher-grade securities. A significant increase in interest rates or a general economic downturn could severely disrupt the market for medium- or lower-grade securities and adversely affect the market value of such securities. Such events also could lead to a higher incidence of default by issuers of medium-or lower-grade securities as compared with higher-grade securities. In addition, changes in credit risks, interest rates, the credit markets or periods of general economic uncertainty can be expected to result in increased volatility in the market price of the medium- or lower-grade securities in the Funds and thus in the net asset value of the Funds. Adverse publicity and

investor perceptions, whether or not based on rational analysis, may affect the value, volatility and liquidity of medium- or lower-grade securities.

Fixed-income securities include convertible securities, which are bonds, debentures, preferred stock or other securities that may be converted or exchanged for, or otherwise may entitle the holder to purchase, a prescribed amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. Prices of such securities generally fluctuate in response to changes in the prices of the underlying common stocks as well as to changes in interest rates.

INCOME RISK

The income you receive from the Funds is based primarily on interest rates and credit risk, which can vary widely over the short- and long-term. If interest rates drop, your income from the Funds may drop as well.

CALL RISK

If interest rates fall, it is possible that issuers of income securities with high interest rates will prepay or "call" their securities before their maturity dates. In this event, the proceeds from the called securities would likely be reinvested by each Fund, as applicable, in securities bearing the new, lower interest rates, resulting in a possible decline in that Fund's income and distributions to shareholders.

LIQUIDITY RISK

The markets for medium- or lower-grade securities may be less liquid than the markets for higher-grade securities. Liquidity relates to the ability of a fund to sell a security in a timely manner at a price which reflects the value of that security. To the extent that there is no established retail market for some of the medium- or lower-grade securities in which each Fund may invest, trading in such securities may be relatively inactive. Prices of medium- or lower-grade securities may decline rapidly in the event a significant number of holders decide to sell. Changes in expectations regarding an individual issuer of medium- or lower-grade securities generally could reduce market liquidity for such securities and make their sale by a Fund more difficult, at least in the absence of price concessions. The effects of adverse publicity and investor perceptions may be more pronounced for securities for which no established retail market exists as compared with the effects on securities for which such a market does exist. An economic downturn or an increase in interest rates could severely disrupt the market for such securities and adversely affect the value of outstanding securities or the ability of the issuers to repay principal and interest. Further, each Fund may have more difficulty selling such securities in a timely manner and at their stated value than would be the case for securities for which an established retail market does exist.

During periods of reduced market liquidity or in the absence of readily available market quotations for medium- or lower-grade securities held in a Fund's portfolio, the ability of that Fund to value its securities becomes more difficult and the judgment of that Fund may play a greater role in the valuation of its securities due to the reduced availability of reliable objective data.

Illiquid securities commonly trade at a discount from comparable, more liquid investments. Generally, the Adviser anticipates that up to 15% of each Fund's total assets will be invested in illiquid securities, but in no event will such illiquid securities exceed 20% of each Fund's total assets. Interest rate swaps and certain other hedging instruments are excluded from the foregoing percentages. Illiquid securities may become more liquid as secondary market for these securities develop. These securities will be included in, or excluded from, the 20% limitation on a case-by-case basis by the Adviser under the supervision of the each Fund's Board of Trustees, depending on the perceived liquidity of the security and its trading market.

FOREIGN RISK

Because each Fund may invest up to 35% of each of their net assets in securities of foreign issuers, the Funds may be subject to risks not usually associated with owning securities of U.S. issuers. These risks can include fluctuations in foreign currencies, foreign currency exchange controls, political and economic instability, differences in financial reporting, differences in securities regulation and trading and foreign taxation issues. In addition, there generally is less publicly available information about many foreign issuers, and auditing, accounting, and financial reporting requirements are less stringent and less uniform in many foreign countries.

USE OF STRATEGIC TRANSACTIONS RISK

In connection with each Fund's investment objective and policies and subject to any restrictions that may be imposed in connection with each Fund maintaining a rating of its preferred shares, the Funds may use various investment strategic transactions that involve special risk considerations including options, futures contracts and options on futures contracts, in several different ways, depending on the status of each Fund's portfolio and the expectations of the Adviser concerning the securities markets. Although the Adviser seeks to use these transactions to achieve each Fund's investment objective, no assurance can be given that the sue of these transactions will achieve this result.

The Funds may purchase and sell options on fixed-income securities and on indices based on fixed-income securities to the extent a market in any such indices exists or develops, engage in interest rate and other hedging transactions, lend portfolio securities, purchase and sell fixed-income securities on a "when issued" or "delayed delivery" basis, and enter into repurchase and reverse repurchase

agreements. These investment practices entail risks. These risks include imperfect correlation between the value of the instruments and the underlying assets; risks of default by the other party to certain transactions; risks that the transactions may result in losses that partially or completely offset gains in portfolio positions; and risks that the transactions may not be liquid. Although the Adviser believes that these investment practices may further each Fund's investment objective, no assurance can be given that these investment practices will achieve this result.

MANAGER RISK

As with any managed fund, the Adviser may not be successful in selecting the best-performing securities or investment techniques, and the Funds' performance may lag behind that of similar funds.

NET ASSET VALUE RISK

The net asset value of each Fund's common shares will change with changes in the value of its portfolio securities. Because the Funds invest primarily in fixed-income securities, the net asset value of each of their common shares can be expected to change as general levels of interest rates fluctuate. When interest rates decline, the value of a fixed-income portfolio can be expected to rise. Conversely, when interest rates rise, the value of a fixed-income portfolio can be expected to decline. The market value of the common shares likely will change with fluctuations in the net asset value attributable to the common shares. Net asset value and market value may be more volatile due to the concentration of lower rated securities in each Fund's portfolio.

Fixed-income securities offering the high current income sought by the Funds ordinarily will be in the lower rating categories of recognized rating agencies or will be unrated. The values of such securities tend to reflect individual corporate developments to a greater extent than higher rated securities, which react primarily to fluctuations in the general level of interest rates. Further, these fixed-income securities will involve generally more credit risk than securities in the higher rating categories and the issuer may default in the payment of interest or repayment of principal as scheduled. The Funds may incur additional expenses to the extent they are required to seek recovery upon a default in the payment of principal or of interest on its portfolio holdings, and the Funds may not be able to obtain full recovery thereof. The high income producing fixed-income securities held by the Funds frequently will be subordinated to the prior payment of senior indebtedness and will be traded in markets that may be relatively less liquid than the market for higher rated securities. The Funds will rely on the Adviser's judgment, analysis and experience in evaluating the creditworthiness of an issue.

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MARKET DISCOUNT RISK

Each Fund is a organized as a closed-end investment company and is designed primarily for long-term investors and not as a trading vehicle. The shares of closed-end investment companies often trade at a discount from their net asset values, and each Fund's common shares likewise may trade at a discount from net asset value, although it is possible that they may trade at a premium above net asset value. In addition, each Fund's common shares may trade at a discount, while any senior securities are trading at a premium (or vice versa), or may trade at a discount or premium different from that of any senior securities.

In order to reduce or eliminate a market value discount from net asset value, the Board of Trustees of each Fund may, subject to the terms and conditions of its preferred shares, authorize that Fund from time to time to repurchase the common shares in the open market or to tender for the common shares at net asset value. The Board of Trustees of each Fund, in consultation with the Adviser, will review on a quarterly basis the possibility of open market repurchases and/or tender offers for the common shares. Subject to its borrowing restrictions, each Fund may incur debt to finance such repurchases, which entails risks. The ability of the Funds to enter into tender offers and the common share repurchases may be limited by the 1940 Act asset coverage requirements and any additional asset coverage requirements which may be imposed by a rating agency in connection with any rating of the preferred shares. No assurance can be given that the Board of Trustees of either Fund will, in fact, authorize that Fund to undertake such repurchases and/or tender offers or that, if undertaken, such actions would result in the common shares trading at a price which is equal or close to net asset value.

LEVERAGE RISK

Use of leverage, through the issuance of preferred shares, involves certain risks to holders of common shares of the Funds. For example, each Fund's issuance of preferred shares may result in higher volatility of the net asset value of its common shares and potentially more volatility in the market value of its common shares. In addition, changes in the short-term and medium-term dividend rates on, and the amount of taxable income allocable to, the preferred shares of a Fund will affect the yield to holders of common shares of that Fund. Leverage will allow holders of each Fund's common shares to realize a higher current rate of return than if that Fund were not leveraged as long as that Fund, while accounting for its costs and operating expenses, is able to realize a higher net return on its investment portfolio than the then-current dividend rate paid on its preferred shares. Similarly, since a pro rata portion of each Fund's net realized capital gains is generally payable to holders of each Fund's common shares, the use of leverage will increase the amount of such gains distributed to holders of that Fund's common shares. However, short-term, medium-term and long-term interest rates change from time to time as do their

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relationships to each other (i.e., the slope of the yield curve) depending upon such factors as supply and demand forces, monetary and tax policies and investor expectations. Changes in any or all of such factors could cause the relationship between short-term, medium-term and long-term rates to change (i.e., to flatten or to invert the slope of the yield curve) so that short-term and medium-term rates may substantially increase relative to the long-term obligations in which each Fund may be invested. To the extent that the current dividend rate on a Fund's preferred shares approaches the net return on that Fund's investment portfolio, the benefit of leverage to holders of common shares of that Fund will be decreased. If the current dividend rate on the preferred shares were to exceed the net return on a Fund's portfolio, holders of common shares of that Fund would receive a lower rate of return than if that Fund were not leveraged. Similarly, since both the costs of issuing preferred shares and any decline in the value of a Fund's investments (including investments purchased with the proceeds from any preferred shares offering) will be borne entirely by holders of a Fund's common shares, the effect of leverage in a declining market would result in a greater decrease in net asset value to holders of common shares than if that Fund were not leveraged. If a Fund is liquidated, holders of that Fund's preferred shares will be entitled to receive liquidating distributions before any distribution is made to holders of common shares of that Fund.

In an extreme case, a decline in net asset value could affect a Fund's ability to pay dividends on its common shares. Failure to make such dividend payments could adversely affect a Fund's qualification as a regulated investment company under the federal tax laws. However, each Fund intends to take all measures necessary to make required common share dividend payments. If a Fund's current investment income is ever insufficient to meet dividend payments on either its common shares or its preferred shares, that Fund may have to liquidate certain of its investments. In addition, each Fund has the authority to redeem its preferred shares for any reason and may be required to redeem all or part of its preferred shares in the following circumstances:

- if the asset coverage for the preferred shares declines below 200%, either as a result of a decline in the value of a Fund's portfolio investments or as a result of the repurchase of common shares in tender offers or otherwise, or

- in order to maintain the asset coverage guidelines established by Moody's and S&P in rating the preferred shares.

Redemption of the preferred shares or insufficient investment income to make dividend payments, may reduce the net asset value of a Fund's common shares and require a Fund to liquidate a portion of its investments at a time when it may be disadvantageous to do so.

ANTI-TAKEOVER PROVISIONS RISK

The Declaration of Trust of each of the Funds (in each case, the "Declaration of Trust") includes provisions that could limit the ability of other entities or persons to acquire control of that Fund or to change the composition of its Board of Trustees. Such provisions could limit the ability of shareholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of each Fund.

RATINGS CONSIDERATIONS

The Funds have received ratings of each of their outstanding preferred shares of "AAA" from S&P and "aaa" from Moody's. In order to maintain these ratings, the Funds are required to maintain portfolio holdings meeting specified guidelines of such rating agencies. These guidelines may impose asset coverage requirements that are more stringent than those imposed by the 1940 Act.

As described by Moody's and S&P, a preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The ratings of the preferred shares are not recommendations to purchase, hold or sell preferred shares, inasmuch as the ratings do not comment as to market price or suitability for a particular investor, nor do the rating agency guidelines address the likelihood that a holder of preferred shares will be able to sell such shares in an auction. The ratings are based on current information furnished to Moody's and S&P by the Funds and the Adviser and information obtained from other sources. The ratings may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information. The common shares of the Funds have not been rated by a nationally recognized statistical rating organization.

The Board of Trustees of each of the Funds, without shareholder approval, may amend, alter or repeal certain definitions or restrictions which have been adopted by a Fund pursuant to the rating agency guidelines, in the event a Fund receives confirmation from the rating agencies that any such amendment, alteration or repeal would not impair the ratings then assigned to its preferred shares.

SPECIAL RISKS RELATED TO PREFERRED SHARES

AUCTION RISK. The dividend rate for the preferred shares normally is set through an auction process. In the auction, preferred shareholders may indicate the dividend rate at which they would be willing to hold or sell their shares or purchase additional shares. An auction fails if there are more preferred shares offered for sale than there are buyers, in which case preferred shareholders may not be able to sell their shares. Also, if preferred shareholders place bids to retain shares at an auction only at a specified dividend rate and that rate exceeds the rate set at the auction, they will not retain their shares. Additionally, if preferred shareholders buy shares

or elect to retain shares without specifying a dividend rate below which they would not wish to buy or continue to hold those shares, they could receive a lower rate of return on their shares than the market rate. Finally, the dividend period for the preferred shares may be changed by a Fund, subject to certain conditions, including notice to preferred shareholders, which could also affect the liquidity of an investment in preferred shares.

SECONDARY MARKET RISK. Broker-dealers may maintain a secondary trading market in the preferred shares outside of auctions; however, they are not obligated to do so and there can be no assurance that such a secondary market will develop or, if it does develop, that it will provide preferred shareholders with a liquid trading market. It may not be possible to sell preferred shares between auctions, or it may only be possible to sell them for a price less than their liquidation preference plus any accumulated dividends. An increase in the level of interest rates likely will have an adverse effect on the secondary market price of the preferred shares. Preferred shares may only be transferred outside of auctions to or through broker-dealers or other persons as the Funds permit.

RATINGS AND ASSET COVERAGE RISKS. Although the preferred shares have been rated "Aaa" by Moody's and "AAA" by S&P, such ratings do not eliminate or necessarily mitigate the risks of investing in preferred shares. Moody's or S&P could downgrade its rating of the preferred shares or withdraw its rating at any time, which may make the preferred shares less liquid at an auction or in the secondary market. If a Fund fails to satisfy its asset coverage ratios, it will be required to redeem a sufficient number of preferred shares in order to return to compliance with the asset coverage ratios. Each Fund may voluntarily redeem preferred shares under certain circumstances in order to meet asset coverage tests.

COMPARISON OF THE FUNDS

INVESTMENT OBJECTIVE AND POLICIES

The Funds have a substantially similar investment objective and substantially similar investment policies. The Acquiring Fund's investment objective is to provide to its common shareholders high current income, while seeking to preserve shareholders' capital, through investment in a professionally managed, diversified portfolio of high income producing fixed-income securities. The Target Fund's investment objective is to provide to its common shareholders high current income, while seeking to preserve shareholders' capital, through investment in a professionally managed, diversified portfolio of high yield fixed-income securities. Each Fund's investment objective is fundamental and may not be changed without the approval of shareholders. Each Fund will seek to preserve capital through portfolio diversification and by limited investments to fixed-income securities which the Adviser believes entail reasonable credit risk.

HIGH INCOME PRODUCING FIXED-INCOME SECURITIES. Under normal market conditions, at least 65% of the Acquiring Fund's assets will be invested in fixed-income securities; similarly, the Target Fund will invest primarily in such securities. Each Fund invests primarily in high income producing fixed-income securities rated in the medium- and lower-grade categories by established rating agencies, or in unrated securities considered by the Adviser to be of comparable quality. Medium-and lower-grade securities are those rated at the time of purchase Baa or lower by Moody's or rated BBB or lower by S&P. With respect to such investments, neither Fund has established any limit on the percentage of its portfolio which may be invested in securities in any one rating category. The fixed-income securities in which the Funds will invest consist primarily of debt securities having varying terms with respect to security or credit support, subordination, purchase price, interest payments or maturity.

The Funds invest in a broad range of income securities represented by various companies and industries and traded on various markets. The Adviser uses an investment strategy of in-depth, fundamental credit analysis and emphasizes issuers that it believes will remain financially sound and perform well in a range of market conditions. In its effort to enhance value and diversify each Fund's portfolio, the Adviser may seek investments in cyclical issues or out-of-favor areas of the market to contribute to each Fund's performance.

The higher income and potential for capital appreciation sought by the Funds are generally obtainable from securities in the medium- and lower-credit quality range. Such securities tend to offer higher yields than higher-grade securities with the same maturities because the historical conditions of the issuers of such securities may not have been as strong as those of other issuers. These securities may be issued in connection with corporate restructurings such as leveraged buyouts, mergers, acquisitions, debt recapitalization or similar events. These securities are often issued by smaller, less creditworthy companies or companies with substantial debt and may include financially troubled companies or companies in default or in restructuring.

Such securities often are subordinated to the prior claims of banks and other senior lenders. Lower-grade securities are regarded by the rating agencies as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. The ratings of S&P and Moody's represent their opinions of the quality of the income securities they undertake to rate, but not the market risk of such securities. It should be emphasized however, that ratings are general and are not absolute standards of quality.

The value of income securities generally varies inversely with changes in prevailing interest rates. If interest rates rise, income security prices generally fall; if interest rates fall, income security prices generally rise. Shorter-term securities are generally less sensitive to interest rate changes than longer-term securities; thus, for

a given change in interest rates, the market prices of shorter-maturity securities generally fluctuate less than the market prices of longer-maturity securities. Income securities with shorter maturities generally offer lower yields than income securities with longer maturities assuming all other factors, including credit quality, are equal.

While neither Fund has a policy limiting the maturities of the debt securities in which it may invest, the Adviser seeks to moderate risk by normally maintaining a portfolio duration of two to ten years. Duration is a measure of the expected life of a debt security that was developed as a more precise alternative to the concept of "term to maturity." Duration incorporates a debt security's yield, coupon interest payments, final maturity and call features into one measurement. A duration calculation looks at the present value of a security's entire payment stream, whereas term to maturity is based solely on the date of a security's final principal repayment.

Fixed-income securities which may be acquired by the Funds include preferred stocks and all types of debt obligations having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity. Such obligations may include, for example, bonds, debentures, notes, mortgage- or other asset-backed instruments, equipment lease or trust participation certificates, conditional sales contracts, commercial paper and obligations issued or guaranteed by the United States government or any of its political subdivisions, agencies or instrumentalities (including obligations, such as repurchase agreements, secured by such instruments). Mortgage-backed securities are securities that directly or indirectly represent a participation in, or are secured and payable from, mortgage loans secured by real property. The Acquiring Fund will not invest in mortgage-backed residual interests. Asset-backed securities lease structural characteristics similar to mortgage-backed securities, but have underlying assets, such as accounts receivable, that are not mortgage loans or interests in mortgage loans. Participation certificates are issued by obligors to finance the acquisition of equipment and facilities and may represent participations in a lease, an installment purchase contract or a conditional sales contract. Most debt securities in which the Funds invest will bear interest at fixed rates. However, the Funds reserve the right to invest without limitation in fixed-income securities that have variable rates of interest or involve a equity features, such as contingent interest or participation based on revenues, sales or profits (i.e., interest or other payments, often in addition to a fixed rate of return, that are based on the borrower' s attainment of specified levels of revenues, sales or profits and thus enable the holder of the security to share in the potential success of the venture). Fixed-income securities consisting of preferred stocks may have cumulative or non-cumulative dividend rights. To the extent the Funds invest in non-cumulative preferred stocks, that Fund's ability to achieve its investment objective of high current income may be affected adversely.

The Funds may invest in securities rated below B by both Moody's and S&P, common stocks or other equity securities and income securities on which interest or

dividends are not being paid when such investments are consistent with each Fund's investment objective or are acquired as part of a unit consisting of a combination of income or equity securities. Equity securities as referred to herein do not include preferred stocks (which the Funds consider income securities). Each Fund's investments may include securities with the lowest-grade assigned by recognized rating organizations and unrated securities considered by the Adviser to be of comparable quality. Securities assigned the lowest grade ratings include those of companies that are in default or are in bankruptcy or reorganization. Securities of such companies are regarded by the rating agencies as having extremely poor prospects of ever attaining any real investment standing and are usually available at deep discounts from the face values of the instruments. A security purchased at a deep discount may currently pay a very high effective yield. In addition, if the financial condition of the issuer improves, the underlying value of the security may increase, resulting in capital appreciation. If the company defaults on its obligations or remains in default, or if the plan of reorganization does not provide sufficient payments for debtholders, the deep discount securities may stop generating income and lose value or become worthless. The Adviser will balance the benefits of deep discount securities with their risks. While a diversified portfolio may reduce the overall impact of a deep discount security that is in default or loses its value, the risk cannot be eliminated.

Few medium- and lower-grade income securities are listed for trading on any national securities exchange, and issuers of medium- and lower-grade income securities may choose not to have a rating assigned to their obligations by any nationally recognized statistical rating organization. As a result, each Fund's portfolio may consist of a higher portion of unlisted or unrated securities as compared with an investment company that invests primarily in higher-grade securities. Unrated securities are usually not as attractive to as many buyers as are rated securities, a factor which may make unrated securities less marketable. These factors may have the effect of limiting the availability of the securities for purchase by the Funds and may also limit the ability of the Funds to sell such securities at their fair value in response to changes in the economy or the financial markets or for other reasons. Further, to the extent the Funds own or may acquire illiquid or restricted medium- or lower-grade securities, these securities may involve special registration responsibilities, liabilities and costs, and liquidity and valuation difficulties.

The Funds will rely on the Adviser's judgment, analysis and experience in evaluating the creditworthiness of an issuer. The Adviser seeks to minimize the risks involved in investing in medium-and lower-grade securities through diversification and a focus on in-depth research and fundamental credit analysis. The amount of available information about the financial condition of certain medium- or lower-grade issuers may be less extensive than other issuers. In selecting securities for investment, the Adviser considers, among other things, the security's current income potential, the rating assigned to the security, the issuer's

experience and managerial strength, the financial soundness of the issuer and the outlook of its industry, changing financial condition, borrowing requirements or debt maturity schedules, regulatory concerns, and responsiveness to changes in business conditions and interest rates. The Adviser also may consider relative values based on anticipated cash flow, interest or dividend coverage, balance sheet analysis and earnings prospects. The Adviser evaluates each individual income security for credit quality and value and attempts to identify higher-yielding securities of companies whose financial condition has improved since the issuance of such securities or is anticipated to improve in the future. Credit ratings of securities rating organizations that the Adviser considers in evaluating securities evaluate only the safety of principal and interest payments, not the market risk. In addition, ratings are general and not absolute standards of quality, and credit ratings are subject to the risk that the creditworthiness of an issuer may change and the rating agencies may fail to change such ratings in a timely fashion. A rating downgrade does not require the Funds to dispose of a security. The Adviser continuously monitors the issuers of securities held in each Fund. Because of the number of investment considerations involved in investing in medium- and lower-grade securities, achievement of each Fund's investment objective may be more dependent upon the Adviser's credit analysis than is the case with investing in higher-grade securities.

New or proposed laws may have an impact on the market for medium- or lower-grade securities. The Adviser is unable at this time to predict what effect, if any, legislation may have on the market for medium- or lower-grade securities.

HIGHER-GRADE SECURITIES. Each Fund also may invest up to 35% of its total assets in securities rated higher than Ba by Moody's or higher than BB by S&P, or unrated securities that the Adviser considers to be of comparable quality and may invest a higher percentage, up to 100% of its total assets, in such higher rated securities (i) when the difference in yields between quality classifications is relatively narrow or (ii) when the Adviser determines that market conditions warrant a temporary, defensive policy. Investments in higher rated issues may serve to lessen a decline in net asset value but may also affect adversely the amount of current income produced by the Funds since the yields from such issues are typically less than those from medium- and lower-grade issues. Accordingly, the inclusion of such instruments in either Fund's portfolio may have the effect of reducing the yield on the common shares.

All of the foregoing policies with respect to credit quality of portfolio investments apply only at the time of purchase of a security, and the Funds are not required to dispose of a security in the event that S&P or Moody's (or any other nationally recognized statistical rating organization) downgrades its assessment of the credit characteristics of a particular issuer. In determining whether a Fund will retain or sell such a security, the Adviser may consider such factors as the Adviser'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 nationally recognized statistical rating organizations.

PORTFOLIO COMPOSITION

Although the investment portfolios of both Funds must satisfy the same standards of credit quality, the actual securities owned by each Fund may be different, as a result of which there are certain differences in the composition of the two investment portfolios. The tables below set forth the percentages of the fixed-income securities held by each Fund, as of December 31, 2004.

TARGET FUND

S&P*	MOODY'S*	NUMBER OF ISSUES	VALUE (IN THOUSANDS)	PERCENT
BBB	Baa	2	$ 1,162	1.4%
BB	Ba	61	$33,597	39.7%
B	B	89	$44,999	53.1%
CCC	Caa	9	$ 4,716	5.6%
Non-rated		2	$ 173	0.2%

ACQUIRING FUND

S&P*	MOODY'S*	NUMBER OF ISSUES	VALUE (IN THOUSANDS)	PERCENT
BBB	Baa	2	$ 867	1.4%
BB	Ba	59	$24,936	39.7%
B	B	89	$33,440	53.2%
CCC	Caa	9	$ 3,466	5.5%
Non-rated		2	$ 136	0.2%

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* Ratings: Using the higher of S&P's or Moody's rating on the Acquiring Fund's fixed-income securities. S&P's rating categories may be modified further by a plus (+) or minus (-) BBB to CCC ratings. Moody's rating categories may be modified further by a 1, 2 or 3 in Baa through Caa ratings. See Exhibit I -- "Description of Securities Ratings."

CONVERTIBLE SECURITIES. Fixed-income securities also include convertible securities. A convertible security is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for, or may otherwise entitle the holder to purchase, a prescribed amount of common stock or any equity security of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive a interest paid or accrued on debt or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion,

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convertible securities have characteristics similar to nonconvertible debt securities in that they ordinarily provide a stable stream of income with generally higher yields than those of common stocks of the same or similar issuers. Convertible securities rank senior to common stock in a corporation's capital structure and, therefore, generally entail less risk than the corporation's common stock, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a fixed-income security.

In selecting convertible securities for the Funds, the Adviser considers the following factors, among others: (1) the Adviser's own evaluations of the creditworthiness of the issuers of the securities; (2) the interest or dividend income generated by the securities: (3) the potential for capital appreciation of the securities and the underlying common stock; (4) the prices of the securities relative to the underlying common stocks; (5) the prices of the securities relative to other comparable securities; (6) whether the securities are entitled to the benefits of sinking funds or other protective conditions; (7) diversification of the Fund's portfolio as to issuers and industries; and (8) whether the securities are rated by Moody's and/or S&P and, if so, the ratings assigned.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Fund is called for redemption, that Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on each Fund's ability to achieve its investment objective.

ZERO COUPON SECURITIES. The Funds may invest in securities not producing immediate cash income, including securities in default, zero coupon securities or pay-in-kind securities. Prices on non-cash-paying instruments may be more sensitive to changes in the issuer's financial condition, fluctuation in interest rates and market demand/supply imbalances than cash-paying securities with similar credit ratings, and thus may be more speculative. Special tax considerations are associated with investing in zero coupon or pay-in-kind securities. The Adviser will weigh these concerns against the expected total returns from such instruments.

The Acquiring Fund is permitted to invest up to 10% of its total assets in zero coupon securities, while the Target Fund is permitted to invest up to 25% of its total assets in such securities. Zero coupon securities are income securities that do not entitle the holder to any periodic payment of interest prior to maturity or a specified date when the securities begin paying current interest. They are issued and traded at a discount from their face amounts or par value, which discount varies depending on the time remaining until cash payments begin, prevailing interest rates, liquidity of the security and the perceived credit quality of the issuer. Because such securities do not entitle the holder to any periodic payments of interest prior to maturity, this prevents any reinvestment of interest payments at prevailing interest rates if

prevailing interest rates rise. On the other hand, because there are no periodic interest payments to be reinvested prior to maturity, zero coupon securities eliminate the reinvestment risk and may lock in a favorable rate of return to maturity if interest rates drop.

Payment-in-kind securities are income securities that pay interest through the issuance of additional securities. Prices on such non-cash-paying instruments may be more sensitive to changes in the issuer's financial condition, fluctuations in interest rates and market demand/supply imbalances than cash-paying securities with similar credit ratings, and thus may be more speculative than are securities that pay interest periodically in cash.

FOREIGN SECURITIES. Each Fund invest up to 35% of its net assets in securities of foreign issuers. Securities of foreign issuers may be denominated in U.S. dollars or in currencies other than U.S. dollars. The percentage of assets invested in securities of a particular country or denominated in a particular currency will vary in accordance with the portfolio management team's assessment of the relative yield, appreciation potential and the relationship of a country's currency to the U.S. dollar, which is based upon such factors as fundamental economic strength, credit quality and interest rate trends. Investments in foreign securities present certain risks not ordinarily associated with investments in securities of U.S. issuers. These risks include fluctuations in foreign currency exchange rates, political, economic or legal developments (including war or other instability, expropriation of assets, nationalization and confiscatory taxation), the imposition of foreign exchange limitations (including currency blockage), withholding taxes on income or capital transactions or other restrictions, higher transaction costs (including higher brokerage, custodial and settlement costs and currency conversion costs) and possible difficulty in enforcing contractual obligations or taking judicial action. Securities of foreign issuers may not be as liquid and may be more volatile than comparable securities of domestic issuers. Additionally, since most foreign income securities are not rated, the Funds will invest in such securities based on the analysis of the Adviser without any guidance from published ratings.

Further, there often is less publicly available information about many foreign issuers, and issuers of foreign securities are subject to different, often less comprehensive, auditing, accounting and financial reporting disclosure requirements than domestic issuers. There is generally less government regulation of exchanges, brokers and listed companies abroad than in the United States and, with respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, or diplomatic developments which could affect investment in those countries. Because there is usually less supervision and governmental regulation of foreign exchanges, brokers and dealers than there is in the United States, the Funds may experience settlement difficulties or delays not usually encountered in the United States. Delays in making trades in securities of foreign issuers relating to

volume constraints, limitations or restrictions, clearance or settlement procedures, or otherwise could impact returns and result in temporary periods when assets of the Funds are not fully invested or attractive investment opportunities are foregone.

Delays in making trades in securities of foreign issuers relating to volume constraints, limitations or restrictions, clearance or settlement procedures, or otherwise could impact yields and result in temporary periods when assets of the Funds are not fully invested or attractive investment opportunities are foregone.

The Funds may invest in securities of issuers determined by the Adviser to be in developing or emerging market countries. Investments in securities of issuers in developing or emerging market countries are subject to greater risks than investments in securities of developed countries since emerging market countries tend to have economic structures that are less diverse and mature and political systems that are less stable than developed countries.

In addition to the increased risks of investing in securities of foreign issuers, there are often increased transaction costs associated with investing in securities of foreign issuers including the costs incurred in connection with converting currencies, higher foreign brokerage or dealer costs and higher settlement costs or custodial costs.

Since the Funds may invest in securities denominated or quoted in currencies other than the U.S. dollar, the Funds may be affected by changes in foreign currency exchange rates (and exchange control regulations) which affect the value of investments in the Funds and the accrued income and appreciation or depreciation of the investments. Changes in foreign currency exchange rates relative to the U.S. dollar will affect the U.S. dollar value of each Fund's assets denominated in that currency and each Fund's return on such assets as well as any temporary uninvested reserves in bank deposits in foreign currencies. In addition, the Funds will incur costs in connection with conversions between various currencies.

The Funds may invest in securities of foreign issuers in the form of depositary receipts. Depositary receipts involve substantially identical risks to those associated with direct investment in securities of foreign issuers. In addition, the underlying issuers of certain depositary receipts, particularly unsponsored or unregistered depositary receipts, are under no obligation to distribute shareholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

RESTRICTED AND ILLIQUID SECURITIES. Each Fund may invest up to 20% of its total assets in fixed-income securities that are not readily marketable, including securities restricted as to resale. No security that is not readily marketable will be acquired unless the Adviser believes such security to be of comparable quality to publicly-traded securities. Securities that are not readily marketable may offer higher yields than comparable publicly-traded securities. However, the Funds may not be able to

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sell these securities when the Adviser considers it desirable to do so or, to the extent they are sold privately, may have to sell them at less than the price of otherwise comparable securities and may incur higher brokerage charges or dealer discounts and other selling expenses than in selling otherwise comparable securities. Certain fixed-income securities are somewhat liquid and may become more liquid as secondary markets for these securities continue to develop. These securities will be included in, or excluded from, the 20% limitation on a case-by-case basis by the Adviser under the supervision of the Board of Trustees, depending on the perceived liquidity of the security and market involved. The Funds understand the position of the staff of the SEC to be that purchases of OTC options and the assets used as "cover" for written OTC options are illiquid securities. The staff has, however, taken no-action positions which may reduce any negative impact of such position on the Fund. The Fund will deem that portion of its positions in OTC options to be illiquid in accordance with the then current positions of the staff, as such positions are stated from time to time.

SECURITIES OPTIONS TRANSACTIONS. The Funds may, but are not required to, use various investment strategic transactions, including securities options transactions, in several different ways depending upon the status of each Fund's investments and the expectations of the Adviser concerning the securities markets. Although the Adviser seeks to use these transactions to achieve each Fund's investment objective, no assurance can be given that the use of these transactions will achieve this result.

The Funds may invest in options on fixed-income securities. Such options may be traded over-the-counter ("OTC") or on a national securities exchange. In general, the Funds may purchase and sell (write) options on up to 25% of its assets. The SEC requires that obligations of investment companies such as the Funds, in connection with option sale positions, must comply with certain segregation or coverage requirements. No limitation exists on the amount of the Funds' assets which can be used to comply with such segregation or cover requirements.

A call option gives the purchaser the right to buy, and obligates the writer to sell, the underlying security at the agreed upon exercise (or "strike") price during the option period. A put option gives the purchaser the right to sell, and obligates the writer to buy, the underlying security at the strike price during the option period. Purchasers of options pay an amount, known as a premium, to the option writer in exchange for the right under the option contract. Option contracts may be written with terms which would permit the holder of the option to purchase or sell the underlying security only upon the expiration date of the option.

The Funds may purchase put and call options in hedging transactions to protect against a decline in the market value of the securities in the Funds' portfolios (e.g., by the purchase of a put option) and to protect against an increase in the cost of fixed-income securities that the Fund may seek to purchase in the future (e.g., by the purchase of a call option). In the event the Funds purchase put and call options,

paying premiums therefor, and price movements in the underlying securities are such that exercise of the options would not be profitable for the Funds, then to the extent such underlying securities correlate in value to the Funds' portfolio securities, losses of the premiums paid may be offset by an increase in the value of the Funds' portfolio securities in the case of a purchase of put options or by a decrease in the cost of acquisition of securities by the Funds, in the case of purchase of call options.

The Funds may also sell put and call options as a means of increasing the yield on each of their portfolios and as a means of providing limited protection against decreases in market value of their portfolios. When the Funds sell an option, if the underlying securities do not increase, in the case of a call option or decrease (in the case of a put option to a price level that would make the exercise of the option profitable to the holder of the option, the option generally will expire without being exercised and the Funds will realize as profit the premium received for such option. When a call option of which a Fund is the writer is exercised, that Fund will be required to sell the underlying securities to the option holder at the strike price: therefore that Fund will not participate in any increase in the price of such securities above the strike price. When a put option of which either Fund is the writer is exercised, that Fund will be required to purchase the underlying securities at the strike price, which may be in excess of the market value of such securities.

OTC options differ from exchange-traded options in several respects. They are transacted directly with dealers and not with a clearing corporation, and a risk exists of non-performance by the dealer. OTC options are available for a greater variety of securities and for a wider range of expiration dates and exercise prices than are available for exchange-traded options. Because OTC options are not traded on an exchange, pricing is done normally by reference to information from a market maker, which information is monitored carefully by the Adviser and verified in appropriate cases.

Generally, each Fund's policy, in order to avoid the exercise of an option sold by it, will be to cancel its obligation under the option by entering into a closing purchase transaction, if available, unless selling (in the case of a call option) or to purchasing (in the case of a put option) the underlying securities is determined to be in that Fund's interest. A closing purchase transaction consists of a Fund purchasing an option having the same terms as the option sold by that Fund and has the effect of canceling that Fund's position as a seller. The premium which a Fund will pay in executing a closing purchase transaction may be higher (or lower) than the premium received when the option was sold, depending in large part upon the relative price of the underlying security at the time of each transaction. To the extent options sold by a Fund are exercised and that Fund either delivers portfolio securities to the holder of a call option or liquidates securities in its portfolio as a source of funds to purchase securities put to that Fund, that Fund's portfolio

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turnover rate will increase, which would cause that Fund to incur additional brokerage expenses.

During the option period a Fund, as a covered call writer, gives up the potential appreciation above the exercise price should the underlying security rise in value, and that Fund, as a secured put writer, retains the risk of loss should the underlying security decline in value. For the covered call writer, substantial appreciation in the value of the underlying security would result in the security being "called away" at the strike price of the option which may be substantially below the fair market value of such security. For the secured put writer, substantial depreciation in the value of the underlying security would result in the security being "put to the writer at the strike price of the option which may be substantially in excess of the fair market value of such security. If a covered call option or a secured put option expires unexercised, the writer realizes a gain, and the buyer a loss, in the amount of the premium.

To the extent that an active market exists or develops, whether on a national securities exchange or over-the-counter, in options on indices based upon fixed-income securities, each Fund may purchase and sell options on such indices, subject to the limitation that a Fund may purchase and sell options on up to 25% of its assets. Through the writing or purchase of index options a Fund can achieve many of the same objectives as through the use of options on individual securities. Options on securities indices are similar to options on securities except that, rather than the right to take or make delivery of a security, at a specified price, an option on a securities index gives the holder the right to receive upon exercise of the option, an amount of cash if the closing level of the securities index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put, the strike price of the option.

Price movements in securities which the Funds own or intend to purchase will not correlate perfectly with movements in the level of an index and, therefore, a Fund bears the risk of a loss on an index option which is not offset completely by movements in the price of such securities. Because index options are settled in cash, a call writer cannot determine the amount of its settlement obligations in advance and, unlike call writing on specific securities, cannot provide in advance for, or cover, its potential settlement obligations by acquiring and holding the underlying securities.

INTEREST RATE AND OTHER HEDGING TRANSACTIONS. In order to seek to protect the value of its portfolio securities against declines resulting from changes in interest rates or other market changes, the Funds may enter into various hedging transactions, such as financial futures contracts and related options contracts.

The Funds may enter into various interest rate hedging transactions using financial instruments with a high degree of correlation to the securities which each

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Fund may purchase for its portfolio, including interest rate futures contracts in such financial instruments and interest rate related indices, put and call options on such futures contracts and on such financial instruments. Each Fund expects to enter into these transactions to "lock in" a return or spread on a particular investment or portion of its portfolio, to protect against any increase in the price of securities the Fund anticipates purchasing at a later date, or for other risk management strategies.

The Funds will not engage in the foregoing transactions for speculative purposes, but only as a means to hedge risks associated with management of its portfolio. Typically, investment in these contracts requires a Fund to deposit with the applicable exchange or other specified financial intermediary as a good faith deposit for its obligations, known as "initial margins" an amount of cash or specified debt securities which initially is 1%-15% of the face amount of the contract and which thereafter fluctuates on a periodic basis as the value of the contract fluctuates. Thereafter, a Fund must make additional deposits equal to any net losses due to unfavorable price movements of the contract and will be credited with an amount equal to any net gains due to favorable price movements. These additional deposits or credits are calculated and required daily and are known as "variation margin."

The SEC generally requires that when an investment company, such as the Funds, effects transactions of the foregoing nature, such a fund either must segregate cash or high quality, readily marketable portfolio securities with its custodian in the amount of its obligations under the foregoing transactions or must cover such obligations by maintaining positions in portfolio securities, futures contracts or options that would serve to satisfy or offset the risk of such obligations. When effecting transactions of the foregoing nature, the Funds will comply with such segregation or cover requirements. No limitation exists as to the percentage of the Fund's assets which may be segregated in connection with such transactions.

The Funds will not enter into a futures contract or related option if, immediately after such investment, the sum of the amount of its initial margin deposits and premiums on open contracts and options would exceed 5% of that Fund's total assets at current value. The Funds however, may invest more than such amount in the future if it obtains authority to do so from the appropriate regulator agencies without rendering that Fund a commodity pool operator or adversely affecting its status as an investment company for federal securities law or income tax purposes.

All of the foregoing transactions present certain risks. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the security being, hedged creates the possibility that losses on the hedge may be greater than gains in the value of the Fund's securities. In addition, these instruments may not be liquid in all circumstances and are closed out generally by entering into offsetting transactions rather than by disposing of the obligations. As a result, in volatile markets, the Funds may not be able to close out a transaction without incurring losses. Although the contemplated use of those

contracts should tend to reduce the risk of loss due to a decline in the value of the hedged security, at the same time the use of these contracts could tend to limit any potential gain which might result from an increase in the value of such security. Finally, the daily deposit requirements for futures contracts create an ongoing greater potential financial risk than do option purchase transactions, where the exposure is limited to the cost of the premium for the option.

Successful use of futures contracts and options thereon by the Funds is subject to the ability of the Adviser to predict correctly movements in the direction of interest rates and other factors affecting markets for securities. If the Adviser's expectations are not met, the Funds would be in a worse position than if a hedging strategy had not been pursued. If the Fund has insufficient cash to meet daily variation margin requirements, it may have to sell securities to meet such requirements. Such sales of securities may, but will not necessarily, be at increased prices which reflect the rising market. The Funds may have to sell securities at a time when it is disadvantageous to do so.

In addition to engaging in transactions utilizing options on futures contracts, the Funds may purchase put and call options on securities and, as developed from time to time, on interest indices and other instruments. Purchasing options may increase investment flexibility and improve total return, but also risks loss of the option premium if an asset a Fund has the option to buy declines in value or if an asset a Fund has the option to sell increases in value.

The Funds also may enter into various other hedging transactions, such as interest rate swaps and the purchase or sale of interest rate caps and floors. The Funds expect to enter into these transactions primarily to preserve a return or spread on a particular investment or portion of its portfolio or to protect against any increase in the price of securities the Funds anticipate purchasing at a later date. The Funds intend to use these transactions as a hedge and not as a speculative investment. The Funds will not sell interest rate caps or floors that each Fund does not own. Interest rate swaps involve the exchange by a Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments. The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate floor.

The Funds may enter into interest rate swaps, caps and floors on either an asset-based or liabilities-based basis, depending on whether it is hedging its assets or its liabilities, and will enter usually into interest rate swaps on a net basis, i.e., the two payment streams are netted out, with the Funds receiving or paying, as the case

may be, only the net amount of the two payments. Inasmuch as these hedging transactions are entered into for good faith risk management purposes, the Adviser and the Funds believe such obligations do not constitute senior securities and, accordingly, will not treat them as being subject to its investment restrictions on borrowing. The net amount of the excess, if any, of a Fund's obligations over its entitlements with respect to each interest rate swap will be accrued on a daily basis and an amount of cash or liquid securities having an aggregate net asset value at least equal to the accrued excess will be maintained in a segregated account by, each Fund's custodian. The creditworthiness of firms with which the Funds enter into interest rate swaps, caps or floors will be monitored on an ongoing basis by the Adviser pursuant to procedures adopted and reviewed, on an ongoing basis, by the Board of Trustees of the Funds. If a default occurs by the other party to such transaction, the Funds will have contractual remedies pursuant to the agreements related to the transaction. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively liquid. Caps and floors are more recent innovations for which standardized documentation has not yet been developed and, accordingly, they are less liquid than swaps.

New options and futures contracts and other financial products, and various combinations thereof, continue to be developed and the Funds may invest in any such options, contracts and products as may be developed to the extent consistent with its investment objective and the regulatory requirements applicable to investment companies.

LENDING OF PORTFOLIO SECURITIES. The Funds may seek to increase its income by lending portfolio securities under present regulatory policies, including those of the Board of Governors of the Federal Reserve System and the SEC. Such loans may be made, without limit, to brokers, dealers, banks or other recognized institutional borrowers of securities and would be required to be secured continuously by collateral, including cash, cast, equivalents or U.S. Treasury bills maintained on a current basis at an amount at least equal to the market value of the securities loaned. The Funds would have the right to call a loan and obtain the securities loaned at any time on five days' notice. For the duration of a loan, the Funds would continue to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned and also would receive compensation from the investment of the collateral. The Funds, however, would not have the right to vote any securities having voting rights during the existence of the loan, but the Funds could call the loan in anticipation of an important vote to be taken among holders of the securities or in anticipation of the giving or withholding of their consent on a material matter affecting the securities. As with other extensions of credit, risks of delay in recovery or even loss of rights in the collateral exist should the borrower of the securities fail financially. However, the loans would be made only to firms deemed by the Adviser

to be of good standing and when, in the judgment of the Adviser, the consideration which can be earned currently from securities loans of this type justifies the attendant risk. The creditworthiness of firms to which the Funds lend their portfolio securities will be monitored on an ongoing basis by the Adviser pursuant to procedures adopted and reviewed, on an ongoing basis, by the Board of Trustees of each Fund.

"WHEN ISSUED" AND "DELAYED DELIVERY" TRANSACTIONS. The Funds may also purchase and sell fixed-income securities on a "when issued" and delayed delivery" basis. No income accrues to a Fund on fixed-income securities in connection with such transactions prior to the date a Fund actually takes delivery of such securities. These transactions are subject to market fluctuation: the value of the fixed-income securities at deliver may be more or less, than their purchase price, and yields generally available on fixed-income securities when delivery occurs may be higher than yields on the fixed-income securities obtained pursuant to such transactions. Because a Fund relies on the buyer or seller, as the case may be, to consummate the transaction, failure by the other party to complete the transaction may result in a Fund missing the opportunity of obtaining a price or yield considered to be advantageous. When a Fund is the buyer in such a transaction, however, it will maintain, in a segregated account with its custodian, cash or high-grade portfolio securities having an aggregate value equal to the amount of such purchase commitments until payment is made. The Fund will make commitments to purchase fixed-income securities on such basis only with the intention of actually acquiring these securities, but a Fund may sell such securities prior to the settlement date if such sale is considered to be advisable. To the extent a Fund engages in "when issued" and "delayed delivery" transactions, it will do so for the purpose of acquiring securities for that Fund's portfolio consistent with that Fund's investment objective and policies and not for the purpose of investment leverage.

REPURCHASE AGREEMENTS. The Funds may enter into repurchase agreements (a purchase of, and a simultaneous commitment to resell, a security at an agreed upon price on an agreed upon date) only with member banks of the Federal Reserve

System and member firms of the NYSE. When participating in repurchase agreements, the Fund buys securities from a vendor, e.g., a bank or brokerage firm, with the agreement that the vendor will repurchase the securities at a higher price at a later date. Such transactions afford an opportunity for the Fund to earn a return on available cash at minimal market risk, although the Fund may be subject to various delays and risks of loss if the vendor is unable to meet its obligation to repurchase. Under the 1940 Act, repurchase agreements are deemed to be collateralized loans of money by the Fund to the seller. In evaluating whether to enter into a repurchase agreement, the Adviser will consider the creditworthiness of the vendor. If the member bank or member firm that is the party to the repurchase agreement petitions for bankruptcy or otherwise becomes subject to the U.S. Bankruptcy Code, the law regarding the rights of the Fund is unsettled. The

securities underlying a repurchase agreement will be marked to market every business day so that the value of the collateral is at least equal to the value of the loan, including the accrued interest thereon, and the Adviser will monitor the value of the collateral.

REVERSE REPURCHASE AGREEMENTS. The Fund may enter into reverse repurchase agreements with respect to debt obligations which could otherwise be sold by the Funds. A reverse repurchase agreement is an instrument under which the Funds may sell an underlying debt instrument and simultaneously obtain the commitment of the purchaser (a commercial bank or a broker or dealer) to sell the security back to the Fund at an agreed upon price on an agreed upon date. The value of underlying securities will be at least equal at all times to the total amount of the resale obligation, including the interest factor. The Funds receive payment for such securities only upon physical delivery or evidence of book entry transfer by its custodian. Regulations of SEC require either that securities sold by the Funds under a reverse repurchase agreement be segregated pending repurchase or that the proceeds be segregated. Reverse repurchase agreements could involve certain risks in the event of default or insolvency of the other party, including possible delays or restrictions upon a Fund's ability to dispose of the underlying securities. An additional risk is that the market value of securities sold by a Fund under a reverse repurchase agreement could decline below the price at which a Fund is obligated to repurchase them. Reverse repurchase agreements will be considered borrowings by the Funds and as such would be subject to the restrictions on borrowing described in the section entitled "Investment Restrictions." The Funds will not hold more than 5% of the value of its total assets in reverse repurchase agreements.

INVESTMENT RESTRICTIONS

Each Fund's investment objective and the following investment restrictions are fundamental and cannot be changed without the approval of the holders of a majority of that Fund's outstanding voting securities (defined in the 1940 Act as the lesser of (i) more than 50% of the Fund's outstanding common shares and of any outstanding senior securities constituting preferred shares, voting by class, or (ii) 67% of the Fund's outstanding common shares and of such outstanding senior securities constituting preferred shares, voting by class, present at a meeting at which the holders of more than 50% of the outstanding shares of each such class are present in person or by proxy). All other investment policies or practices are considered by the Fund not to be fundamental and accordingly may be changed without shareholder approval. If a percentage restriction on investment or use of assets set forth below is adhered to at the time a transaction is effected, later changes in percentage resulting from changing market values will not be considered a deviation from policy. Each Fund may not:

1. With respect to 75% of its total assets, purchase any securities (other than obligations guaranteed by the United States Government or by its agencies or instrumentalities), if as a result more than 5% of the Fund's total assets would then be invested in securities of a single issuer or if as a result the Fund would hold more than 10% of the outstanding voting securities of any single issuer, except that the Fund may purchase securities of other investment companies to the extent permitted by (i) the 1940 Act, as amended from time to time, (ii) the rules and regulations promulgated by the SEC under the 1940 Act, as amended from time to time, or (iii) an exemption or other relief from the provisions of the 1940 Act.

2. Invest more than 25% of its total assets in securities of issuers conducting their principal business activities in the same industry; provided, that this limitation shall not apply which respect to investments in U.S. Government securities.

3. Issue senior securities, (including borrowing money or entering into reverse repurchase agreements) in excess of 33 1/3% of its total assets (including the amount of senior securities issued but excluding any liabilities and indebtedness not constituting senior securities) except that the Fund may issue senior securities which are stocks (including preferred shares of beneficial interest) subject to the limitations set forth in Section 18 of the 1940 Act and except that the Fund may borrow up to an additional 5% of its total assets for temporary purposes: or pledge its assets other than to secure such issuance or in connection with hedging transactions, when-issued and delayed delivery transactions and similar investment strategies. The Fund's obligations under interest rate swaps are not treated as senior securities.

4. Make loans of money or property to any person, except to the extent the securities the Fund may invest are considered to be loans, (ii) through loans of portfolio securities, (iii) through the acquisition of securities subject to repurchase agreements and (iv) that that the Fund may lend money or property in connection with maintenance of the value of, or the Fund's interest with respect to, the securities owned by the Fund.

5. Buy any securities "on margin." Neither the deposit of initial or variation margin in connection with hedging transactions nor short-term credits as may be necessary in for the clearance of transactions is considered the purchase of a security on margin.

6. Sell any securities "short," write, purchase or sell puts, calls or combinations thereof, or purchase or sell financial futures or options, except as described herein.

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7. Act as an underwriter of securities, except to the extent the Fund may be deemed to be an underwriter in connection with the sale of securities held in its portfolio.

8. Make investment for the purpose of exercising control or participation in management, except to the extent that exercise by the Fund of its rights under agreements related to securities owned by the Fund would be deemed to constitute such control or participation, except that the Fund may purchase securities of other investment companies to the extent permitted by (i) the 1940 Act, as amended from time to time, (ii) the rules and regulations promulgated by the SEC under the 1940 Act, as amended from time to time, or (iii) an exemption or other relief from the provisions of

the 1940 Act.

9. Invest in securities of other investment companies, except as part of a merger, consolidation or other acquisition, if more than 3% of the outstanding voting stock of such investment company would be held by the Fund, if more than 5% of the total assets of the Fund would be invested in any such investment company, or if the Fund would own, in the aggregate, securities of other investment companies representing more than 10% of its assets.

10. Buy or sell oil, gas or other mineral leases, rights or royalty contracts, although the Fund may, purchase securities of issuers which deal in, represent interests in or are secured by interests in such leases, rights or contracts, except to the extent that the Fund may invest in equity interests generally, as described in this Prospectus.

11. Purchase or sell real estate, commodities or commodity contracts, except to the extent the securities the Fund may invest in are considered to be interests in real estate, commodities or commodity contracts or to the extent the Fund exercises its rights under agreements relating to such securities (in which case the Fund may liquidate real estate acquired as a result of default on a mortgage), and except to the extent that hedging instruments and risk management transactions the Fund may engage in are considered to be commodities or commodities contracts.

The Funds generally will not engage in the trading of securities for the purpose of realizing short-term profits, but will adjust their portfolios as they deem advisable in view of