REAL ESTATE INCOME FUND INC
Form 497
July 18, 2005
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PROSPECTUS

$30,000,000

Real Estate Income Fund Inc.

Taxable Auction Rate Preferred Stock

1,200 Shares, Series M

Liquidation Preference $25,000 Per Share

Real Estate Income Fund Inc., or the Fund, is selling 1,200 shares of Series M Taxable Auction Rate Preferred Stock (the New Preferred Shares and, together with the currently outstanding Preferred Shares, the Preferred Shares), which will increase the number of its Preferred Shares outstanding to 3,800. The Fund is a non-diversified, closed-end management investment company.

Investment Objectives. The Fund s primary investment objective is high current income and the Fund s secondary investment objective is capital appreciation.

Portfolio Contents. Under normal market conditions, the Fund will invest at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares and debt securities issued by Real Estate Companies (companies, including real estate investment trusts or REITs, that generally derive at least 50% of their revenue from the ownership, construction, financing, management or sale of commercial, industrial or residential real estate, or have at least 50% of their assets invested in such real estate); and at least 80% of its total assets in income-producing equity securities issued by REITs. In addition, the Fund may invest in non-investment grade securities, including non-investment grade debt securities (commonly known as junk bonds), as well as non-investment grade preferred and convertible preferred shares, although the Fund will not invest in non-investment grade securities if, as a result of such investment, more than 20% of the Fund s total assets would be invested in non-investment grade securities. Furthermore, the Fund intends to use leverage in an effort to maximize returns of the Fund, including by this offering of Preferred Shares and the issuance of commercial paper or notes and/or borrowing in an aggregate amount of approximately 30% of the Fund s total assets immediately after such issuance and/or borrowing. There can be no assurance that the Fund will achieve its investment objectives. For more information on the Fund s investment strategies, see The Fund s Investments and Risk Factors.

Investors in New Preferred Shares will be entitled to receive cash dividends at an annual rate that may vary for the successive dividend periods for such New Preferred Shares. The dividend rate for the initial dividend period for New Preferred Shares will be 3.15% per year. The initial dividend period is from the date of issuance through July 25, 2005 for the New Preferred Shares. For subsequent dividend periods, the Auction Agent will determine the dividend rate for a particular period by an auction conducted on the business day prior to that period. The auction is usually held every seven days. Investors in Preferred Shares may participate in auctions through their broker-dealers in accordance with the procedures specified in this Prospectus and in the Statement of Additional Information. The Fund may redeem Preferred Shares as described under Description of Preferred Shares Redemption.

Investing in Preferred Shares involves certain risks. See Risk Factors beginning on page 23.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense. (Continued on following page)

	Per Share	Total
Public Offering Price	$ 25,000	$ 30,000,000
Sales Load	$ 250	$ 300,000
Estimated Offering Expenses	$ 156	$ 187,500
Proceeds to Fund*	$ 24,594	$ 29,512,500

* For a description of all commissions and other compensation paid to the Underwriter, see Underwriting.

The public offering price per share will be increased by the amount of dividends accumulated on the Preferred Shares, if any.

The underwriter is offering New Preferred Shares subject to certain conditions. The Underwriter expects to deliver New Preferred Shares to an investor s broker-dealer, in book-entry form through The Depository Trust Company, on or about July 18, 2005.

Citigroup

The date of this Prospectus is July 13, 2005.

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Preferred Shares will be senior to shares of the Fund s outstanding Common Stock, par value $.001 per share. The Fund s Common Stock is traded on the New York Stock Exchange under the symbol RIT. The Fund s outstanding Preferred Shares were offered with a rating of Aaa from Moody s Investors Services, Inc. and AAA from Fitch Ratings and it is a condition of the closing of this offering that these ratings be confirmed by the rating agencies with respect to the outstanding Preferred Shares and extended to the New Preferred Shares.

This Prospectus sets forth concisely the information you should know before investing, including information about risks. You should read this Prospectus before you invest and keep it for future reference. The Fund s Statement of Additional Information, dated July 13, 2005, contains additional information about the Fund and is incorporated by reference into (which means it is considered to be a part of) this Prospectus. You may obtain a free copy of the Statement of Additional Information by calling the Fund at 1-888-735-6507, or by writing to the Fund at 125 Broad Street, New York, New York 10004. A table of contents to the Statement of Additional Information is located at page 55 of this Prospectus. The Statement of Additional Information is also available, along with other Fund-related materials, on the Securities and Exchange Commission s Web site (http://www.sec.gov).

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

Prospective purchasers should carefully review the auction procedures described in this prospectus and should note: (1) a buy order (called a bid order) or sell order is a commitment to buy or sell the Preferred Shares based on the results of an auction; and (2) purchases and sales will be settled on the next business day after the auction.

PREFERRED SHARES ARE NOT LISTED ON AN EXCHANGE. YOU MAY ONLY BUY OR SELL PREFERRED SHARES THROUGH AN ORDER PLACED AT AN AUCTION WITH OR THROUGH A BROKER-DEALER THAT HAS ENTERED INTO AN AGREEMENT WITH THE AUCTION AGENT AND THE FUND, OR IN A SECONDARY MARKET MAINTAINED BY CERTAIN BROKER-DEALERS. THESE BROKER-DEALERS ARE NOT REQUIRED TO MAINTAIN THIS MARKET, AND THIS MARKET MAY NOT PROVIDE YOU WITH LIQUIDITY.

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You should rely only on the information contained in or incorporated by reference into this Prospectus. Neither the Fund nor the underwriter has authorized anyone to provide you with different information. If anyone provides you with different information, you should not rely on it. Neither the Fund nor the underwriter is making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front of this Prospectus. The Fund s business, financial condition, results of operations and prospects may have changed since that date. However, if any material change occurs while this Prospectus is required by law to be delivered, this Prospectus will be supplemented or amended accordingly.

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Until August 7, 2005 (25 days after the date of this Prospectus), all dealers that buy, sell or trade the Preferred Shares, whether or not participating in this offering, may be required to deliver a Prospectus. This is in addition to the dealer s obligation to deliver a Prospectus when acting as underwriter and with respect their unsold allotments or subscriptions.

Preferred Shares are not listed on an exchange. Instead, you may buy or sell Preferred Shares at an Auction. In addition to the Auctions, Broker-Dealers and other broker-dealers may maintain a secondary trading market in Preferred Shares outside of Auctions, but may discontinue such market activity at any time. There is no assurance that a secondary market will provide shareholders with liquidity. You may transfer shares outside of Auctions only to or through a Broker-Dealer, or such other persons who may be permitted by the Fund.

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PROSPECTUS SUMMARY

The following summary highlights selected information from this Prospectus. It may not contain all of the information that is important to you. To understand the offering of New Preferred Shares fully, you should read this entire Prospectus carefully, including the risk factors. This summary is qualified in its entirety by reference to the more detailed information included elsewhere in this Prospectus, the Statement of Additional Information (the SAI) and the Fund s Articles Supplementary Creating and Fixing the Rights and Preferences of Series M Taxable Auction Rate Preferred Shares attached as Appendix B to the SAI (the Initial Articles Supplementary) and the Supplemental Articles Supplementary Creating and Fixing the Rights and Preferences of Series M Taxable Auction Rate Preferred Shares for the Preferred Shares offered by this Prospectus attached as Appendix C to the SAI (the Supplemental Articles Supplementary and, together with the Initial Articles Supplementary, the Articles Supplementary). Cross references in this summary are to headings in the body of this Prospectus or the SAI. Capitalized terms used but not defined in this Prospectus shall have the meanings given to such terms in the Articles Supplementary.

The Fund	Real Estate Income Fund Inc. (the Fund) is a non-diversified, closed-end management investment company. The Fund s principal office is located at 125 Broad Street, New York, New York 10004 and its telephone number is 1-888-735-6507. The Fund was organized as a Maryland corporation on May 16, 2002 and is registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund commenced investment operations on July 31, 2002 upon the closing of an initial public offering of 9,650,000 shares of common stock, par value $.001 per share (Common Stock). The Fund issued an additional 1,050,000 shares of Common Stock, pursuant to an over-allotment option granted to the underwriters of the Common Stock, on September 10, 2002. The Fund issued 2,600 shares of Taxable Auction Rate Preferred Stock on September 30, 2002. See The Fund. The Fund s outstanding shares of Common Stock are listed on the New York Stock Exchange (Exchange) under the symbol RIT. See Description of Common Stock. As of May 31, 2005, the Fund had 11,069,242 shares of Common Stock outstanding and 2,600 shares of Taxable Auction Rate Preferred Stock, Series M outstanding and net assets of $291,977,559.
The Offering	The Fund is offering 1,200 newly issued shares of Series M Taxable Auction Rate Preferred Stock (the New Preferred Shares), par value $0.001 per share, at a purchase price of $25,000 per share plus dividends, if any, that have accumulated from the date the Fund first issues the shares. Except for the dividend rate for the initial Dividend Period, the Date of Original Issue, the initial Dividend Period and the initial Dividend Payment Date, the terms of the shares of New Preferred Shares are the same as the terms of the Fund s currently outstanding Preferred Shares. The shares of New Preferred Shares offered by this Prospectus do not represent a separate series or class of Preferred Shares, but are additional shares of the Fund s existing class of Preferred Shares. Except where the context suggests otherwise, references to Preferred Shares in this Prospectus are to the 1,200 New Preferred Shares together with the existing 2,600 Preferred Shares outstanding. Preferred Shares are being offered by

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Citigroup Global Markets Inc., the underwriter (the Underwriter). Citigroup Global Markets Inc. is an affiliate of Citi Fund Management Inc., the Fund s investment manager (the Investment Manager) and an indirect wholly-owned subsidiary of Citigroup Inc. See Underwriting.

The Preferred Shares entitle their holders to receive cash dividends at an annual rate that may vary for successive dividend periods. In general, except as described under Dividends and Dividend Periods below and Description of Preferred Shares Dividends and Dividend Periods, the dividend period for each series of Preferred Shares will be seven days. Deutsche Bank Trust Company Americas (the Auction Agent) will determine the dividend rate for any dividend period by an auction conducted on the business day immediately prior to the start of that dividend period. See The Auction. The Preferred Shares are not listed on an exchange. Instead, investors may buy or sell Preferred Shares at an auction by submitting orders to broker-dealers (Broker-Dealers) that have entered into an agreement with the Auction Agent (a Broker-Dealer Agreement) or to broker-dealers that have entered into separate agreements with a Broker-Dealer. Generally, investors in the Preferred Shares will not receive certificates representing ownership of their shares. The Depositary Trust Company or any successor (the Securities Depositary) or its nominee for the account of the investor s Broker-Dealer will maintain record ownership of Preferred Shares in book-entry form. An investor s Broker-Dealer, in turn, will maintain records of that investor s beneficial ownership of Preferred Shares.

Investment Objectives

The Fund s primary investment objective is high current income. Capital appreciation is a secondary investment objective. There can be no assurance that the Fund s investment objectives will be achieved. The Fund s investment objectives are fundamental and cannot be changed by the Fund s Board of Directors (the Board) without shareholder approval. See The Fund s Investments.

Investment Strategies

Under normal market conditions, the Fund invests at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares and debt securities issued by Real Estate Companies, including real estate investment trusts (REITs). A Real Estate Company is a company that generally derives at least 50% of its revenue from the ownership, construction, financing, management or sale of commercial, industrial or residential real estate (or has at least 50% of its assets invested in such real estate). As a part of this policy, the Fund may also invest in rights or warrants to purchase income-producing common and preferred shares of Real Estate Companies.

At least 80% of the Fund s total assets are invested under normal market conditions in income-producing equity securities issued by REITs. A REIT is a Real Estate Company that pools investors funds for investment primarily in income-producing real estate or in real estate related loans (such as mortgages) or other interests. REITs

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generally pay relatively high dividends (as compared to other types of companies) and the Fund intends to use these REIT dividends in an effort to meet its primary objective of high current income. The Fund primarily invests in Equity REITs, which invest the majority of their assets directly in real property and derive their income primarily from rents.

The Fund may invest up to 20% of its total assets in U.S. Government obligations and debt securities, including convertible debt securities, issued by Real Estate Companies.

The preferred shares, convertible preferred shares and debt securities in which the Fund may invest are sometimes collectively referred to in this Prospectus as Ratable Securities. The Fund may invest in Ratable Securities that are below investment grade quality, including unrated securities determined by AEW Management and Advisors, L.P., the Fund s sub-adviser (AEW or the Sub-Adviser), to be of comparable quality to rated securities. The Fund will not invest in non-investment grade Ratable Securities if, as a result of such investment, more than 20% of the Fund s total assets would be invested in non-investment grade Ratable Securities.

The Fund may invest up to 10% of its total assets in securities of non-U.S. issuers located in industrialized countries, for example, the 30-member countries of Organization for Economic Cooperation and Development.

The Fund will not invest more than 10% of its total assets in illiquid securities. The Fund will not invest more than 15% of its total assets in the securities of any one issuer other than the U.S. Government.

In anticipation of, or in response to, adverse market conditions, for cash management purposes, or for defensive purposes, the Fund may temporarily hold all or a portion of its assets in cash, money market instruments, or bonds or other debt securities. As a result, the Fund may not achieve its investment objectives.

The Fund may invest in interest rate swap or interest rate cap transactions in order to reduce the interest rate risk inherent in the Fund s underlying investments and capital structure. See The Fund s Instruments Use of Leverage and Interest Rate Transactions. The Fund may also purchase or sell futures or options on futures to hedge interest rate risks. See The Fund s Investments and Risk Factors.

Ratings

The Fund s investments are subject to diversification, liquidity and related guidelines established in connection with the Fund s receipt from Moody s Investors Service, Inc. (Moody s) and Fitch Ratings (Fitch) of ratings of Aaa and AAA, respectively, for Preferred Shares.

The Fund s outstanding Preferred Shares were offered with a rating of Aaa from Moody s Investors Services, Inc. and AAA from Fitch

Ratings. It is a condition of the closing of this offering that these ratings be confirmed by the rating agencies with respect to the outstanding Preferred Shares and extended to the New Preferred Shares. Because the Fund is required to maintain at least one of these ratings, it must own portfolio securities of a sufficient value and with adequate credit quality to meet the rating agencies guidelines. See Description of Preferred Shares Rating Agency Guidelines and Asset Coverage.

Ratings issued by a nationally recognized statistical rating organization (NRSRO), including Moody s and Fitch, do not eliminate or mitigate the risk of investing in the Fund s securities, including Preferred Shares. See Risk Factors Risk of Investing in Preferred Shares Ratings Risk and Asset Coverage Risk.

Non-Diversification

The Fund has elected to operate as a non-diversified company in order to enhance its flexibility to invest more than 5% of the value of its assets in the obligations of any single issuer. However, for federal income tax purposes, with respect to 50% of its assets, the Fund may not invest more than 5% of its total assets in the obligations of any single issuer.

Use of Leverage

The Fund intends to use financial leverage, including by this offering of Preferred Shares, for investment purposes. The Fund currently anticipates that its use of leverage will represent approximately 30% of its total assets, including the proceeds of such leverage. In addition to issuing Preferred Shares, the Fund may make further use of financial leverage through borrowing, including the issuance of commercial paper or notes. Throughout this Prospectus, commercial paper, notes or borrowings sometimes may be collectively referred to as Borrowings. Any Borrowings will likely have seniority over Preferred Shares. Payments to holders of Preferred Shares in liquidation or otherwise will be subject to the prior payment of all outstanding indebtedness, including Borrowings.

Interest Rate Transactions

In connection with the Fund s anticipated use of leverage through the sale of Preferred Shares or through Borrowings, the Fund may enter into interest rate swap or cap transactions. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the counterparty) a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a variable rate payment that is intended to approximate the Fund s variable rate payment obligation on Preferred Shares or any variable rate Borrowings. The payment obligations would be based on the notional amount of the swap. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed

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rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. If the counterparty to an interest rate swap or cap defaults, the Fund would be obligated to make the payments that it had intended to avoid. Depending on the general state of short-term interest rates and the returns on the Fund s portfolio securities at that point in time, this default could negatively impact the Fund s ability to make dividend payments on Preferred Shares. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund s ability to make dividend payments on Preferred Shares. If the Fund fails to maintain the required asset coverage on outstanding Preferred Shares or fails to comply with other covenants, the Fund may be required to redeem some or all of these shares. Such redemption likely would result in the Fund seeking an early termination of all or a portion of any swap or cap transaction. Early termination of the swap could result in a termination payment by or to the Fund. Early termination of a cap could result in a termination payment to the Fund. The Fund intends to maintain, in a segregated account with its custodian, cash or liquid securities having a value at least equal to the Fund s net payment obligations under any swap transaction, marked to market daily. The Fund will not enter into any interest rate swap or cap transactions having a notional amount that exceeds the outstanding amount of the Fund s leverage. See Interest Rate Transactions.

Investment Manager and Sub-Adviser

Citi Fund Management Inc. serves as the Fund s investment manager. The Investment Manager is an indirect wholly-owned subsidiary of Citigroup Inc. Citigroup businesses provide a broad range of financial services asset management, banking and consumer finance, credit and charge cards, insurance, investments, investment banking and trading and use diverse channels to make them available to consumer and corporate customers around the world. Since its founding in 1981, AEW has been dedicated exclusively to creating and implementing real estate investment and asset management strategies. AEW s services encompass all aspects of acquiring, managing and disposing of real estate assets. The firm also designs and executes a variety of strategies for investment in real estate securities. Focused initially on direct property investment, AEW commenced the management of publicly traded real estate equity securities portfolios in 1995. As of March 31, 2005, AEW and its direct affiliates managed approximately $20.7 billion of capital, which was invested in $29.7 billion of real estate and securities in the United States, Canada, and Europe.

The Investment Manager receives an annual fee, payable monthly, in a maximum amount equal to 0.90% of the sum of the Fund s average daily net assets attributable to Common Stock, plus assets attributable

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to any preferred shares that may be outstanding, including Preferred Shares plus the principal amount of any Borrowings (Managed Assets). For the purposes of calculating the management fee, the liquidation value of any outstanding preferred stock of the Fund is not deducted in determining the Fund s Managed Assets. The Investment Manager has contractually agreed to waive a portion of its annual management fee in the amount of 0.32% of Managed Assets of the Fund for the first 5 full years of the Fund s operations, 0.20% in year 6 and 0.10% in year 7. See Management of the Fund.

The Investment Manager will pay a portion of its net management fee to the Sub-Adviser. See Management of the Fund.

Risk Factors Summary

Risk is inherent in all investing. Therefore, before investing in Preferred Shares, you should consider carefully certain risks. The primary risks of investing in Preferred Shares include:

Interest Rate Risk. Preferred Shares pay dividends based upon short-term interest rates. If short-term interest rates rise, dividend rates on Preferred Shares may rise so that the amount of dividends payable to stockholders of Preferred Shares exceeds the income from portfolio securities, which could jeopardize the Fund s ability to pay you dividends on your Preferred Shares. If long term interest rates rise, this could negatively impact the value of the Fund s investment portfolio, reducing the amount of assets serving as asset coverage for Preferred Shares. See Risk Factors Risk of Investing in Preferred Shares Interest Rate Risk.

Auction Risk. If an Auction for Preferred Shares fails, you may not be able to sell some or all of your shares. See Risk Factors Risk of Investing in Preferred Shares Auction Risk.

Secondary Market Risk. Because of the nature of the market for Preferred Shares, you may receive less than the price you paid for your shares if you sell them outside of an Auction, especially when market interest rates are rising, and, if the Fund redeems your Preferred Shares, you may not be able to find as good a yield on an investment with similar terms and quality. See Risk Factors Risk of Investing in Preferred Shares Secondary Market Risk.

Ratings Risk. A rating agency could downgrade the rating assigned to Preferred Shares, which could affect liquidity. See Risk Factors Risk of Investing in Preferred Shares Ratings Risk and Asset Coverage Risk.

Asset Coverage Risk. The Fund may be forced to redeem your shares to meet regulatory or rating agency requirements or may voluntarily redeem your shares in certain circumstances.

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In addition, the Fund will not be permitted to declare dividends or offer distributions with respect to the Preferred Shares unless the Fund meets certain asset coverage requirements prescribed by the 1940 Act. See Risk Factors Risk of Investing in Preferred Shares Ratings Risk and Asset Coverage Risk.

Income Risk. In certain circumstances, the Fund may not earn sufficient income from its investments to pay dividends on Preferred Shares. See Risk Factors Risk of Investing in Preferred Shares Income Risk.

Leverage Risk. Preferred Shares will be junior to any Borrowings; any Borrowing may constitute a substantial lien and burden on Preferred Shares by reason of its prior claim against the income of the Fund and against the net assets of the Fund in liquidation; and, if the Fund leverages through Borrowings, the Fund may not be permitted to declare dividends or other distributions with respect to Preferred Shares or purchase Preferred Shares unless (i) at the time thereof the Fund meets certain asset coverage requirements and (ii) there is no event of default under any Borrowings that is continuing. See Risk Factors Risk of Investing in Preferred Shares Leverage Risk.

Inflation Risk. As inflation occurs, the real value of Preferred Shares and distributions declines, which may be offset as it is expected that Preferred Share dividend rates would increase through the auction process. See Risk Factors Risk of Investing in Preferred Shares Inflation Risk.

In addition, general risks related to investing in the Fund include:

Risks of Securities Linked to the Real Estate Industry. The Fund concentrates its assets in the real estate industry. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, cultural or technological developments.

Real Estate Company shares prices may drop because of the failure of Real Estate company borrowers to repay their loans and poor management. Many Real Estate Companies, including REITs, utilize leverage (and some may be highly leveraged), which increases investment risk and could adversely affect a Real Estate Company s operations and market value in periods of rising interest rates. Financial covenants related to a Real Estate Company s leveraging may affect its ability to operate effectively. Real estate risks may also arise where Real Estate Companies fail to carry adequate insurance, or where a Real Estate Company may become liable for removal or other costs related to environmental contamination.

Real Estate Companies tend to be small to medium-sized companies. Real Estate Company shares, like other smaller company shares, can be more volatile than, and perform differently from, larger company shares. There may be less trading in a smaller company s shares, which means that buy and sell transactions in those shares could have a larger impact on the shares price than is the case with larger company shares.

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An economic downturn could have a material adverse effect on the real estate markets and on the Real Estate Companies in which the Fund invests. See Risk Factors General Risks of Investing in the Fund Risks of Securities Linked to the Real Estate Industry.

Interest Rate Transactions Risk. If the Fund enters into interest rate swap, interest rate cap or option or futures transactions, a decline in interest rates may result in a decline in the net amount receivable by the Fund under the interest rate hedging transaction (or increase the net amount payable by the Fund under the interest rate hedging transaction), which could result in a decline in the asset coverage. See Interest Rate Transactions and Risk Factors General Risks of Investing in the Fund Interest Rate Transactions Risk .

Risks of Investment in Lower-Rated Securities. Fixed income securities of below investment grade quality (Ba/BB or below) are commonly referred to as junk bonds. Securities of below investment grade quality involve greater risks than higher-rated securities and are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. See Risk Factors General Risks of Investing in the Fund Risks of Investment in Lower-Rated Securities.

Market Disruption and Geopolitical Risk. The aftermath of the war with Iraq and continuing terrorist attacks around the world may have a substantial impact on the U.S. and world economies and securities markets. The nature, scope and duration of the military action in Iraq cannot be predicted with any certainty. The war, terrorism and related geopolitical risks have led, and may in the future lead to, increased short-term market volatility and may have adverse long-term effects on the U.S. and world economies and markets generally. These events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect individual issuers and securities markets, interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Preferred Shares.

Non-Diversified Status. The Fund is classified as non-diversified under the 1940 Act. As a result, it can invest a greater portion of its assets in obligations of a single issuer than a diversified fund. The Fund will therefore be more susceptible than a diversified fund to being adversely affected by any single corporate, economic, political or regulatory occurrence. To help control this risk, the Fund will not invest more than 15% of its total assets in the securities of any one issuer other than the U.S. Government. See The Fund s Investments , Tax Matters and Risk Factors General Risks of Investing in the Fund Non-diversified Status.

For additional general risks of investing in the Fund and Preferred Shares, see Risk Factors below.

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Trading Market	Preferred Shares are not listed on an exchange. Instead, you may buy or sell Preferred Shares at an Auction that is normally held weekly by submitting orders to a Broker-Dealer that has entered into an agreement with the Auction Agent and the Fund, or to a broker-dealer that has entered into a separate agreement with a Broker-Dealer.
	In addition to the Auctions, Broker-Dealers and other broker-dealers may maintain a secondary trading market in Preferred Shares outside of Auctions, but may discontinue such market activity at any time. There is no assurance that a secondary market will provide shareholders with liquidity. You may transfer shares outside of Auctions only to or through a Broker-Dealer, or such other persons who may be permitted by the Fund.
	The Auction Date for Preferred Shares will be a Business Day. The first Auction Date for New Preferred Shares will be July 25, 2005, the Business Day before the Dividend Payment Date for the initial Dividend Period for Preferred Shares. The Auction for Preferred Shares will normally be held on a Monday and the start date for subsequent Dividend Periods will normally be the following Business Day, typically a Tuesday, unless the then-current Dividend Period is a Special Dividend Period, or the day that normally would be the Auction Date or the first day of the subsequent Dividend Period is not a Business Day. See The Auction.
Dividends and Dividend Periods	Investors in New Preferred Shares will be entitled to receive cash dividends at an annual rate that may vary for the successive dividend periods for such New Preferred Shares. The annual dividend rate for the initial Dividend Period for New Preferred Shares will be 3.15%. For subsequent Dividend Periods, Preferred Shares will pay dividends based on a rate set at Auction, normally held weekly. In most instances, dividends for Preferred Shares are also paid weekly, on the first business day following the end of the Dividend Period. The rate set at Auction for Preferred Shares will not exceed the Maximum Rate (as defined below) under normal circumstances.
	The Dividend Payment Date for the initial Dividend Period will be July 26, 2005. If the day on which dividends are payable for Preferred Shares is not a Business Day, then dividends will be paid on the first Business Day that falls after that day. See Description of Preferred Shares Dividends and Dividend Periods.
	The number of days of the initial Dividend Period for New Preferred Shares will be eight days. Subsequent Dividend Periods generally will be seven days. The Dividend Payment Date for Special Dividend Periods of more than seven days will be set out in the notice designating a Special Dividend Period. See Description of Preferred Shares Dividends and Dividend Periods Designation of Special Dividend Periods.

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Asset Maintenance	Under the Articles Supplementary, the Fund must maintain: asset coverage as required by the rating agency or agencies rating Preferred Shares; and asset coverage of Preferred Shares of at least 200% as required by the 1940 Act. Based on the composition of the Fund s portfolio and market conditions as of May 31, 2005, the asset coverage of Preferred Shares as measured pursuant to the 1940 Act would be approximately 338% if the Fund were to issue all New Preferred Shares offered in this Prospectus, together with the Preferred Shares previously issued. Under the requirements of the 1940 Act, the Fund s asset coverage ratio for indebtedness may not fall below 300%.
Taxation	Distributions with respect to Preferred Shares will generally be subject to U.S. federal income taxation. Because the Fund s portfolio income will consist principally of dividend income from REITs, capital gains and interest income, (i) corporate investors in Preferred Shares generally will not be entitled to the 70% dividends received deduction and (ii) individual investors in Preferred Shares generally will not be entitled to the reduced tax rate on qualified dividend income. The Internal Revenue Service (IRS) currently requires that a regulated investment company which has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income and capital gain) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the Fund intends each year to allocate ordinary income dividends and capital gain dividends between its Common Stock and Preferred Shares in proportion to the total dividends paid to each class during or with respect to such year. See Tax Matters.
Redemption	The Fund will not ordinarily redeem Preferred Shares. However, it may be required to redeem shares if, for example, the Fund does not meet an asset coverage ratio required by law or correct a failure to meet a rating agency guideline in a timely manner. The Fund voluntarily may redeem Preferred Shares under certain conditions. See Description of Preferred Shares Redemption and Description of Preferred Shares Rating Agency Guidelines and Asset Coverage.
Liquidation Preference	The liquidation preference of each Preferred Share will be $25,000 plus any accumulated but unpaid dividends to the date of liquidation, if any, whether or not earned or declared. See Description of Preferred Shares Liquidation.
Voting Rights	The 1940 Act requires that the holders of the preferred stock of the Fund, including Preferred Shares, voting as a separate class, have the right to elect at least two directors at all times and to elect a majority of the directors in the event that two years dividends on Preferred

	Shares are unpaid. In each case, the remaining directors will be elected by holders of shares of Common Stock and holders of the preferred stock of the Fund, including Preferred Shares, voting together as a single class. The holders of the preferred stock of the Fund, including Preferred Shares, will vote as a separate class or classes on certain other matters as required under the Articles Supplementary, the 1940 Act and Maryland law. See Description of Preferred Shares Voting Rights and Certain Provisions in the Articles of Incorporation and By-Laws.
Custodian, Transfer Agent, and Registrar	State Street Bank and Trust Company serves as the Fund s custodian. Deutsche Bank Trust Company Americas serves as Auction Agent, Transfer Agent, Paying Agent and Registrar for Preferred Shares.

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FINANCIAL HIGHLIGHTS

The table below shows selected financial information for a single share of Common Stock and a share of the currently outstanding Preferred Shares outstanding throughout the periods presented. The financial highlights for the fiscal years ended December 31, 2004 and December 31, 2003 and for the period from July 31, 2002 (commencement of operations of the Fund) to December 31, 2002 have been derived from the Fund s financial statements, which have been audited by KPMG LLP, independent registered public accountants, whose report, along with the Fund s most recent financial statements for the year ended December 31, 2004 is included in the Fund s December 31, 2004 Annual Report and incorporated by reference herein. The financial highlights should be read in conjunction with the financial statements and notes thereto included in the Fund s December 31, 2004 Annual Report, which is available without charge by calling the Fund at 1-888-735-6507.

	2004(1)	2003	2002(2)(3)
Per Share Operating Performance:			
Net Asset Value, Beginning of Period	$ 18.21	$ 13.95	$ 14.30
Net Investment Income(4)	0.94	1.04	0.38
Net Gains on Securities (Both Realized and Unrealized)	3.30	4.96	0.18
Less Distributions Paid to Taxable Auction Rate Preferred Shareholders	(0.09)	(0.08)	(0.03)
Total from Investment Operations	4.15	5.92	0.17
Underwriting Commissions and Expenses for the Issuance of Taxable Auction Rate Cumulative Preferred Stock	0.00	0.00***	(0.09)
Dividends (from net investment income)			
To Common Shareholders	(0.75)	(0.80)	(0.31)
Distributions (from capital gains)			
To Common Shareholders	(0.32)	(0.62)	(0.07)
Returns of Capital			
To Common Shareholders	(0.24)	(0.24)	(0.05)
Total Distributions	(1.31)	(1.66)	(0.43)
Net Asset Value, End of Period	$ 21.05	$ 18.21	$ 13.95
Market Price, End of Period	$ 18.47	$ 17.57	$ 14.01
Total Return on Net Asset Value(5)	24.75%	45.12%	0.69%*
Total Investment Return on Market Value(5)	13.45%	39.42%	(3.59)%*
Ratios/Supplemental Data:			
Net Assets, End of Period (In Millions)	$ 233	$ 202	$ 150
Ratio of Expenses to Average Net Assets(4)(6)	1.02%	1.11%	1.11%**
Ratio of Net Investment Income to Average Net Assets(6)	5.00	6.60	6.66**
Portfolio Turnover Rate	6%	27%	13%

(1) Per share amounts have been calculated using the monthly average shares method.
(2) For the period July 31, 2002 (commencement of operations) to December 31, 2002.
(3) Due to a change in the accounting method that required a change in the classification of periodic payments made under interest rate swap agreements, certain amounts have been reclassified among net investment income and net realized and unrealized loss in order to conform to the current period. Without the effect of these reclassifications, for the period ended December 31, 2002, the amounts for net investment

income and net realized and unrealized loss would have been $0.51 and $(0.31), respectively. In addition, the ratio of net investment income to average net assets would have been 8.91%. These reclassifications had no impact on the net asset value of the Fund or the amount and character of distributions.

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(4) The Investment Manager has agreed to waive a portion of its management fees for the years ended December 31, 2004, and December 31, 2003, and the period ended December 31, 2002. In addition, the Investment Manager has reimbursed the Fund for certain expenses for the period ended December 31, 2002. If such fees were not waived and/or expenses reimbursed, the per share actual expense ratios would have been 1.44%, 1.55% and 1.55% for the years ended December 31, 2004 and 2003 and the period ended December 31, 2002, respectively.

(5) The total return calculation assumes that dividends are reinvested in accordance with the Fund s dividend reinvestment plan. Performance figures may reflect fee waivers and/or expense reimbursements. Past performance is not a guarantee of future results. In the absence of fee waivers and/or expense reimbursements, the total return would have been lower.

(6) Calculated on the basis of average net assets of common stock shareholders. Ratios do not reflect the effect of dividend payments to preferred shareholders.

* Total return is not annualized, as it may not be representative of the total return for the year.

** Annualized

*** Amount represents less than $0.01 per share.

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SUPPLEMENTAL SENIOR SECURITY INFORMATION

The table below sets forth information with respect to Preferred Shares throughout each period presented, as included in the Fund s Annual Reports for each of the periods or years then ended from December 31, 2002 to December 31, 2004.

	2004	2003	2002
Involuntary Liquidating Preference Per Share(1)	$ 25,000	$ 25,000	$ 25,000
Total Amount Outstanding (000s)	65,000	65,000	65,000
Asset Coverage Per Share(2)	114,836	102,509	82,841
Average Market Value Per Share(1)	25,000	25,000	25,000

(1) Excludes accumulated undeclared dividends.

(2) Calculated by dividing the sum of net assets and preferred stock by the number of Preferred Shares outstanding.

THE FUND

Real Estate Income Fund Inc. is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was incorporated under the laws of the State of Maryland on May 16, 2002 pursuant to Articles of Incorporation (as amended, restated and supplemented from time to time, the Articles and, together with the Articles Supplementary, referred to as the Charter). On July 31, 2002, the Fund issued an aggregate of 9,650,000 shares of Common Stock, par value $.001 per share, pursuant to the initial public offering thereof and commenced its operations. On September 10, 2002, the Fund issued an additional 1,050,000 shares of Common Stock in connection with a partial exercise by the Underwriter for the Common Stock of an over-allotment option. On September 30, 2002, the Fund issued 2,600 shares of Taxable Auction Rate Preferred Stock, Series M, liquidation preference $25,000 per share, reclassified from authorized but unissued Common Stock, resulting in 89,297,400 shares of Common Stock authorized but unissued as of September 30, 2002. On May 26, 2005, the Board authorized 1,200 shares of Auction Rate Preferred Stock, Series M, liquidation preference $25,000 per share, reclassified from authorized but unissued Common Stock, resulting in 88,928,460 shares of Common Stock authorized but unissued as of May 26, 2005. In addition, through operation of the Fund s Dividend Reinvestment Plan, the Fund has issued additional shares of Common Stock, resulting in an aggregate of 11,069,242 shares of Common Stock outstanding as of May 31, 2005. The Fund s Common Stock is traded on the Exchange under the symbol RIT. The Fund s principal office is located at 125 Broad Street, New York, New York 10004, and its telephone number is 1-888-735-6507.

The following provides information about the Fund s outstanding shares as of May 31, 2005:

Title of Class	Amount Authorized	Amount Held by the Fund or for its Account	Amount Outstanding
Common Stock	100,000,000*	0	11,069,242
Preferred Shares	3,800	0	2,600

* A total of 100,000,000 shares of capital stock of the Fund are authorized under the Articles, all originally designated Common Stock pursuant to the Articles. The Board may classify or reclassify any authorized but unissued shares of capital stock from time to time without a shareholder vote into one or more classes of preferred or other stock by setting or changing the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares of stock. The Board has authorized the issuance of Preferred Shares, including the issuance of 1,200 shares of New Preferred Shares.

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USE OF PROCEEDS

The net proceeds of this offering will be approximately $29,512,500 after payment of the sales load and estimated offering costs.

The Fund will invest the net proceeds of the offering in accordance with the Fund s investment objectives and policies as stated below. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in accordance with its investment objectives and policies within three months after the completion of the offering. Pending such investment, it is anticipated that the proceeds will be invested in U.S. government securities or high quality, short-term, money market instruments.

CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of May 31, 2005, and as adjusted to give effect to the issuance of New Preferred Shares offered by this Prospectus.

	Actual	As Adjusted
	(Unaudited)	
Taxable Auction Rate Preferred Stock, $25,000 per share liquidation preference; 3,800 shares authorized (2,600 shares issued and 3,800 shares issued, as adjusted, respectively)	$ 65,000,000	$ 95,000,000
Shareholders Equity:		
Common Stock, $.001 par value per share; 100,000,000 shares authorized* (11,069,242 shares outstanding and 11,069,242 shares outstanding, as adjusted)**	$ 11,069	$ 11,069
Capital in excess of par value***	151,755,822	151,268,322
Balance of undistributed net investment income	386,543	386,543
Accumulated net realized gain from investment transactions	1,954,209	1,954,209
Net unrealized appreciation of investments	72,869,916	72,869,916
Total Net Assets attributable to Common Stock outstanding****	$ 226,977,559	$ 226,490,059
Net assets attributable to Common Stock outstanding plus liquidation value of Preferred Shares	$ 291,977,559	$ 321,490,059

* A total of 100,000,000 shares of capital stock of the Fund are authorized under the Articles, all originally designated Common Stock pursuant to the Articles. The Board may classify or reclassify any authorized but unissued shares of capital stock from time to time without a shareholder vote into one or more classes of preferred or other stock by setting or changing the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares of stock. The Board reclassified 2,600 shares of Common Stock as Taxable Auction Rate Preferred Stock, Series M, in connection with the Fund s initial Preferred Stock offering and has reclassified 1,200 shares of Common Stock as Taxable Auction Rate Preferred Stock, Series M, in connection with this offering.

** None of these outstanding shares are held by or for the account of the Fund as of May 31, 2005.

*** As adjusted capital in excess of par value reflects a reduction for the sales load and estimated offering costs of the New Preferred Shares issuance of $487,500.

**** The computation of total net assets for purposes of this table and for certain other accounting purposes does not include the liquidation value of any outstanding preferred stock of the Fund. Total net assets, or net assets, as used in the Fund s management agreement, however, includes both the liquidation value of any outstanding preferred stock of the Fund and the net assets attributable to Common

Stock outstanding for the purposes of computing the management fee.

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PORTFOLIO COMPOSITION

As of May 31, 2005, 99% of the market value of the Fund s portfolio was invested in long-term investments and 1% in short-term investments. This information reflects the composition of the Fund s assets as of May 31, 2005, and is not necessarily representative of the Fund as of the current fiscal year or at any time in the future.

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THE FUND S INVESTMENTS

Investment Objectives

The Fund s primary investment objective is high current income. Capital appreciation is a secondary investment objective. There can be no assurance that the Fund will achieve its investment objectives. The Fund s investment objectives are fundamental and may not be changed by the Fund s Board without shareholder approval.

Investment Strategies

Concentration. The Fund has a fundamental policy of concentrating its investments in the U.S. real estate industry and not in any other industry. This policy cannot be changed without shareholder approval. See Fundamental Investment Policies.

Real Estate Companies. Under normal market conditions, the Fund invests at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares (preferred shares that, upon the passage of time or the happening of certain events, automatically convert into common shares) and debt securities issued by Real Estate Companies, including REITs. A Real Estate Company is a company that generally derives at least 50% of its revenue from the ownership, construction, financing, management or sale of commercial, industrial or residential real estate (or has at least 50% of its assets invested in such real estate). As part of this policy, the Fund may also invest in rights or warrants to purchase income-producing common and preferred shares of Real Estate Companies.

Substantially all of the equity securities of Real Estate Companies in which the Fund invests are traded on a national securities exchange or in the over-the-counter markets. At least 90% of the Fund s total assets will be invested in securities of U.S. issuers located in the U.S. The Fund may invest up to 10% of its total assets in securities of non-U.S. issuers located in industrialized countries, for example, the 30-member countries of Organization for Economic Cooperation and Development. The Fund will not invest more than 15% of its total assets in the securities of any one issuer other than the U.S. Government, nor will it invest in real estate or in securities of Real Estate Companies that are controlled by the Investment Manager, Citigroup Inc., the Sub-Adviser, IXIS Asset Management North America, L.P. or their respective affiliates.

The Fund may invest up to 20% of its total assets in U.S. Government obligations and other debt securities, including convertible debt securities, issued by Real Estate Companies.

REITs. At least 80% of the Fund s total assets will be invested under normal market conditions in income-producing equity securities issued by REITs. A REIT is a Real Estate Company that pools investors funds for investment primarily in income-producing real estate or in real estate related loans (such as mortgages) or other interests. REITs generally pay relatively high dividends (as compared to other types of companies) and the Fund intends to use these REIT dividends in an effort to meet its primary objective of high current income.

REITs can generally be classified as Equity REITs, Mortgage REITs and Hybrid REITs. Equity REITs generally invest a majority of their assets in income-producing real estate properties in order to generate cash flow from rental income and gradual asset appreciation. The income-producing real estate properties in which Equity REITs typically invest include properties such as office, retail, industrial, hotel and apartment buildings and healthcare facilities. Equity REITs can realize capital gains by selling properties that have appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and derive their income primarily from interest payments on the mortgages. Hybrid REITs combine the characteristics of both Equity REITs and Mortgage REITs. The Fund may invest up to 10% of its total assets in any combination of Mortgage REITs and Hybrid REITs.

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REITs can be listed and traded on national securities exchanges or can be traded privately between individual owners. The Fund may invest in both publicly and privately traded REITs.

Common Shares, Preferred Shares and Convertible Preferred Shares. It is the Fund s intention to invest approximately:

60% to 80% of its total assets in common shares issued by Real Estate Companies; and

20% to 40% of its total assets in preferred shares, including convertible preferred shares, issued by Real Estate Companies.

The actual percentage of common, preferred and convertible preferred shares, rights and warrants, U.S. Government obligations and debt securities in the Fund s portfolio may vary over time based on the Sub-Adviser s assessment of market conditions.

Preferred shares pay fixed or floating rate dividends to investors and have a preference over common shares in the payment of dividends and the liquidation of a company s assets. This means that a company must pay dividends on preferred shares before paying any dividends on its common shares. Preferred shareholders of REITs usually have no right to vote for corporate directors or on other matters.

U.S. Government Obligations. Obligations issued or guaranteed by the U.S. Government, its agencies and instrumentalities include bills, notes and bonds. Obligations of certain agencies and instrumentalities of the U.S. Government are supported by the full faith and credit of the U.S. Treasury; others are supported by the right of the issuer to borrow from the Treasury; others are supported by the discretionary authority of the U.S. Government to purchase the agency s obligations; still others, though issued by an instrumentality chartered by the U.S. Government, are supported only by the credit of the instrumentality. The U.S. Government may choose not to provide financial support to U.S. Government-sponsored agencies or instrumentalities if it is not legally obligated to do so.

Lower-Rated Securities. The Fund invests in non-investment grade quality Ratable Securities, including unrated securities determined by the Sub-Adviser to be of comparable quality to such rated securities. Non-investment grade quality Ratable Securities are those that have received a rating lower than Baa or BBB by Moody s, Standard & Poor s, a division of The McGraw-Hill Companies (S&P), Fitch or a comparable rating by another NRSRO. The Fund will not invest in non-investment grade Ratable Securities if, as a result of such investment, more than 20% of the Fund s total assets would be invested in non-investment grade Ratable Securities. In the event that a downgrade of one or more investment grade quality Ratable Securities causes the Fund to exceed this 20% limit, the Sub-Adviser will determine, in its discretion, whether to sell any non-investment grade Ratable Securities to reduce the percentage to below 20% of the Fund s total assets. It is possible, therefore, that the value of non-investment grade Ratable Securities could exceed 20% of the Fund s total assets for an indefinite period of time. The Sub-Adviser will monitor the credit quality of the Fund s Ratable Securities.

Securities that are below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal. Debt securities that are below investment grade quality are commonly referred to as junk bonds. The Fund may only invest in non-investment grade securities that are rated CCC or higher by S&P or Fitch, Caa or higher by Moody s (or a comparable rating by another NRSRO), or unrated securities determined to be of comparable quality by the Sub-Adviser. The issuers of these securities have a currently identifiable vulnerability to default on their payments of principal and interest. Such issues may be in default or there may be present elements of danger with respect to principal or interest. The Fund will not invest in securities that are in default as to payment of principal and interest at the time of purchase. For a description of security ratings, see Appendix A of the SAI.

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Illiquid Securities. The Fund does not invest more than 10% of its total assets in illiquid securities (i.e., securities that are not readily marketable). For purposes of this restriction, illiquid securities include, but are not limited to, restricted securities (securities the disposition of which is restricted under the federal securities laws), securities that may only be resold pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), but that are deemed to be illiquid, privately traded REITs and repurchase agreements with maturities in excess of seven days. The Board or its delegate has the ultimate authority to determine, to the extent permissible under the federal securities laws, which securities are liquid or illiquid for purposes of this 10% limitation. The Board has delegated to the Investment Manager the day-to-day determination of the illiquidity of any security held by the Fund, although it has retained oversight and ultimate responsibility for such determinations. The Board has directed the Investment Manager to look for the following factors: (a) the trading volume of the securities; (b) the frequency of trades and quotes for the securities; (c) the number of dealers willing to purchase or sell the securities and the number of other potential purchasers; (d) dealer undertakings to make a market in the securities; (e) the trading markets for the securities; and (f) the nature of the securities and the nature of marketplace trades (including the time needed to dispose of the securities, methods of soliciting offers and mechanics of transfer).

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities Act. Where registration is required, the Fund may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than that which prevailed when it decided to sell.

Illiquid securities will be priced at fair value as determined in good faith by the Board or its delegate. If, through the appreciation of illiquid securities or the depreciation of liquid securities, the Fund should be in a position where more than 10% of the value of its total assets is invested in illiquid securities, including restricted securities which are not readily marketable, the Fund will take such steps as it deems advisable, if any, to protect liquidity.

As discussed below under Interest Rate Transactions, the Fund intends to segregate cash or liquid securities with its custodian having a value at least equal to the Fund s net payment obligations under any swap transaction, marked to market daily. The Fund will treat such amounts as illiquid for purposes of its 10% limit or investments in illiquid securities.

Warrants and Rights. Warrants are options to purchase equity securities at a specified price for a specified period of time. Their prices do not necessarily move parallel to the prices of the underlying securities. Rights are similar to warrants but normally have a shorter duration and are distributed directly by the issuer to shareholders. Rights and warrants have no voting rights, receive no dividends and have no rights with respect to the assets of the issuer.

Short Sales and Derivatives. The Fund will not enter into short sales or invest in derivatives, except for interest rate hedging purposes as described in this Prospectus and the SAI. See Use of Leverage and Interest Rate Transactions.

The Fund will only enter into futures contracts to hedge interest rate risks. A futures contract is a two party agreement to buy or sell a specified amount of a specified security, such as U.S. Treasury securities, for a specified price at a designated date, time and place. Brokerage fees are incurred when a futures contract is bought or sold, and margin deposits must be maintained at all times when a futures contract is outstanding. The Fund may sell futures contracts as an offset against the effect of expected increases in interest rates, and may purchase futures contracts as an offset against the effect of expected declines in interest rates. The Fund will only enter into futures contracts that are traded on domestic futures exchanges and are standardized as to maturity date and underlying financial instrument.

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The Fund will only purchase or sell options on futures contracts to hedge interest rate risks. Options on futures contracts give the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put) at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures contract position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer s futures contract margin account. If the Fund sells (writes) options on futures contracts, it will segregate cash or liquid securities in an amount necessary to cover its obligations under the option, and will mark such amounts to market daily.

Cash Positions. In anticipation of or in response to adverse market conditions, for cash management purposes, or for defensive purposes, the Fund may temporarily hold all or a portion of its assets in cash, money market instruments, or bonds or other debt securities. As a result, the Fund may not achieve its investment objectives.

Money market instruments in which the Fund may invest its cash reserves will generally consist of obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities, repurchase agreements collateralized by such obligations, commercial paper and shares of money market funds. To the extent the Fund purchases shares of a money market fund, the Fund will indirectly bear its proportionate share of the advisory fees and other operating expenses of such fund.

Securities Lending. The Fund may lend its portfolio securities (principally to broker-dealers) where such loans are callable at any time and are continuously secured by segregated collateral equal to no less than the market value, determined daily, of the loaned securities. The Fund would continue to receive the income on the loaned securities and would at the same time earn interest on the collateral or on the investment of any cash collateral. The Fund presently intends to invest such cash collateral in money market instruments listed above in Cash Positions. The Fund will not lend portfolio securities representing more than one-third of its total assets.

Lending securities involves a risk of loss to the Fund if and to the extent that the market value of the securities loaned increases and the collateral is not increased accordingly.

Portfolio Turnover. The Fund may engage in portfolio trading when the Sub-Adviser considers it to be appropriate, but the Fund will not use short-term trading as the primary means of achieving its investment objectives. Although the Fund cannot accurately predict its annual portfolio turnover rate, it is not expected to exceed 50% under normal circumstances. However, there are no limits on the rate of portfolio turnover, and investments may be sold without regard to the length of time held when, in the opinion of the Sub-Adviser, investment considerations warrant such action. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund that, when distributed to shareholders, will be taxable as ordinary income. See Tax Matters.

Fundamental Investment Policies

The Fund has adopted certain fundamental investment policies designed to limit investment risk and maintain portfolio diversification. These fundamental investment policies may not be changed without the approval of the holders of a majority of the outstanding shares of Common Stock and Preferred Shares voting as a single class. In addition, changes to the Fund s fundamental investment policies that require the approval of shareholders under Section 13(a) of the 1940 Act also require the separate approval of the holders of a majority of the outstanding preferred shares, including Preferred Shares, if any, voting as a separate class. A majority of the outstanding shares means (a) 67% or more of the shares present at meeting, if the holders of more than 50% of the shares outstanding are present or represented by proxy, or (b) more than 50% of the shares outstanding, whichever of (a) or (b) is less. See Investment Objectives and Investment Policies and Techniques in the SAI

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for a complete list of the fundamental and non-fundamental investment policies of the Fund. See Description of Preferred Shares Voting Rights for additional information with respect to the voting rights of holders of Preferred Shares.

The Fund may become subject to guidelines which are more limiting than the fundamental investment policies referenced above in order to obtain and maintain ratings from Moody s and Fitch on Preferred Shares.

Investment Philosophy

The Sub-Adviser employs a value-oriented investment strategy designed to identify securities that are priced below what it believes is their intrinsic value. The Sub-Adviser believes that ultimately the performance of Real Estate Companies securities is dependent upon the performance of the underlying real estate assets and company management, as well as the overall influence of capital markets. Consequently, when selecting securities for the Fund, the Sub-Adviser draws upon the combined expertise of its real estate, research and securities professionals in consultation with the Investment Manager.

Investment Process

When selecting investments for the Fund, the Sub-Adviser generally considers the following factors that it believes help to identify those Real Estate Companies whose securities represent the greatest value and price appreciation potential:

Valuation: The Sub-Adviser has developed a proprietary model to assess the relative value of each security in the Fund s investment universe. This model is designed to estimate what a Real Estate Company s anticipated cash flows are worth to a security investor (a capital markets value) and to a direct real estate investor (a real estate value). The model helps the Sub-Adviser to identify securities that it believes trade at discounts to either or both of these model values relative to similar securities. The Sub-Adviser will generally sell a security once it is considered overvalued or when the Sub-Adviser believes that there is greater relative value in other securities in the Fund s investment universe.

Price: The Sub-Adviser examines the historic pricing of each Real Estate Company in the Fund s universe of potential investments. Those securities that have under-performed in price, either in absolute terms or relative to the Fund s universe in general, are generally given greater weight than those that have over-performed.

Income: The Sub-Adviser further evaluates Real Estate Companies by analyzing their dividend yields as well as other factors that influence the sustainability and growth of dividends. These factors include cash flow, leverage and payout ratios.

Catalysts: When evaluating a security, the Sub-Adviser also seeks to identify potential catalysts that, in its opinion, could cause the marketplace to re-value the security in the near term. These catalysts can be macroeconomic, market-driven or company-specific in nature.

In order to control risk, the Sub-Adviser will endeavor to maintain a portfolio that is broadly diversified within the U.S. real estate industry, with exposure to securities representing major property types and geographic areas. However, the Sub-Adviser s securities selection disciplines and fundamental real estate market and property type analyses may lead the Sub-Adviser to overweight or underweight particular property types and/or geographic regions from time to time.

Use of Leverage

Through issuance of Preferred Shares, the Fund intends to use leverage for investment purposes. The Fund currently anticipates its use of leverage to represent approximately 30% of its total assets, including the proceeds of such leverage. In addition to issuing Preferred Shares, the Fund may make further use of financial leverage through borrowing, including the issuance of commercial paper or notes. See Description of Preferred Shares and Description of Borrowings below. The Fund employs financial leverage for the purpose of acquiring additional income-producing investments when the Investment Manager and the Sub-Adviser believe that such use of proceeds will enhance the Fund s net income. The amount of outstanding financial leverage may vary with prevailing market or economic conditions. Leverage entails special risks. See Risk Factors Risk of Investing in Preferred Shares Leverage Risk. The management fee and subadvisory fee paid to the Investment Manager and the Sub-Adviser, respectively, are calculated on the basis of the Fund s total Managed Assets, including proceeds of financial leverage, so the fees will be higher when leverage is utilized.

INTEREST RATE TRANSACTIONS

In order to reduce the interest rate risk inherent in the Fund s investments and underlying capital structure, the Fund may enter into interest rate swap or cap transactions. The Fund would use interest rate swaps or caps only with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have on the Fund s net earnings as a result of leverage.

Interest rate swaps involve the Fund s agreement with the swap counterparty to pay a fixed rate payment in exchange for the counterparty paying the Fund a variable rate payment that is intended to approximate all or a portion of the Fund s variable rate payment obligation on Preferred Shares or any variable rate Borrowing. The payment obligation would be based on the notional amount of the swap, which will not exceed the amount of the Fund s leverage. The Fund will usually enter into swaps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to segregate cash or liquid securities having a value at least equal to the Fund s net payment obligations under any swap transaction, marked to market daily. The Fund will treat such amounts as illiquid for purposes of its 10% limit on investments in illiquid securities.

The Fund may use an interest rate cap, which would require it to pay a premium to the cap counterparty and would entitle it, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive payment from the counterparty of the difference based on the notional amount.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of interest rates in general, the Fund s use of interest rate instruments could enhance or harm the Fund s overall performance. To the extent there is a decline in interest rates, the net amount receivable by the Fund, if any, under the interest rate swap or cap could decline, and could thus result in a decline in the Fund s net asset value. In addition, if short-term interest rates are lower than the Fund s fixed rate of payment on the interest rate swap, the swap will reduce the Fund s net earnings if the Fund must make net payments to the counterparty. If, on the other hand, short-term interest rates are higher than the fixed rate of payment on the interest rate swap, the swap will enhance the Fund s net earnings if the Fund receives net payments from the counterparty. Buying interest rate caps could enhance the Fund s performance by providing a maximum leverage expense. Buying interest rate caps could also decrease the net earnings of the Fund in the event that the premium paid by the Fund to the counterparty exceeds the additional amount of dividends on Preferred Shares or interest on Borrowings that the Fund would have been required to pay had it not entered into the cap agreement. The Fund has no current intention of entering into swaps or caps other than as described in this Prospectus. The Fund will not enter into interest rate swap or cap transactions in an aggregate notional amount that exceeds the outstanding amount of the Fund s leverage.

Interest rate swaps and caps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make. If the counterparty defaults, the Fund would not be able to use

the anticipated net receipts under the swap or cap to offset the dividend payments on Preferred Shares or interest payments on Borrowings. Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, such a default could negatively impact the performance of the Fund.

Although this will not guarantee that the counterparty does not default, the Fund will not enter into an interest rate swap or cap transaction with any counterparty that the Sub-Adviser believes does not have the financial resources to honor its obligation under the interest rate swap or cap transaction. Further, the Sub-Adviser will continually monitor the financial stability of a counterparty to an interest rate swap or cap transaction in an effort to proactively protect the Fund s investments.

In addition, at the time the interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as those of the expiring transaction. If this occurs, it could have a negative impact on the Fund s ability to make dividend payments on Preferred Shares.

The Fund may choose or be required to redeem some or all Preferred Shares or prepay any Borrowings. This redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Such early termination of a swap could result in a termination payment by or to the Fund. An early termination of a cap could result in a termination payment to the Fund. There may also be penalties associated with early termination.

The Fund may also purchase and sell futures contracts and options on futures contracts to hedge interest rate risk. See The Fund s Investments Investment Strategies Short Sales and Derivatives.

The Fund s ability to engage in interest rate transactions to hedge interest rate risk may be limited by tax considerations.

RISK FACTORS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Therefore, before investing, you should consider carefully the following risks that you assume when you invest in Preferred Shares.

RISK OF INVESTING IN PREFERRED SHARES

Interest Rate Risk

Preferred Shares pay dividends based on short-term interest rates. The Fund purchases real estate equity securities that pay dividends that are based on the performance of the issuing companies. The Fund also may buy real estate debt securities that pay interest based on longer-term yields. These dividends and interest payments are typically, although not always, higher than short-term interest rates. Real estate company dividends, as well as long-term and short-term interest rates, fluctuate. If short-term interest rates rise, dividend rates on Preferred Shares may rise so that the amount of dividends paid to holders of Preferred Shares exceeds the income from the portfolio securities. Because income from the Fund s entire investment portfolio (not just the portion of the portfolio purchased with the proceeds of the Preferred Shares offering) is available to pay dividends on Preferred Shares, however, dividend rates on Preferred Shares would need to greatly exceed the Fund s net portfolio income before the Fund s ability to pay dividends on Preferred Shares would be jeopardized. If long-term interest rates rise, this could negatively impact the value of the Fund s investment portfolio, reducing the amount of assets serving as asset coverage for Preferred Shares. The Fund may enter into interest rate swap or cap

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transactions with the intent to reduce or eliminate the risk posed by an increase in short-term interest rates. There is no guarantee that the Fund will engage in these transactions or that these transactions will be successful in reducing or eliminating interest rate risk. See How the Fund Manages Risk.

Auction Risk

You may not be able to sell your Preferred Shares at an Auction if the Auction fails; that is, if there are more Preferred Shares offered for sale than there are buyers for those shares. Also, if you place hold orders (orders to retain Preferred Shares) at an Auction only at a specified rate, and that bid rate exceeds the rate set at the Auction, you will not retain your Preferred Shares. Additionally, if you buy shares or elect to retain shares without specifying a rate below which you would not wish to continue to hold those shares, and the auction sets a below-market rate, you may receive a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject to certain conditions and with notice to the holders of Preferred Shares, which could affect the liquidity of your investment. See Description of Preferred Shares and The Auction Auction Procedures.

Secondary Market Risk

If you try to sell your Preferred Shares between Auctions, you may not be able to sell any or all of your shares, or you may not be able to sell them for $25,000 per share or $25,000 per share plus accumulated dividends. If the Fund has designated a special dividend period (a dividend period of more than seven days), changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. Broker-dealers that maintain a secondary trading market for Preferred Shares are not required to maintain this market, and the Fund is not required to redeem shares either if an Auction or an attempted secondary market sale fails because of a lack of buyers. Preferred Shares are not registered on a stock exchange or the Nasdaq stock market. If you sell your Preferred Shares to a broker-dealer between Auctions, you may receive less than the price you paid for them, especially when market interest rates have risen since the last Auction. Investors who purchase Preferred Shares in an Auction for a special dividend period should note that because the dividend will be fixed for a longer period, the value of Preferred Shares may fluctuate in response to changes in interest rates, and may be more or less than their original cost if sold on the open market in advance of the next Auction. Accrued Preferred Share dividends, however, should at least partially compensate for the increased market interest rates.

Ratings Risk

While Moody s and Fitch assign ratings of Aaa or AAA , respectively, to Preferred Shares, the ratings do not eliminate or necessarily mitigate the risks of investing in Preferred Shares. A rating agency could downgrade the Preferred Shares rating which may make your shares less liquid at an Auction or in the secondary market, though probably with higher resulting dividend rates. If a rating agency downgrades the rating of Preferred Shares, the Fund will alter its portfolio or redeem Preferred Shares. The Fund may voluntarily redeem Preferred Shares under certain circumstances. See Description of Preferred Shares Rating Agency Guidelines and Asset Coverage for a description of the asset maintenance tests the Fund must meet.

Asset Coverage Risk

The Fund will not be permitted to declare dividends or offer distributions with respect to the Preferred Shares unless the Fund meets certain asset coverage requirements prescribed by the 1940 Act. Under the requirements of the 1940 Act, the Fund must maintain an asset coverage with respect to Preferred Shares of at least 200% and the Fund s asset coverage ratio for indebtedness may not fall below 300%.

Income Risk

The Fund s income is based primarily on the interest it earns from its investments, which can vary widely over the short and long term. If the Fund s income drops, over time the Fund s ability to make dividend payments with respect to Preferred Shares may be impaired.

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Leverage Risk

The Fund uses financial leverage for investment purposes, an amount currently anticipated to represent approximately 30% of its total assets (including the proceeds from such financial leverage). In addition to issuing Preferred Shares, the Fund may make further use of financial leverage through borrowing, including the issuance of commercial paper or notes. The Fund may also borrow funds (a) in connection with a loan made by a bank or other party that is privately arranged and not intended to be publicly distributed or (b) in an amount equal to up to 5% of its total assets for temporary purposes only.

If the Fund issues any senior securities representing indebtedness (as defined in the 1940 Act), including any Borrowings, under the requirements of the 1940 Act, the value of the Fund s total assets, less all liabilities and indebtedness of the Fund not represented by such senior securities, must be at least equal, immediately after any such senior securities representing indebtedness, to 300% of the aggregate value of such senior securities, including any Borrowings. Upon the issuance of Preferred Shares, the value of the Fund s total assets, less all liabilities and indebtedness of the Fund not represented by senior securities must be at least equal, immediately after the issuance of Preferred Shares, to 200% of the aggregate value of any senior securities, including any Borrowings, and Preferred shares.

If the Fund seeks an investment grade rating from one or more NRSROs for any commercial paper and notes (which the Fund expects to do if it issues any such commercial paper or notes), asset coverage or portfolio composition provisions in addition to and more stringent than those required by the 1940 Act may be imposed in connection with the issuance of such a rating. In addition, restrictions may be imposed on certain investment practices in which the Fund may otherwise engage. Any lender with respect to Borrowings by the Fund may require additional asset coverage and portfolio composition provisions as well as restrictions on the Fund s investment practices.

The Fund s leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The money borrowed pursuant to any Borrowings may constitute a substantial lien and burden on Preferred Shares by reason of their prior claim against the income of the Fund and against the net assets of the Fund in liquidation. The Fund may not be permitted to declare dividends or other distributions, including shares with respect to Preferred Shares, or purchase or redeem shares, including Preferred Shares unless (i) at the time thereof the Fund meets certain asset coverage requirements and (ii) there is no event of default under any Borrowings that is continuing. See Description of Preferred Shares Restrictions on Dividends and Other Distributions. In the event of a default under any Borrowings, the lenders may have the right to cause a liquidation of the collateral (i.e., sell portfolio securities) and if any such default is not cured, the lenders may be able to control the liquidation as well.

The Fund reserves the right at any time, if it believes that market conditions are appropriate, to increase its level of debt or other senior securities to maintain or increase the Fund s current level of leverage to the extent permitted by the 1940 Act and existing agreements between the Fund and third parties.

Because the fee paid to the Investment Manager and the Sub-Adviser is calculated on the basis of total Managed Assets, the fee will be higher when leverage is utilized, giving the Investment Manager and the Sub-Adviser an incentive to utilize leverage.

Inflation Risk

Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted (or real) value of your Preferred Shares investment or the income from that investment will be worth less in the future. As inflation occurs, the real value of Preferred Shares and distributions declines. In an inflationary period, however, it is expected that, through the Auction process, Preferred Shares dividend rates would increase, tending to offset this risk.

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GENERAL RISKS OF INVESTING IN THE FUND

Investment Risk

An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest.

Risks of Securities Linked to the Real Estate Industry

The Fund will invest in real estate indirectly through securities issued by Real Estate Companies, including REITs. Because of the Fund s policies of indirect investments in real estate and concentration in the securities of companies in the real estate industry, it is subject to risks associated with the direct ownership of real estate. These risks include:

declines in the value of real estate

general and local economic conditions

unavailability of mortgage funds

overbuilding

extended vacancies of properties

increased competition

increases in property taxes and operating expenses

changes in zoning laws

losses due to costs of cleaning up environmental problems

liability to third parties for damages resulting from environmental problems

casualty or condemnation losses

limitations on rents

changes in neighborhood values and the appeal of properties to tenants

changes in interest rates

As a result of these factors, the value of the Fund s portfolio may change at different rates compared to the value of shares of a registered investment company with investments in a mix of different industries and will depend on the general condition of the economy. An economic downturn could have a material adverse effect on the real estate markets and on the Real Estate Companies in which the Fund invests, which in turn could result in the Fund not achieving its investment objectives.

Real property investments are subject to varying degrees of risk. The yields available from investments in real estate depend on the amount of income and capital appreciation generated by the related properties. Income and real estate values may also be adversely affected by such factors as applicable laws (e.g., Americans with Disabilities Act and tax laws), interest rate levels and the availability of financing. If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of a Real Estate Company to make payments of any interest and principal on its debt securities, and its ability to pay dividends, will be adversely affected. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants. The performance of the economy in each of the regions in which the real estate owned by the Real Estate Company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values. The financial results of major local employers also may have an impact on the cash flow and value of certain properties. In addition, real estate investments are relatively illiquid and, therefore, the ability of Real Estate Companies to vary their portfolios promptly in response to changes in economic or other conditions is limited. A Real Estate Company may also have joint venture investments in certain of its properties, and consequently its ability to control decisions relating to such properties may be limited.

As discussed below, real property investments are also subject to risks that are specific to the investment sector or type of property in which the Real Estate Companies are investing.

Retail Properties. Retail properties are affected by the overall health of the economy. A retail property may be adversely affected by the growth of alternative forms of retailing, bankruptcy, decline in drawing power, a shift in consumer demand due to demographic changes and/or changes in consumer preference (for example, to discount retailers) and spending patterns. A retail property may also be adversely affected if an anchor or significant tenant ceases operation at such location, voluntarily or otherwise, although certain tenants at retail properties may be entitled to terminate their leases if an anchor tenant ceases operations at such property.

Office and Industrial Properties. Office and industrial properties generally require their owners to expend significant amounts for general capital improvements, tenant improvements and costs of reletting space. In addition, office and industrial properties that are not equipped to accommodate the needs of modern businesses may become functionally obsolete and thus non-competitive. Office and industrial properties may also be adversely affected if there is an economic decline in the businesses operated by their tenants. The risks of such an adverse effect are increased if the property revenue is dependent on a single tenant or if there is a significant concentration of tenants in a particular business or industry.

Hotel Properties. The risks of hotel properties include, among other things, the necessity of a high level of continuing capital expenditures to keep necessary furniture, fixtures and equipment updated, competition from other hotels, increases in operating costs (which increases may not necessarily be offset in the future by increased room rates), dependence on business and commercial travelers and tourism, increases in fuel costs and other expenses of travel, changes to regulation of operating liquor and other licenses, and adverse effects of general and local economic conditions. Due to the fact that hotel rooms are generally rented for short periods of time, hotel properties tend to be more sensitive to adverse economic conditions and competition than many other commercial properties. Also, hotels may be operated pursuant to franchise, management and operating agreements that may be terminable by the franchiser, the manager or the operator. On the other hand, it may be difficult to terminate an ineffective operator of a hotel property after a foreclosure of the property.

Healthcare Properties. Healthcare properties and healthcare providers are affected by several significant factors, including: (1) federal, state and local laws governing licenses, certification, adequacy of care, pharmaceutical distribution, rates, equipment, personnel and other factors regarding operations; (2) continued availability of revenue from government reimbursement programs (primarily Medicaid and Medicare) and from private sector health insurance providers; and (3) competition in terms of appearance, reputation, quality and cost of care with similar properties on a local and regional basis.

Governmental laws and regulations affecting healthcare are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. Changes may also be applied retroactively and the timing of such changes cannot be predicted. The failure of any healthcare operator to comply with governmental laws and regulations may affect its ability to operate its facility or receive government reimbursement. In addition, in the event that a tenant is in default on its lease, a new operator or purchaser at a foreclosure sale will have to apply for all relevant licenses if such new operator does not already hold such licenses. There can be no assurance that such new licenses could be obtained, and consequently, there can be no assurance that any healthcare property subject to foreclosure will be disposed of in a timely manner.

Multifamily/Residential Properties. The value and successful operation of a multifamily and residential property may be affected by a number of factors, such as the location of the property, the ability of management to provide adequate maintenance and insurance, the types of services provided by the property, the level of mortgage rates, the presence of competing properties, the relocation of tenants to new projects with better amenities, adverse economic conditions in the locale, the amount of rent charged, and the oversupply of units due to new construction. In addition, multifamily and residential properties may be subject to rent control laws or other laws affecting such properties, which could impact the future cash flows of such properties.

Self-Storage Properties. The value and successful operation of a self-storage property may be affected by a number of factors, such as the ability of the management team, the location of the property, the presence of competing properties, changes in traffic patterns, and adverse effects of general and local economic conditions.

Other factors may contribute to the riskiness of real estate investments.

Insurance Issues. Certain Real Estate Companies may have disclosed in connection with the issuance of their securities that they carry comprehensive liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. However, such insurance is not uniform among Real Estate Companies. Moreover, there are certain types of extraordinary losses that may be uninsurable or not economically insurable. Certain of the properties may be located in areas that are subject to earthquake activity for which insurance may not be maintained. Should a property sustain damage as a result of an earthquake, even if the Real Estate Company maintains earthquake insurance, it may incur substantial losses due to insurance deductibles, co-payments on insured losses or uninsured losses. In addition, after the September 11, 2001 terrorist attacks in New York City and Washington, D.C., the cost for insurance for acts of terrorism has increased while coverage has diminished, leading to an additional risk that damage due to terrorism will not be insured. Should any type of uninsured loss occur, the Real Estate Company could lose its investment in, and anticipated profits and cash flows from, a number of properties, which would adversely impact the Fund s investment performance.

Financial Leverage. Real Estate Companies, including REITs, may be highly leveraged and financial covenants may affect the ability of those companies to operate effectively. Real Estate Companies are subject to risks normally associated with debt financing. If the principal payments of a Real Estate Company s debt cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity capital, the Real Estate Company s cash flow may not be sufficient to repay all maturing debt outstanding.

In addition, a Real Estate Company s obligation to comply with financial covenants, such as debt-to-asset ratios and secured debt-to-total asset ratios, and other contractual obligations may restrict the Real Estate Company s range of operating activity. A Real Estate Company may therefore be limited from incurring additional indebtedness, selling its assets and engaging in mergers or making acquisitions which may be beneficial to the operation of the Real Estate Company.

Environmental Risks. In connection with the ownership (direct or indirect), operation, management and development of real properties that may contain hazardous or toxic substances, a Real Estate Company may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as governmental fines and liabilities for injuries to persons and property and other costs. The existence of any such material environmental liability could have a material adverse effect on the results of operations and cash flow of any such Real Estate Company and, as a result, the amount available to make distributions on its shares could be reduced.

Smaller Companies. Even the larger Real Estate Companies in the industry tend to be small to medium-sized companies in relation to the equity markets as a whole. There may be less trading in a smaller company s shares, which means that buy and sell transactions in those shares could have a larger impact on the share s price than is the case with larger company shares. Smaller companies also may have fewer lines of business so that changes in any one line of business may have a greater impact on a smaller company s share price than is the case for a larger company. Further, smaller company shares may perform differently in different cycles than larger company shares. Accordingly, Real Estate Company shares can be more volatile than and at times will perform differently from large company shares such as those found in the Dow Jones Industrial Average.

Tax Issues. REITs are subject to a highly technical and complex set of provisions in the Internal Revenue Code of 1986, as amended (the Code). It is possible that the Fund may invest in a Real Estate Company which purports to be a REIT but which fails to qualify as a REIT under the Code. In the event of any such unexpected failure to qualify as a REIT, the company would be subject to corporate-level taxation, significantly reducing the return to the Fund on its investment in such company. REITs could possibly fail to maintain their exemptions from registration under the 1940 Act. The above factors may also adversely affect a borrower s or a lessee s ability to meet its obligations to the REIT. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a creditor or lessor and may incur substantial costs associated with protecting its investments. There is a risk that future changes in U.S. tax laws may affect the tax treatment of REITs and their dividends.

Interest Rate Transactions Risk

The Fund may enter into a swap or cap transaction to attempt to protect itself from increasing dividend or interest expenses on Preferred Shares or Borrowings resulting from increasing short-term interest rates. A decline in interest rates may result in a decline in net amounts receivable by the Fund from the counterparty under the swap or cap (or an increase in the net amounts payable by the Fund to the counterparty under the swap), which may result in a decline in the net asset value of the Fund. See Interest Rate Transactions.

Risks of Futures and Options on Futures

The use by the Fund of futures contracts and options on futures contracts to hedge interest rate risks involves special considerations and risks, as described below:

Successful use of hedging transactions depends upon the Sub-Adviser s ability to correctly predict the direction of changes in interest rates. There can be no assurance that any particular hedging strategy will succeed.

There might be imperfect correlation, or even no correlation, between the price movements of a futures or option contract and the movements of the interest rates being hedged. Such a lack of correlation might occur due to factors unrelated to the interest rates being hedged, such as market liquidity and speculative or other pressures on the markets in which the hedging instrument is traded.

Hedging strategies, if successful, can reduce risk of loss by wholly or partially offsetting the negative effect of unfavorable movements in the interest rates being hedged. However, hedging strategies can also reduce opportunity for gain by offsetting the positive effect of favorable movements in the hedged interest rates.

There is no assurance that a liquid secondary market will exist for any particular futures contract or option thereon at any particular time. If the Fund were unable to liquidate a futures contract or an option on a futures contract position due to the absence of a liquid secondary market or the imposition of price limits, it could incur substantial losses. The Fund would continue to be subject to market risk with respect to the position.

There is no assurance that the Fund will use hedging transactions. For example, if the Fund determines that the cost of hedging will exceed the potential benefit to the Fund, the Fund will not enter into such transaction.

Risks of Investment in Lower-Rated Securities

While securities carrying the fourth highest quality rating (Baa by Moody s or BBB by S&P or Fitch) are considered investment grade and are viewed to have adequate capacity for payment of principal and interest, investments in such securities involve a higher degree of risk than that associated with investments in securities in the higher rating categories and such securities lack outstanding investment characteristics and, in fact, have speculative characteristics as well. For example, changes in economic conditions or other circumstances are more likely to lead to a weakened capacity to make principal and interest payments than is the case with higher-rated securities.

Fixed-income securities of below investment grade quality (Ba/BB or below) are commonly referred to as junk bonds. Securities of below investment grade quality involve greater risks than higher-rated securities and are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal.

Lower-rated securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-grade securities. The prices of lower-rated securities have been found to be less sensitive to interest rate changes than more highly-rated investments, but more sensitive to adverse economic downturns or individual corporate developments. Yields on lower-rated securities will fluctuate. If the issuer of lower-rated securities defaults, the Fund may incur additional expenses to seek recovery.

The secondary markets in which lower-rated securities are traded may be less liquid than the market for higher-grade securities. Less liquidity in the secondary trading markets could adversely affect the price at which the Fund could sell a particular lower-rated security when necessary to meet liquidity needs or in response to a specific economic event, such as a deterioration in the creditworthiness of the issuer, and could adversely affect and cause large fluctuations in the net asset value of the Fund. Adverse publicity and investor perceptions may decrease the values and liquidity of lower-rated securities.

It is reasonable to expect that any adverse economic conditions could disrupt the market for lower-rated securities, have an adverse impact on the value of such securities, and adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon. New laws and proposed new laws may adversely impact the market for lower-rated securities.

Risks of Warrants and Rights

Warrants and rights are subject to the same market risks as stocks, but may be more volatile in price. Warrants and rights do not carry the right to dividends or voting rights with respect to their underlying securities, and they do not represent any rights in the assets of the issuer. An investment in warrants or rights may be considered speculative. In addition, the value of a warrant or right does not necessarily change with the value of the underlying security and a warrant or right ceases to have value if it is not exercised prior to its expiration date. The purchase of warrants or rights involves the risk that the Fund could lose the purchase value of a warrant or right if the right to subscribe to additional shares is not exercised prior to the warrants or rights expiration. Also, the purchase of warrants and rights involves the risk that the effective price paid for the warrant or right added to the subscription price of the related security may exceed the value of the subscribed security s market price, such as when there is no movement in the price of the underlying security.

Market Disruption and Geopolitical Risk

The aftermath of the war with Iraq and continuing terrorist attacks around the world may have a substantial impact on the U.S. and world economies and securities markets. The nature, scope and duration of the military action in Iraq cannot be predicted with any certainty. The war, terrorism and related geopolitical risks have led, and may in the future lead to, increased short-term market volatility and may have adverse long-term effects on

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the U.S. and world economies and markets generally. These events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect individual issuers and securities markets, interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Preferred Shares.

Foreign Security Risk

The prices of foreign securities may be affected by factors not present in U.S. markets, including:

Currency exchange rates. The dollar value of the Fund s foreign investments will be affected by changes in the exchange rates between the dollar and the currencies in which those investments are traded.

Political and economic conditions. The value of the Fund s foreign investments may be adversely affected by political and social instability in their home countries and by changes in economic or taxation policies in those countries.

Regulations. Foreign companies generally are subject to less stringent regulations, including financial and accounting controls, than are U.S. companies. As a result, there generally is less publicly available information about foreign companies than about U.S. companies.

Markets. The securities markets of other countries are smaller than U.S. securities markets. As a result, many foreign securities may be less liquid and more volatile than U.S. securities.

Non-diversified Status

Because the Fund is classified as non-diversified under the 1940 Act, it can invest a greater portion of its assets in obligations of a single issuer than a diversified fund. As a result, the Fund will be more susceptible than a diversified fund to any single corporate, economic, political or regulatory occurrence. See The Fund s Investments. To help control this risk, the Fund will not invest more than 15% of its total assets in the securities of any one issuer other than the U.S. Government. Moreover, the Fund intends to diversify its investments to the extent necessary to maintain its status as a regulated investment company under U.S. tax laws. See Tax Matters.

Anti-Takeover Provisions

The Fund s Articles and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See Certain Provisions in the Articles of Incorporation and By-Laws.

HOW THE FUND MANAGES RISK

Investment Limitations

The Fund has adopted certain investment limitations designed to limit investment risk and maintain portfolio diversification. These limitations are fundamental and may not be changed without the approval of the holders of a majority (as such term is defined in the 1940 Act) of the outstanding shares of Common Stock and Preferred Shares voting together as a single class, and the approval of the holders of a majority (as such term is defined in the 1940 Act) of outstanding Preferred Shares voting as a separate class. The Fund is subject to guidelines which are more limiting than the investment restriction set forth above in order to obtain and maintain ratings from Moody s or Fitch on Preferred Shares. See Investment Objectives Investment Policies in the SAI for a complete list of the fundamental and non-fundamental investment policies of the Fund.

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Limited Borrowings

Under the requirements of the 1940 Act, the Fund, immediately after issuance of any Borrowings that are senior securities representing indebtedness (as defined in the 1940 Act) must have an asset coverage of at least 300%. With respect to any Borrowings that are senior securities representing indebtedness, asset coverage means the ratio of the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities to the aggregate amount of such Borrowings that are senior securities representing indebtedness issued by the Fund. Certain types of Borrowings may result in the Fund being subject to covenants in credit agreements relating to asset coverage or portfolio composition or otherwise. In addition, the Fund may be subject to certain restrictions imposed by guidelines of one or more rating agencies which may issue ratings for commercial paper or notes issued by the Fund. Such restrictions may be more stringent than those imposed by the 1940 Act.

MANAGEMENT OF THE FUND

Directors and Officers

The business and affairs of the Fund are managed under the direction of the Board. The Board approves all significant agreements between the Fund and persons or companies furnishing services to the Fund. The day-to-day operation of the Fund is delegated to the officers of the Fund and to the Investment Manager, subject always to the objectives, restrictions and policies of the Fund and to the general supervision of the Board. Certain Directors and officers of the Fund are affiliated with the Investment Manager and Citigroup Inc., the parent corporation of the Investment Manager. All of the Fund s executive officers hold similar offices with some or all of the Investment Manager s other funds. The Investment Manager has delegated most of the day-to-day investment operations of the Fund to the Sub-Adviser, subject to the oversight of the Investment Manager and the Board.

Investment Manager and Sub-Adviser

The Fund s investment manager is Citi Fund Management Inc., 100 First Stamford Place, Stamford, Connecticut 06902. The Investment Manager oversees the Fund s operations and provides administrative services. The Investment Manager is an affiliate of (and may be deemed to be controlled by) Citigroup Inc. Citigroup businesses provide a broad range of financial services asset management, banking and consumer finance, credit and charge cards, insurance, investments, investment banking and trading and use diverse channels to make them available to consumer and corporate customers around the world. Citi Fund Management Inc. was established in 2001 to take over the mutual fund-related investment advisory operations of Citibank, N.A. and, together with Citibank affiliates in New York, London, Frankfurt, Tokyo and Hong Kong, provides a broad range of fixed income and equity investment services to individuals and institutional clients throughout the world. The Investment Manager is responsible for the selection and ongoing monitoring of the Sub-Adviser and the Fund s cash management. The Investment Manager also provides administrative services for the Fund.

The Fund s sub-adviser is AEW Management and Advisors, L.P. The Sub-Adviser is registered as an investment adviser with the Securities and Exchange Commission (Commission). Together with its affiliates, the Sub-Adviser managed approximately $20.7 billion of client capital as of March 31, 2005. The Sub-Adviser is a subsidiary of (and therefore may be deemed to be controlled by) IXIS Asset Management North America, L.P., a firm with 12 U.S. investment management affiliates having approximately $185 billion in assets under management for institutions and individuals as of March 31, 2005. IXIS Asset Management North America is a subsidiary of IXIS Asset Management, which is the asset management arm of Caisse D Epargne. Through subsidiaries and affiliates in the United States, Europe and Asia, IXIS Asset Management had over $500 billion in assets under management as of March 31, 2005. The Sub-Adviser s address is Two Seaport Lane, World Trade Center East, Boston, Massachusetts 02210.

Portfolio Manager

A team of professionals at the Sub-Adviser, working under the Fund s portfolio manager, is primarily responsible for overseeing the day-to-day operations of the Fund. That team is led by Matthew A. Troxell, who serves as Portfolio Manager for the Fund. Mr. Troxell joined the Sub-Adviser in 1994 as a Vice President and became a Principal of the firm in 1997. He has 22 years of securities and portfolio management experience. Prior to joining the Sub-Adviser, he was a Vice President and Assistant to the President of Landmark Land Company and a Securities Analyst at A.G. Becker Paribas. Mr. Troxell is a graduate of Tufts University (B.A.) and holds the designation of Chartered Financial Analyst (CFA).

Additional information about the Portfolio Manager s compensation, other accounts managed by the Portfolio Manager and the Portfolio Manager s ownership of securities in the Fund is provided in the Statement of Additional Information under Portfolio Manager.

Investment Management Agreement and Sub-Investment Advisory Agreement

Pursuant to an Investment Management Agreement between the Investment Manager and the Fund, the Fund has agreed to pay the Investment Manager an annual management fee for the services and facilities provided by the Investment Manager of 0.90% of the Fund s Managed Assets (which includes assets attributable to Preferred Shares and the principal amount of Borrowings), calculated daily and payable on a monthly basis.

For the first seven (7) years of the Fund s operations (starting July 31, 2002), the Investment Manager has agreed to waive a portion of its management fee in the amounts, and for the time periods, set forth below:

Waiver Period(1)	Fee Waiver (as a percentage of Managed Assets)
Year 1	0.32%
Year 2	0.32
Year 3	0.32
Year 4	0.32
Year 5	0.32
Year 6	0.20
Year 7	0.10

(1) Year 1 represents the period from the commencement of operations through July 31, 2003; then yearly thereafter.

Pursuant to a Sub-Investment Advisory Agreement among the Fund, the Investment Manager and the Sub-Adviser, the Sub-Adviser will receive from the Investment Manager a sub-advisory fee at an annual rate equal to: (a) for the first five years of the Fund s operations, 0.40% of the first $100 million of the Fund s Managed Assets, 0.35% of the next $100 million of the Fund s Managed Assets and 0.30% of the Fund s Managed Assets in excess of $200 million; and (b) starting five years after the commencement of the Fund s operations, 50% of the management fee paid by the Fund to the Investment Manager (net of the waivers described above). The Sub-Adviser has agreed to waive a portion of its sub-advisory fee until the Investment Manager recoups certain costs it incurred in connection with the offering.

In addition to the fee paid to the Investment Manager, the Fund pays all other costs and expenses of its operations, including, but not limited to, compensation of its Directors (other than those affiliated with the Investment Manager), custodian, transfer agency and dividend disbursing expenses, rating agency fees, legal fees, expenses of independent auditors, expenses of registering and qualifying shares for sale, expenses of repurchasing shares, expenses of issuing any Preferred Shares, expenses in connection with any Borrowings, expenses of being listed on a stock exchange, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, amendments to the Fund s registration statement, membership in investment company organizations, and taxes, if any.

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Since the Fund s beginning of operations on July 31, 2002, Citigroup Global Markets Inc. (CGM), an indirect wholly-owned subsidiary of Citigroup, and the Underwriter of the original offering of Preferred Shares and this offering of New Preferred Shares, received brokerage commissions in 2002, 2003, and 2004 from the Fund of $53,930, $9,495 and $2,250, respectively, and auction participation fees of $37,882, $162,684 and $163,130, respectively.

Recent Developments

On May 31, 2005, the Securities and Exchange Commission (the Commission) issued an order in connection with the settlement of an administrative proceeding against Smith Barney Fund Management LLC (SBFM) and Citigroup Global Markets Inc., the Underwriter, relating to the appointment of an affiliated transfer agent for the Smith Barney family of mutual funds (the Affected Funds).

The Commission order finds that SBFM and Citigroup Global Markets Inc. willfully violated Section 206(1) of the Investment Advisers Act of 1940 (Advisers Act). Specifically, the order finds that SBFM and Citigroup Global Markets Inc. knowingly or recklessly failed to disclose to the boards of the Affected Funds in 1999 when proposing a new transfer agent arrangement with an affiliated transfer agent that: (i) First Data Investors Services Group (First Data), the Affected Funds then-existing transfer agent, had offered to continue as transfer agent and do the same work for substantially less money than before; and (ii) Citigroup Asset Management (CAM), the Citigroup business unit that includes the Fund s investment manager and other investment advisory companies, had entered into a side letter with First Data under which CAM agreed to recommend the appointment of First Data as sub-transfer agent to the affiliated transfer agent in exchange, among other things, for a guarantee by First Data of specified amounts of asset management and investment banking fees to CAM and Citigroup Global Markets Inc. The order also finds that SBFM and Citigroup Global Markets Inc. willfully violated Section 206(2) of the Advisers Act by virtue of the omissions discussed above and other misrepresentations and omissions in the materials provided to the Affected Funds boards, including the failure to make clear that the affiliated transfer agent would earn a high profit for performing limited functions while First Data continued to perform almost all of the transfer agent functions, and the suggestion that the proposed arrangement was in the Affected Funds best interests and that no viable alternatives existed. SBFM and Citigroup Global Markets Inc. do not admit or deny any wrongdoing or liability. The settlement does not establish wrongdoing or liability for purposes of any other proceeding.

The Commission censured SBFM and Citigroup Global Markets Inc. and ordered them to cease and desist from violations of Sections 206(1) and 206(2) of the Advisers Act. The order requires Citigroup to pay $208.1 million, including $109 million in disgorgement of profits, $19.1 million in interest, and a civil money penalty of $80 million. Approximately $24.4 million has already been paid to the Affected Funds, primarily through fee waivers. The remaining $183.7 million, including the penalty, will be paid to the U.S. Treasury and then distributed pursuant to a plan to be prepared by Citigroup and submitted within 90 days of the entry of the order for approval by the Commission. The order also requires that transfer agency fees received from the Affected Funds since December 1, 2004 less certain expenses be placed in escrow and provides that a portion of such fees may be subsequently distributed in accordance with the terms of the order.

The order requires SBFM to recommend a new transfer agent contract to the Affected Fund boards within 180 days of the entry of the order; if a Citigroup affiliate submits a proposal to serve as transfer agent or sub-transfer agent, an independent monitor must be engaged at the expense of SBFM and Citigroup Global Markets Inc. to oversee a competitive bidding process. Under the order, Citigroup must comply with an amended version of a vendor policy that Citigroup instituted in August 2004. That policy, as amended, among other things, requires that when requested by a Fund board, CAM will retain at its own expense an independent consulting expert to advise and assist the board on the selection of certain service providers affiliated with Citigroup.

At this time, there is no certainty as to how the proceeds of the settlement will be distributed, to whom such distributions will be made, the methodology by which such distribution will be allocated, and when such distribution will be made. Although there can be no assurance, Citigroup does not believe that this matter will have a material adverse effect on the Funds.

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The Fund did not implement the transfer agent arrangement described above and therefore will not receive any portion of the distributions.

Citigroup and Legg Mason, Inc. Agreement

On June 24, 2005, Citigroup announced that it has signed a definitive agreement under which Citigroup will sell substantially all of its worldwide asset management business to Legg Mason, Inc. (Legg Mason). As part of this transaction the Fund s investment adviser, Citi Fund Management, Inc., an indirect wholly owned subsidiary of Citigroup, would become an indirect wholly owned subsidiary of Legg Mason. The transaction is subject to certain regulatory approvals, as well as other customary conditions to closing. Subject to such approvals and the satisfaction of the other conditions, Citigroup expects the transaction to be completed later this year.

Under the 1940 Act, consummation of the transaction will result in the automatic termination of the Investment Management Agreement with the Investment Manager. Therefore, the Fund s Board will be asked to approve a new investment management contract between the Fund and the Investment Manager. If approved by the Board, the new investment management contracts will be presented to the shareholders of the Fund for their approval.

DESCRIPTION OF PREFERRED SHARES

The following is a brief description of the terms of Preferred Shares. This description does not purport to be complete and is subject to and qualified in its entirety by reference to the Charter, including the provisions of the Articles Supplementary. A copy of the Articles Supplementary is filed as an exhibit to the Registration Statement of which this Prospectus is a part and may be inspected, and a copy thereof may be obtained, as described under Additional Information.

General

Pursuant to the Articles, the Board may classify or reclassify authorized but unissued shares of capital stock by setting or changing the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption, prior to issuance. The Board previously authorized the issuance of 2,600 shares of Preferred Shares in the initial offering of Preferred Shares and has authorized the issuance of up to 1,500 shares of New Preferred Shares. All Preferred Shares will have a liquidation preference of $25,000 per share plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared).

Preferred Shares will rank on a parity with shares of any other class or series of preferred stock of the Fund as to the payment of dividends and the distribution of assets upon liquidation. All Preferred Shares carry one vote per share on all matters on which such shares are entitled to be voted. Preferred Shares are, when issued, fully paid and non-assessable and have no preemptive, exchange, conversion or cumulative voting rights.

Dividends and Dividend Periods

Dividend Payments. Dividends on Preferred Shares shall be payable, when, as and if declared by the Board out of funds legally available therefore in accordance with the Charter and applicable law. Dividends on the New Preferred Shares will accumulate at the initial dividend rate beginning on July 18, 2005. The Dividend Payment Date for the New Preferred Shares for the initial Dividend Period will be July 26, 2005. Thereafter, dividends will normally be paid on Tuesday. However, if the day on which dividends on New Preferred Shares would otherwise be payable is not a Business Day, then such dividends shall be payable on such shares on the first Business Day that falls after such day. In addition, the Fund may specify different Dividend Payment Dates for Preferred Shares in respect of any Special Dividend Period of more than 7 Dividend Period days.

The number of days of the initial Dividend Period for the New Preferred Shares will be eight days. The Fund will designate the duration of subsequent Dividend Periods of Preferred Shares, unless the Fund, subject to certain conditions, designates such subsequent Dividend Period as a Special Dividend Period. See Designation of Special Dividend Periods below.

The initial dividend rate on the New Preferred Shares for the initial Dividend Period will be 3.15%. For each subsequent Dividend Period, the dividend rate will be the Applicable Rate that the Auction Agent advises the Fund results from an Auction, except as provided below. The Applicable Rate that results from an Auction will not be greater than the Maximum Rate (as defined below).

The amount of dividends per Preferred Share payable (if declared) on each Dividend Payment Date of each Dividend Period of less than one (1) year (or in respect of dividends on another date in connection with a redemption during such Dividend Period) shall be computed by multiplying the Applicable Rate (or the Default Rate) for such Dividend Period (or a portion thereof) by a fraction, the numerator of which will be the number of days in such Dividend Period (or portion thereof) that such share was Outstanding and for which the Applicable Rate or the Default Rate was applicable and the denominator of which will be 360, multiplying the amount so obtained by $25,000, and rounding the amount so obtained to the nearest cent. During any Dividend Period of one (1) year or more, the amount of dividends per share payable on any Dividend Payment Date (or in respect of dividends on another date in connection with a redemption during such Dividend Period) shall be computed as described in the preceding sentence, except that it will be determined on the basis of a year consisting of twelve 30-day months.

Dividends will be paid through the Securities Depository on each Dividend Payment Date in accordance with its normal procedures, which currently provide for it to distribute dividends in next-day funds to Agent Members, who in turn are expected to distribute such dividend payments to the persons for whom they are acting as agents. Each of the current Broker-Dealers, however, has indicated to the Fund that such Broker-Dealer or the Agent Member designated by such Broker-Dealer will make such dividend payments available in same-day funds on each Dividend Payment Date to customers that use such Broker-Dealer or its designee as Agent Member.

Maximum Rate. The Applicable Rate that results from an Auction will not be lower than 70% of the applicable AA Composite Commercial Paper Rate (the Minimum Rate) or greater than 150% (the Maximum Rate) of the applicable AA Composite Commercial Paper Rate (for a Dividend Period of fewer than 184 days) or the applicable Treasury Index Rate (for a period of 184 days or more) at the close of business on the Business Day next preceding such Auction Date; provided, however, that the Maximum Rate is subject to upward but not downward adjustment in the discretion of the Board after consultation with the Broker-Dealers, and that immediately following any such increase, the Fund would be in compliance with the Preferred Shares Basic Maintenance Amount.

If an Auction for any subsequent Dividend Period is not held for any reason other than as described below with respect to a Default, the dividend rate for such subsequent Dividend Period will be the Maximum Rate on the Auction Date for such subsequent Dividend Period.

Default Period. Subject to cure provisions, a Default Period will commence on any date the Fund fails to deposit irrevocably in trust in same-day funds, with the Paying Agent by 12:00 noon, New York City time, (a) the full amount of any declared dividend on Preferred Shares payable on the Dividend Payment Date (a Dividend Default) or (b) the full amount of any redemption price (the Redemption Price) payable on the date fixed for redemption (the Redemption Date) (a Redemption Default, and together with a Dividend Default hereinafter referred to as Default). Subject to cure provisions, a Default Period with respect to a Default shall end on the Business Day on which, by 12:00 noon, New York City time, all unpaid dividends and any unpaid Redemption Price shall have been deposited irrevocably in trust in same-day funds with the Paying Agent. In the case of a Dividend Default, the Applicable Rate for each Dividend Period commencing during a Default Period will be equal to the Default Rate, and each subsequent Dividend Period commencing after the beginning of a

Default Period shall be a Standard Dividend Period; provided, however, that the commencement of a Default Period will not by itself cause the commencement of a new Dividend Period. No Auction shall be held during a Default Period. No Default Period with respect to a Default shall be deemed to commence if the amount of any dividend or any Redemption Price due (if such default is not solely due to the willful failure of the Fund) is deposited irrevocably in trust, in same-day funds with the Paying Agent by 12:00 noon, New York City time, within three Business Days after the applicable Dividend Payment Date or Redemption Date, together with an amount equal to the Default Rate applied to the amount of such non-payment based on the actual number of days comprising such period divided by 360 for Preferred Shares. The Default Rate shall be equal to the Reference Rate (Reference Rate means, with respect to the determination of the Default Rate, the applicable AA Composite Commercial Paper Rate (for a Dividend Period of fewer than 184 days) or the applicable Treasury Index Rate (for a Dividend Period of 184 days or more)), multiplied by three (3).

Restrictions on Dividends and Other Distributions. Except as otherwise described herein, for as long as any Preferred Shares are outstanding, the Fund may not declare, pay or set apart for payment any dividend or other distribution (other than a dividend or distribution paid in, or in options, warrants or rights to subscribe for or purchase, its shares of Common Stock) in respect of its Common Stock or other shares of the Fund ranking junior to Preferred Shares as to the payments of dividends or the distribution of assets upon dissolution, liquidation or winding up, or call for redemption, redeem, purchase or otherwise acquire for consideration any shares of Common Stock or other such junior shares (except by conversion into or exchange for shares of the Fund ranking junior to Preferred Shares as to the payment of dividends and the distribution of assets upon liquidation), unless (a) immediately after such transaction, the Fund would have Eligible Assets with an aggregate Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount and the 1940 Act Preferred Shares Asset Coverage would be achieved; (b) full cumulative dividends on Preferred Shares through the most recently ended Dividend Period shall have been paid or shall have been declared and sufficient funds for the payment thereof deposited with the Auction Agent and (c) the Fund shall have redeemed the full number of Preferred Shares required to be redeemed by any provision for mandatory redemption pertaining thereto.

Except as set forth in the next sentence, no dividends shall be declared or paid or set apart for payment on the shares of any class or series of Fund shares ranking, as to the payment of dividends, on a parity with Preferred Shares for any period unless full cumulative dividends have been or contemporaneously are declared and paid on Preferred Shares through the most recent Dividend Payment Date. When dividends are not paid in full upon Preferred Shares through the most recent Dividend Payment Date or upon the shares of any other class or series of shares ranking on a parity as to the payment of dividends with Preferred Shares through their most recent respective dividend payment dates, all dividends declared upon Preferred Shares and any such other class or series of shares ranking on a parity as to the payment of dividends with Preferred Shares shall be declared pro rata so that the amount of dividends declared per share on Preferred Shares and such other class or series of shares shall in all cases bear to each other the same ratio that accumulated dividends per share on Preferred Shares and such other class or series of shares bear to each other.

Designation of Special Dividend Periods. The Fund, at its option, may designate any succeeding subsequent Dividend Period as a Special Dividend Period, subject to certain adjustments. A designation of a Special Dividend Period shall be effective only if, among other things, (a) the Fund shall have given certain notices to the Auction Agent, (b) an Auction shall have been held on the Auction Date immediately preceding the first day of such proposed Special Dividend Period and Sufficient Clearing Bids shall have existed in such Auction and (c) if the Fund shall have mailed a notice of redemption with respect to any Preferred Shares and the redemption price with respect to such shares shall have been deposited with the Auction Agent. The Fund will give holders of Preferred Shares notice of a Special Dividend Period as provided in the Articles Supplementary.

Redemption

Mandatory Redemption. In the event the Fund does not timely cure a failure to maintain (a) a Discounted Value of its portfolio equal to the Preferred Shares Basic Maintenance Amount or (b) the 1940 Act Preferred Shares Asset Coverage, in each case in accordance with the requirements of the rating agency or agencies then

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rating Preferred Shares, Preferred Shares will be subject to mandatory redemption on a date specified by the Board out of funds legally available therefor in accordance with the Charter and applicable law, at the redemption price of $25,000 per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared) to (but not including) the date fixed for redemption. Any such redemption will be limited to the number of Preferred Shares necessary to restore the required Discounted Value or the 1940 Act Preferred Shares Asset Coverage, as the case may be.

In determining the number of Preferred Shares required to be redeemed in accordance with the foregoing, the Fund will allocate the number of shares required to be redeemed to satisfy the Preferred Shares Basic Maintenance Amount or the 1940 Act Preferred Shares Asset Coverage, as the case may be, pro rata among Preferred Shares and other preferred stock of the Fund, subject to redemption or retirement. If fewer than all outstanding Preferred Shares are, as a result, to be redeemed, the Fund may redeem such shares by lot or other method that it deems fair and equitable.

Optional Redemption. To the extent permitted under the 1940 Act and Maryland law, the Fund at its option may redeem Preferred Shares having a Dividend Period of one year or less, in whole or in part, on the Business Day after the last day of such Dividend Period upon not less than 15 calendar days, and not more than 40 calendar days, prior notice. The optional redemption price per share shall be $25,000 per share, plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared) to the date fixed for redemption. Preferred Shares having a Dividend Period of more than one year are redeemable at the option of the Fund, in whole or in part, prior to the end of the relevant Dividend Period, subject to any specific redemption provisions, which may include the payment of redemption premiums to the extent required under any applicable specific redemption provisions. The Fund shall not effect any optional redemption unless after giving effect thereto (i) the Fund has available certain deposit securities with maturity or tender dates not later than the day preceding the applicable redemption date and having a value not less than the amount (including any applicable premium) due to holders of Preferred Shares by reason of the redemption of Preferred Shares on such date fixed for the redemption and (ii) the Fund would have Eligible Assets with an aggregate Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount.

Notwithstanding the foregoing, Preferred Shares may not be redeemed at the option of the Fund unless all dividends in arrears on any outstanding preferred stock, including all outstanding Preferred Shares, have been or are being contemporaneously paid or set aside for payment; provided, however, that the foregoing shall not prevent the purchase or acquisition of outstanding preferred stock pursuant to the successful completion of an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding preferred stock.

Liquidation

Subject to the rights of holders of any series or class or classes of shares ranking on a parity with Preferred Shares with respect to the distribution of assets upon liquidation of the Fund, whether voluntary or involuntary, the holders of Preferred Shares then outstanding will be entitled to receive and to be paid out of the assets of the Fund available for distribution to its shareholders, before any payment or distribution shall be made on the shares of Common Stock, an amount equal to the liquidation preference with respect to such shares ($25,000 per share), plus an amount equal to all dividends thereon (whether or not earned or declared) accumulated but unpaid to (but not including) the date of final distribution in same-day funds. After the payment to the holders of Preferred Shares of the full preferential amounts provided for as described herein, the holders of Preferred Shares as such shall have no right or claim to any of the remaining assets of the Fund.

Neither the sale of all or substantially all the property or business of the Fund, nor the merger or consolidation of the Fund into or with any other corporation nor the merger or consolidation of any other corporation into or with the Fund, shall be a liquidation, whether voluntary or involuntary, for the purposes of the foregoing paragraph.

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Rating Agency Guidelines and Asset Coverage

The Fund is required under the 1940 Act and Moody s and Fitch guidelines to maintain assets having in the aggregate a Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount. Moody s and Fitch have each established separate guidelines for determining Discounted Value. To the extent any particular portfolio holding does not satisfy the applicable rating agency s guidelines, all or a portion of such holding s value will not be included in the calculation of Discounted Value (as defined by such rating agency). The Preferred Shares Basic Maintenance Amount includes the sum of (a) the aggregate liquidation preference of Preferred Shares then outstanding and (b) certain accrued and projected payment obligations of the Fund.

The Fund is also required under the 1940 Act and rating agency guidelines to maintain, with respect to Preferred Shares, as of the last Business Day of each month in which any such shares are outstanding, asset coverage of at least 200% with respect to senior securities which are shares, including Preferred Shares (or such other asset coverage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities which are shares of a closed-end investment company as a condition of declaring dividends on its common shares) (1940 Act Preferred Shares Asset Coverage). Based on the composition of the portfolio of the Fund and market conditions as of May 31, 2005, 1940 Act Preferred Shares Asset Coverage with respect to Preferred Shares, assuming the issuance of all New Preferred Shares offered hereby and giving effect to the deduction of sales load and offering costs for the New Preferred Shares estimated at $487,531, would have been computed as follows:

$$\frac{\text{Value of Fund assets less liabilities not constituting senior securities}}{\text{Senior securities representing indebtedness plus liquidation value of Preferred Shares}} = \frac{\$321{,}490{,}059}{\$95{,}000{,}000} = 338\%$$

In the event the Fund does not timely cure a failure to maintain (a) a Discounted Value of its portfolio equal to the Preferred Shares Basic Maintenance Amount or (b) the 1940 Act Preferred Shares Asset Coverage, in each case in accordance with the requirements of the rating agency or agencies then rating Preferred Shares, the Fund will be required to redeem Preferred Shares as described under Redemption Mandatory Redemption above.

The Fund may, but is not required to, adopt any modifications to the guidelines that may hereafter be established by Moody s or Fitch. Failure to adopt any such modifications, however, may result in a change in the ratings described above or a withdrawal of ratings altogether. In addition, any rating agency providing a rating for Preferred Shares may, at any time, change or withdraw any such rating. The Board may, without shareholder approval, amend, alter or repeal any or all of the definitions and related provisions which have been adopted by the Fund pursuant to the rating agency guidelines in the event the Fund receives written confirmation from Moody s or Fitch, or both, as appropriate, that any such amendment, alteration or repeal would not impair the ratings then assigned by Moody s and Fitch to Preferred Shares.

As described by Moody s and Fitch, a preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The ratings on Preferred Shares are not recommendations to purchase, hold or sell those shares, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. The rating agency guidelines described above also do not address the likelihood that an owner of Preferred Shares will be able to sell such shares in an Auction or otherwise. The ratings are based on current information furnished to Moody s and Fitch by the Fund and the Investment Manager 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 Stock has not been rated by an NRSRO.

A rating agency s guidelines will apply to Preferred Shares only so long as such rating agency is rating such shares. The Fund will pay certain fees to Moody s or Fitch, or both, for rating Preferred Shares.

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Voting Rights

Except as otherwise provided in this Prospectus and in the SAI, in the Charter or as otherwise required by law, holders of Preferred Shares will have equal voting rights with holders of shares of Common Stock and holders of any other shares of preferred stock of the Fund (one vote per share) and will vote together with holders of shares of Common Stock and holders of any other shares of preferred stock of the Fund as a single class. There is presently no preferred stock of the Fund authorized or issued other than Preferred Shares.

In connection with the election of the Fund s directors, holders of outstanding Preferred Shares, voting as a separate class, are entitled to elect two of the Fund s directors, and the remaining directors are elected by holders of shares of Common Stock and Preferred Shares, voting together as a single class. In addition, if at any time dividends (whether or not earned or declared) on outstanding Preferred Shares shall be due and unpaid in an amount equal to two full years dividends thereon, then, as the sole remedy of holders of outstanding Preferred Shares, the number of directors constituting the Board shall be increased by the smallest number that, when added to the two directors elected exclusively by the holders of Preferred Shares, as described above, would constitute a majority of the Board as so increased by such smallest number, and at a special meeting of shareholders which will be called and held as soon as practicable, and at all subsequent meetings at which directors are to be elected, the holders of Preferred Shares, voting as a separate class, will be entitled to elect the smallest number of additional directors that, together with the two directors which such holders will be in any event entitled to elect, constitutes a majority of the total number of directors of the Fund as so increased. The terms of office of the persons who are directors at the time of that election will continue. If the Fund thereafter shall pay, or declare and set apart for payment, in full, all dividends payable on all outstanding Preferred Shares and sufficient cash or specified securities are set apart for the payment of such dividends, the voting rights stated in the second preceding sentence shall cease, and the terms of office of all of the additional directors elected by the holders of Preferred Shares (but not of the directors with respect to whose election the holders of shares of Common Stock were entitled to vote or the two directors the holders of Preferred Shares have the right to elect in any event), will terminate automatically.

So long as any Preferred Shares are outstanding, the Fund will not, without the affirmative vote of the Holders of a majority of the outstanding Preferred Shares, (a) institute any proceedings to be adjudicated bankrupt or insolvent, or consent to the institution of bankruptcy or insolvency proceedings against it, or file a petition seeking or consenting to reorganization or relief under any applicable federal or state law relating to bankruptcy or insolvency, or consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Fund or a substantial part of its property, or make any assignment for the benefit of creditors, or, except as may be required by applicable law, admit in writing its inability to pay its debts generally as they become due or take any corporate action in furtherance of any such action; (b) create, incur or suffer to exist, or agree to create, incur or suffer to exist, or consent to cause or permit in the future (upon the happening of a contingency or otherwise) the creation, incurrence or existence of any material lien, mortgage, pledge, charge, security interest, security agreement, conditional sale or trust receipt or other material encumbrance of any kind upon any of the Fund s assets as a whole, except (i) liens, the validity of which are being contested in good faith by appropriate proceedings, (ii) liens for taxes that are not then due and payable or that can be paid thereafter without penalty, (iii) liens, pledges, charges, security interests, security agreements or other encumbrances arising in connection with any indebtedness senior to Preferred Shares, (iv) liens, pledges, charges, security interests, security agreements or other encumbrances arising in connection with any indebtedness permitted under clause (c) below and (v) liens to secure payment for services rendered including, without limitation, services rendered by the Fund s Paying Agent and the Auction Agent; or (c) create, authorize, issue, incur or suffer to exist any indebtedness for borrowed money or any direct or indirect guarantee of such indebtedness for borrowed money or any direct or indirect guarantee of such indebtedness, except the Fund may borrow as may be permitted by the Fund s investment restrictions; provided, however, that transfers of assets by the Fund subject to an obligation to repurchase shall not be deemed to be indebtedness for purposes of this provision to the extent that after any such transaction the Fund has Eligible Assets with an aggregate Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount as of the immediately preceding Valuation Date.

In addition, the affirmative vote of the holders of a majority, as defined in the 1940 Act, of the outstanding shares of Preferred Shares, voting as a separate class, shall be required to approve any plan of reorganization (as such term is used in the 1940 Act) adversely affecting such shares or any action requiring a vote of security holders of the Fund under Section 13(a) of the 1940 Act, including, among other things, changes in the Fund s investment restrictions described under Investment Objectives Investment Policies Fundamental Policies in the SAI and changes in the Fund s subclassification as a closed-end investment company.

The affirmative vote of the Holders of a majority, as defined in the 1940 Act, of the outstanding shares of Preferred Shares, voting as a separate class, shall be required with respect to any matter that materially and adversely affects the rights, preferences, or powers of Preferred Shares in a manner different from that of other series or classes of the Fund s shares of capital stock. For purposes of the foregoing, no matter shall be deemed to adversely affect any rights, preference or power unless such matter (a) alters or abolishes any preferential right of Preferred Shares; (b) creates, alters or abolishes any right in respect of redemption of Preferred Shares; or (c) creates or alters (other than to abolish) any restriction on transfer applicable to Preferred Shares. The vote of holders of Preferred Shares described in this paragraph will in each case be in addition to a separate vote of the requisite percentage of Common Stock and/or preferred stock necessary to authorize the action in question.

The Board, without the vote or consent of any holder of shares of preferred stock, including the Preferred Shares, or any other stockholder of the Fund, may from time to time amend, alter or repeal any or all of the definitions contained in the Articles Supplementary, add covenants and other obligations of the Fund, or confirm the applicability of covenants and other obligations set forth therein, all in connection with obtaining or maintaining the rating of Moody s and Fitch, or any other rating agency that is rating the Preferred Shares (Rating Agency), with respect to the Preferred Shares, and any such amendment, alteration or repeal will not be deemed to affect the preferences, rights or powers of Preferred Shares or the holders thereof, provided that the Board receives written confirmation from each relevant Rating Agency that any such amendment, alteration or repeal would not adversely affect the rating then assigned by such Rating Agency. In addition, subject to compliance with applicable law, the Board may amend the definition of Maximum Rate to increase the percentage amount by which the Reference Rate is multiplied to determine the Maximum Rate shown therein without the vote or consent of the holders of shares of preferred stock, including the Preferred Shares, or any other stockholder of the Fund, but only with confirmation from each Rating Agency, and after consultation with the Broker-Dealers, provided that immediately following any such increase the Fund would meet the Preferred Shares Basic Maintenance Amount Test.

The foregoing voting provisions will not apply with respect to Preferred Shares if, at or prior to the time when a vote is required, such shares shall have been (a) redeemed or (b) called for redemption and sufficient funds shall have been deposited in trust to effect such redemption.

THE AUCTION

General

The Articles Supplementary provide that, except as otherwise described herein, the Applicable Rate for Preferred Shares for each Dividend Period after the initial Dividend Period shall be equal to the rate per year that the Auction Agent advises on the Business Day preceding the first day of such subsequent Dividend Period (an Auction Date) has resulted from implementation of the auction procedures (the Auction Procedures) set forth in the Articles Supplementary and summarized below, in which persons determine to hold or offer to sell or, based on dividend rates bid by them, offer to purchase or sell Preferred Shares. Each periodic implementation of the Auction Procedures is referred to herein as an Auction. See the Articles Supplementary for a more complete description of the Auction process.

Auction Agency Agreement. The Fund has entered into an Auction Agency Agreement (the Auction Agency Agreement) with the Auction Agent (currently, Deutsche Bank Trust Company Americas) which provides, among other things, that the Auction Agent will follow the Auction Procedures for purposes of determining the Applicable Rate for Preferred Shares so long as the Applicable Rate is to be based on the results of an Auction.

The Auction Agent may terminate the Auction Agency Agreement upon notice to the Fund on a date no earlier than 45 days after such notice. If the Auction Agent should resign, the Fund will use its best efforts to enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agency Agreement. The Fund may remove the Auction Agent provided that prior to such removal the Fund shall have entered into such an agreement with a successor Auction Agent.

Broker-Dealer Agreements. Each Auction requires the participation of one or more Broker-Dealers. The Auction Agent has entered into agreements (collectively, the Broker-Dealer Agreements) with Broker-Dealers selected by the Fund, which provide for the participation of those Broker-Dealers in Auctions for Preferred Shares.

The Auction Agent after each Auction for Preferred Shares will pay to each Broker-Dealer, from funds provided by the Fund, a service charge at the annual rate of 0.25%, in the case of any Auction immediately preceding a Dividend Period of less than one year, or a percentage agreed to by the Fund and the Broker-Dealers in the case of any Auction immediately preceding a Dividend Period of one year or longer, of the purchase price of Preferred Shares placed by such Broker-Dealer at such Auction. For the purposes of the preceding sentence, Preferred Shares will be placed by a Broker-Dealer if such shares were (a) the subject of Hold Orders deemed to have been submitted to the Auction Agent by the Broker-Dealer and were acquired by such Broker-Dealer for its own account or were acquired by such Broker-Dealer for its customers who are Beneficial Owners or (b) the subject of an Order submitted by such Broker-Dealer that is (i) a Submitted Bid of an Existing Holder that resulted in such Existing Holder continuing to hold such shares as a result of the Auction or (ii) a Submitted Bid of a Potential Holder that resulted in such Potential Holder purchasing such shares as a result of the Auction or (iii) a valid Hold Order.

The Fund may request the Auction Agent to terminate one or more Broker-Dealer Agreements at any time, provided that at least one Broker-Dealer Agreement is in effect after such termination.

Auction Procedures

Prior to the Submission Deadline on each Auction Date for Preferred Shares, each customer of a Broker-Dealer who is a Beneficial Owner may submit orders (Orders) with respect to such Preferred Shares to that Broker-Dealer as follows:

Hold Order indicating its desire to hold such shares without regard to the Applicable Rate for the next Dividend Period thereof.

Bid indicating its desire to sell such shares at $25,000 per share if the Applicable Rate for the next Dividend Period thereof is less than the rate specified in such Bid (also known as a hold-at-a-rate order). A bid order by an existing holder will be deemed an irrevocable offer to sell shares of such series at $25,000 per share if the applicable rate for shares of such series for the next dividend period is less than the rate or spread specified in the bid.

Sell Order indicating its desire to sell such shares at $25,000 per share without regard to the Applicable Rate for the next Dividend Period thereof.

A Beneficial Owner may submit different types of Orders to its Broker-Dealer with respect to Preferred Shares then held by such Beneficial Owner. A Beneficial Owner that submits a Bid with respect to such shares to its Broker-Dealer having a rate higher than the Maximum Rate on the Auction Date will be treated as having submitted a Sell Order with respect to such shares to its Broker-Dealer. A Beneficial Owner that fails to submit an Order with respect to such shares to its Broker-Dealer will be deemed to have submitted a Hold Order with respect to such shares to its Broker-Dealer; provided, however, that if a Beneficial Owner fails to submit an Order with respect to such shares to its Broker-Dealer for an Auction relating to a Dividend Period of more than 28 Dividend Period days, such Beneficial Owner will be deemed to have submitted a Sell Order with respect to such shares to its Broker-Dealer. A Sell Order shall constitute an irrevocable offer to sell Preferred Shares subject thereto. A Beneficial Owner that offers to become the Beneficial Owner of additional Preferred Shares is, for purposes of such offer, a Potential Beneficial Owner as discussed below.

A customer of a Broker-Dealer that is not a Beneficial Owner of Preferred Shares but that wishes to purchase Preferred Shares, or that is a Beneficial Owner of Preferred Shares that wishes to purchase additional Preferred Shares (in each case, a Potential Beneficial Owner), may submit Bids to its Broker-Dealer in which it offers to purchase Preferred Shares at $25,000 per share if the Applicable Rate for the next Dividend Period is not less than the rate specified in such Bid. A Bid placed by a Potential Beneficial Owner specifying a rate higher than the Maximum Rate on the Auction Date will not be accepted.

The Broker-Dealers in turn will submit the Orders of their respective customers who are Beneficial Owners and Potential Beneficial Owners to the Auction Agent, designating themselves (unless otherwise permitted by the Fund) as Existing Holders in respect of shares subject to Orders submitted or deemed submitted to them by Beneficial Owners and as Potential Holders in respect of shares subject to Orders submitted to them by Potential Beneficial Owners. However, neither the Fund nor the Auction Agent will be responsible for a Broker-Dealer s failure to comply with the foregoing. Any Order placed with the Auction Agent by a Broker-Dealer as or on behalf of an Existing Holder or a Potential Holder will be treated in the same manner as an Order placed with a Broker-Dealer by a Beneficial Owner or Potential Beneficial Owner. Similarly, any failure by a Broker-Dealer to submit to the Auction Agent an Order in respect of any Preferred Shares held by it or customers who are Beneficial Owners will be treated in the same manner as a Beneficial Owner s failure to submit to its Broker-Dealer an Order in respect of Preferred Shares held by it. A Broker-Dealer may also submit Orders to the Auction Agent for its own account as an Existing Holder or Potential Holder, provided it is not an affiliate of the Fund.

If Sufficient Clearing Bids for Preferred Shares exist (that is, the number of Preferred Shares subject to Bids submitted or deemed submitted to the Auction Agent by Broker-Dealers as or on behalf of Potential Holders with rates equal to or lower than the Maximum Rate is at least equal to the number of Preferred Shares subject to Sell Orders submitted or deemed submitted to the Auction Agent by Broker-Dealers as or on behalf of Existing Holders), the Applicable Rate for the next succeeding Dividend Period will be the lowest rate specified in the Submitted Bids which, taking into account such rate and all lower rates bid by Broker-Dealers as or on behalf of Existing Holders and Potential Holders, would result in Existing Holders and Potential Holders owning Preferred Shares available for purchase in the Auction. If Sufficient Clearing Bids do not exist, the Applicable Rate for the next succeeding Dividend Period will be the Maximum Rate on the Auction Date. If Broker-Dealers submit or are deemed to have submitted to the Auction Agent Hold Orders with respect to all Existing Holders of Preferred Shares, the Applicable Rate for the next succeeding Dividend Period will be the All Hold Rate.

Beneficial Owners may not be able to sell some or all of their Preferred Shares at an auction if the auction fails; that is, if there are more Preferred Shares offered for sale than there are buyers for those Preferred Shares. Also, if a Beneficial Owner places hold orders (orders to retain auction rate securities) at an auction only at a specified rate, and that specified rate exceeds the rate set at the auction, such Beneficial Owner will not retain its auction rate securities. If a Beneficial Owner submits a hold order for Preferred Shares without specifying a minimum rate, and the auction sets a below-market rate, such Beneficial Owner may receive a below-market rate of return on its auction rate securities.

The relative buying and selling interest of market participants in Preferred Shares and in the Preferred Shares market as a whole will vary over time, and such variations may be affected by, among other things, news relating to the issuer, the attractiveness of alternative investments, the perceived risk of owning the Preferred Shares (whether related to credit, liquidity or any other risk), the tax treatment accorded the instruments, the accounting treatment accorded auction rate securities, including recent clarifications of U.S. generally accepted accounting principles relating to the treatment of auction rate securities, reactions to regulatory actions or press reports, financial reporting cycles and market sentiment generally. Shifts of demand in response to any one or simultaneous particular events cannot be predicted and may be short-lived or exist for longer periods.

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Subject to certain exceptions, if there are not sufficient clearing bids for the Preferred Shares, the Applicable Rate for the next Dividend Period will be the Maximum Applicable Rate on the Auction Date. If the Fund has declared a Special Dividend Period and there are not Sufficient Clearing Bids, the election of a Special Dividend Period will not be effective and the Applicable Rate for the next rate period will be the same as during the current Dividend Period.

Broker-Dealers may participate in Auctions for their own accounts. However, the Fund, by notice to the Broker-Dealers, may prohibit all Broker-Dealers from submitting bids in auctions for their own accounts, provided that Broker-Dealers may continue to submit Hold Orders and Sell Orders. Any Broker-Dealer submitting an order for its own account in any auction will have an advantage over other bidders in that it would have knowledge of other orders placed through it in that auction (but it would not have knowledge of orders submitted by other broker dealers, if any). As a result of the Broker-Dealer bidding, the auction clearing rate may be higher or lower than the rate that would have prevailed if the broker-dealer had not bid. A Broker Dealer may also bid in order to prevent what would otherwise be a failed auction, an all hold auction (if the broker dealer owns securities in its own account) or an auction clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities at the time of the auction. Broker-Dealers may, but are not obligated to, advise holders of the Preferred Shares that the rate that will apply in an all hold auction is often a lower rate than would apply if holders submit bids, and such advice, if given, may facilitate the submission of bids by existing holders that would avoid the occurrence of an all hold auction. A Broker Dealer may, but is not obligated to, encourage additional or revised investor bidding in order to prevent an all-hold auction.

The Underwriter has advised the Fund that the Underwriter and various other broker-dealers and other firms that participate in the auction rate securities market received letters from the staff of the Commission last spring. The letters requested that each of these firms voluntarily conduct an investigation regarding its respective practices and procedures in that market. Pursuant to these requests, the Underwriter conducted its own voluntary review and reported its findings to the Commission staff. At the Commission staff s request, the Underwriter is engaging in discussions with the Commission staff concerning its inquiry. Neither the Underwriter nor the Fund can predict the ultimate outcome of the inquiry or how that outcome will affect the market for auction rate securities or the Auctions.

The Auction Procedures include a pro rata allocation of shares for purchase and sale, which may result in an Existing Holder continuing to hold or selling, or a Potential Holder purchasing, a number of Preferred Shares that is fewer than the number of Preferred Shares specified in its Order. To the extent the allocation procedures have that result, Broker-Dealers that have designated themselves as Existing Holders or Potential Holders in respect of customer Orders will be required to make appropriate pro rata allocations among their respective customers.

Settlement of purchases and sales will be made on the next Business Day (also a Dividend Payment Date) after the Auction Date through the Securities Depository. Purchasers will make payment through their Agent Members in same-day funds to the Securities Depository against delivery to their respective Agent Members. The Securities Depository will make payment to the sellers Agent Members in accordance with the Securities Depository s normal procedures, which now provide for payment against delivery by their Agent Members in same-day funds.

The Auction for Preferred Shares will normally be held every Monday and each subsequent Dividend Period will normally begin on the following Tuesday. If an Auction Date is not a Business Day because the Exchange is closed for business for more than three consecutive Business Days due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services, or the Auction Agent is not able to conduct an Auction in accordance with the Auction Procedures for any such reason, then the Applicable Rate for the next Dividend Period will be the Applicable Rate determined on the previous Auction Date.

If a Dividend Payment Date is not a Business Day because the Exchange is closed for business for more than three consecutive Business Days due to an act of God, natural disaster, act of war, civil or military

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disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services, or the dividend payable on such date can not be paid for any such reason, then:

the Dividend Payment Date for the affected Dividend Period will be the next business day on which the trust and its paying agent, if any, can pay the dividend;

the affected Dividend Period will end on the day it otherwise would have ended; and

the next Dividend Period will begin and end on the dates on which it otherwise would have begun and ended.

The following is a simplified example of how a typical Auction works. Assume that the Fund has 1,000 outstanding Preferred Shares and three current holders. The three current holders and three potential holders submit orders through broker-dealers at the Auction:

Current Holder A	Owns 500 shares, wants to sell all 500 shares if Applicable Rate is less than 2.1%	Bid order of 2.1% rate for all 500 shares
Current Holder B	Owns 300 shares, wants to hold	Hold Order will take the Applicable Rate
Current Holder C	Owns 200 shares, wants to sell all 200 shares if Applicable Rate is less than 1.9%	Bid order of 1.9% rate for all 200 shares
Potential Holder D	Wants to buy 200 shares	Places order to buy at or above 2.0%
Potential Holder E	Wants to buy 300 shares	Places order to buy at or above 1.9%
Potential Holder F	Wants to buy 200 shares	Places order to buy at or above 2.1%

The lowest dividend rate that will result in all 1,000 Preferred Shares continuing to be held is 2.0% (the offer by D). Therefore, the Applicable Rate will be 2.0%. Current Holders B and C will continue to own their shares. Current Holder A will sell its shares because A s dividend rate bid was higher than the Applicable Rate. Potential Holder D will buy 200 shares and Potential Holder E will buy 300 shares because their bid rates were at or below the Applicable Rate. Potential Holder F will not buy any shares because its bid rate was above the Applicable Rate.

Notification of Results and Settlement

The Auction Agent will advise each Broker-Dealer who submitted a bid or sell order in an auction whether such bid or sell order was accepted or rejected in whole or in part and of the applicable rate for the next dividend period for the related Preferred Shares by telephone or through the Auction Agent s auction processing system at approximately 3:00 p.m., New York City time, on the auction date for such auction. Each such Broker-Dealer that submitted an order for the account of a customer then will advise such customer whether such bid or sell order was accepted or rejected, will confirm purchases and sales with each customer purchasing or selling Preferred Shares as a result of the auction and will advise each customer purchasing or selling Preferred Shares to give instructions to its agent member of the Securities Depository to pay the purchase price against delivery of such shares or to deliver such shares against payment therefor as appropriate. If a customer selling Preferred Shares as a result of an auction fails to instruct its agent member to deliver such shares, the Broker-Dealer that submitted such customer s bid or sell order will instruct such agent member to deliver such shares against payment therefor. Each Broker-Dealer that submitted a hold order in an auction on behalf of a customer also will advise such customer of the applicable rate for the next dividend period for the Preferred Shares. The Auction Agent will record each transfer of Preferred Shares on the record book of existing holders to be maintained by the Auction Agent.

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In accordance with the Securities Depository s normal procedures, on the day after each auction date, the transactions described above will be executed through the Securities Depository, and the accounts of the respective agent members at the Securities Depository will be debited and credited as necessary to effect the purchases and sales of Preferred Shares as determined in such auction. Purchasers will make payment through their agent members in same-day funds to the Securities Depository against delivery through their agent members; the Securities Depository will make payment in accordance with its normal procedures, which now provide for payment in same-day funds. If the procedures of the Securities Depository applicable to Preferred Shares shall be changed to provide for payment in next-day funds, then purchasers may be required to make payment in next-day funds. If the certificates for the Preferred Shares are not held by the Securities Depository or its nominee, payment will be made in same-day funds to the Auction Agent against delivery of such certificates.

If any existing holder selling Preferred Shares in an auction fails to deliver such Preferred Shares, the Broker-Dealer of any person that was to have purchased Preferred Shares in such auction may deliver to such person a number of whole Preferred Shares that is less than the number of Preferred Shares that otherwise was to be purchased by such person. In such event, the number of Preferred Shares to be so delivered will be determined by such Broker-Dealer. Delivery of such lesser number of Preferred Shares will constitute good delivery. Each Broker-Dealer Agreement also will provide that neither the Fund nor the Auction Agent will have responsibility or liability with respect to the failure of a beneficial owner, potential beneficial owner or their respective agent members to deliver Preferred Shares or to pay for Preferred Shares purchased or sold pursuant to an auction or otherwise.

Submission of Orders By Broker-Dealers to Auction Agent

Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders for Preferred Shares subject to an Auction on such Auction Date obtained by such Broker-Dealer, designating itself (unless otherwise permitted by the Fund) as an existing holder in respect of the Preferred Shares subject to Orders submitted to it by Beneficial Owners. Any Order submitted by a Beneficial Owner or a Potential Beneficial Owner to its Broker-Dealer, or by a Broker-Dealer to the Auction Agent, prior to the Submission Deadline on any Auction Date, shall be irrevocable. If the rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate per annum up to the next highest one-thousandth (.001) of one-percent. If one or more Orders of an Existing Holder is submitted to the Auction Agent covering in the aggregate more than the number of Outstanding shares of the Preferred Shares subject to an Auction held by such Existing Holder, such Orders shall be considered valid in the following order of priority:

(1) all Hold Orders for shares of such series shall be considered valid, but only up to and including in the aggregate the number of Outstanding shares of such series held by such Existing Holder, and if the number of shares of such series subject to such Hold Orders exceeds the number of Outstanding shares of such series held by such Existing Holder, the number of shares subject to each such Hold Order shall be reduced pro rata to cover the number of Outstanding shares of such series held by such Existing Holder;

(2) (A) any Bid for shares of such series shall be considered valid up to and including the excess of the number of Outstanding shares of such series held by such Existing Holder over the number of shares of such series subject to any Hold Orders referred to in clause (i) above;

(B) subject to subclause (A), if more than one Bid of an Existing Holder for shares of such series is submitted to the Auction Agent with the same rate and the number of Outstanding shares of such series subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the number of shares of such series subject to each Bid with the same rate shall be reduced pro rata to cover the number of shares of such series equal to such excess;

(C) subject to subclauses (A) and (B), if more than one Bid of an Existing Holder for shares of such series is submitted to the Auction Agent with different rates, such Bids shall be considered valid in the ascending order of their respective rates up to and including the amount of such excess; and

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(D) in any such event, the number, if any, of such Outstanding shares of such series subject to any portion of Bids considered not valid in whole or in part under this clause (ii) shall be treated as the subject of a Bid for shares of such series by or on behalf of a Potential Holder at the rate therein specified; and

(3) all Sell Orders for shares of such series shall be considered valid up to and including the excess of the number of Outstanding shares of such series held by such Existing Holder over the sum of shares of such series subject to valid Hold Orders referred to in clause (i) above and valid Bids referred to in clause (ii).

If more than one Bid for one or more Preferred Shares is submitted to the Auction Agent, by or one behalf of any Potential Holder, each such Bid submitted shall be a separate Bid with the rate and number of shares therein specified.

Secondary Market Trading and Transfer of Preferred Shares

The Broker-Dealers are expected to maintain a secondary trading market in Preferred Shares outside of Auctions, but are not obligated to do so, and may discontinue such activity at any time. There can be no assurance that such secondary trading market in Preferred Shares will provide owners with liquidity of investment. Preferred Shares are not registered on any stock exchange or on the Nasdaq Stock Market. Investors who purchase shares in an Auction for a Special Dividend Period should note that because the dividend rate on such shares will be fixed for the length of such Dividend Period, the value of the shares may fluctuate in response to changes in interest rates, and may be more or less than their original cost if sold on the open market in advance of the next Auction therefor, depending upon market conditions.

A Beneficial Owner or an Existing Holder may sell, transfer or otherwise dispose of Preferred Shares only in whole shares and only (a) pursuant to a Bid or Sell Order placed with the Auction Agent in accordance with the Auction Procedures, (b) to a Broker-Dealer or (c) to such other persons as may be permitted by the Fund; provided, however, that (i) a sale, transfer or other disposition of Preferred Shares from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such shares to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of the foregoing if such Broker-Dealer remains the Existing Holder of the shares so sold, transferred or disposed of immediately after such sale, transfer or disposition and (ii) in the case of all transfers other than pursuant to Auctions, the Broker-Dealer (or other person, if permitted by the Fund) to whom such transfer is made shall advise the Auction Agent of such transfer.

DESCRIPTION OF COMMON STOCK

The Articles initially authorized the issuance of 100,000,000 shares of common stock of the Fund, par value $.001 per share. Pursuant to the Articles, the Board may classify or reclassify any authorized but unissued shares of capital stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of such shares of stock. The Board has reclassified 3,800 shares of the Fund s Common Stock as Taxable Auction Rate Preferred Stock, Series M. All shares of Common Stock have non-cumulative voting rights and equal rights with respect to dividends, assets and liquidations. Shares of Common Stock are fully paid and non-assessable when issued and have no preemptive, conversion or exchange rights. Whenever Preferred Shares are outstanding, shareholders of Common Stock will not be entitled to receive any distributions from the Fund unless all accrued dividends on Preferred Shares have been paid, and unless asset coverage (as defined in the 1940 Act) with respect to Preferred Shares would be at least 200% after giving effect to the distributions. A majority of the entire Board, without action by the shareholders, may amend the Articles of Incorporation to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Fund has authority to issue.

NET ASSET VALUE

The net asset value of the Fund is determined once daily as of the close of regularly scheduled trading on the Exchange. Such calculation is determined on each day that the Exchange is open for trading, i.e., Monday through Friday, except for New Year s Day, Martin Luther King, Jr. Day, Presidents Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day, and the preceding Friday or subsequent Monday when one of those holidays falls on a Saturday or Sunday, respectively. Any swap transaction that the Fund enters into may, depending on the applicable interest rate environment, have a positive or negative value for purposes of calculating net asset value. Any cap transaction that the Fund enters into may, depending on the applicable interest rate environment, have no value or a positive value. In addition, accrued payments to the Fund under such transactions will be assets for the Fund and accrued payments by the Fund will be liabilities of the Fund.

In calculating net asset value, portfolio securities listed or traded on national securities exchanges, or reported by the Nasdaq National Market reporting system, are valued at the last sale price, or, if there have been no sales on that day, at the mean of the current bid and ask price which represents the current value of the security. Over-the-counter securities are valued at the mean of the current bid and ask price.

Securities that are primarily traded on foreign exchanges generally are valued at the closing price of such securities on their respective exchanges, except that if the Investment Manager is of the opinion that such price would result in an inappropriate value for a security, including as a result of an occurrence subsequent to the time a value was so established, then the fair value of those securities may be determined in accordance with the procedures approved by the Fund s Board. In valuing assets, prices denominated in foreign currencies are converted to U.S. dollar equivalents at the current exchange rate.

In addition, the Investment Manager (subject to Board supervision) may use fair value procedures to price securities if a significant event occurs between the time at which a market price is determined but prior to the time at which the Fund s net asset value is calculated. The Investment Manager (subject to Board supervisions) may value those securities higher or lower than another fund that uses market quotations to price the same securities to that uses fair value procedures to price those same securities.

Securities may be valued by independent pricing services which use prices by market-makers or estimates of market values obtained from yield data relating to instruments or securities with similar characteristics.

Short-term obligations with maturities of 60 days or less are valued at amortized cost, which constitutes fair value as determined by the Board. Amortized cost involves valuing an instrument at its original costs to the Fund and thereafter assuming a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the instrument.

All other securities and other assets of the Fund will be valued using fair value procedures established by the Investment Manager, subject to the supervisions of and ratification by the Fund s Board.

DESCRIPTION OF BORROWINGS

The Articles authorize the Fund, without prior approval of the holders of Common and Preferred Shares, to borrow money. The Fund may issue notes or other evidence of indebtedness (including bank borrowings or commercial paper) and may secure any such Borrowings by mortgaging, pledging or otherwise subjecting the Fund s assets as security. In connection with such Borrowing, the Fund may be required to maintain minimum average balances with the lender or to pay a commitment or other fee to maintain a line of credit. Any such requirements will increase the cost of Borrowing over the stated interest rate.

Limitations. Borrowings by the Fund are subject to certain limitations under the 1940 Act, including the amount of asset coverage required. In addition, agreements related to the Borrowings may also impose certain requirements, which may be more stringent than those imposed by the 1940 Act. See The Fund s Investments Use of Leverage and Risk Factors Risk of Investing in Preferred Shares Leverage Risk.

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Distribution Preference. The rights of lenders to the Fund to receive interest on, and repayment of, principal of any such Borrowings will be senior to those of the holders of Common and Preferred Shares, and the terms of any such Borrowings may contain provisions which limit certain activities of the Fund, including the payment of dividends to the holders of Common and Preferred Shares in certain circumstances.

Voting Rights. The 1940 Act does (in certain circumstances) grant to the lenders to the Fund certain voting rights in the event of default in the payment of interest on, or repayment of, principal. In the event that such provisions would impair the Fund s status as a regulated investment company under the Code, the Fund, subject to its ability to liquidate its relatively illiquid portfolio, intends to repay the Borrowings. Any Borrowings will likely be ranked senior or equal to all other existing and future borrowings of the Fund.

The discussion above describes the Board s present intention with respect to a possible offering of Borrowings. If the Board determines to authorize any of the foregoing, the terms may be the same as, or different from, the terms described above, subject to applicable law and the Articles.

CERTAIN PROVISIONS IN THE ARTICLES OF INCORPORATION AND BY-LAWS

The Fund has provisions in its Articles and By-Laws that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund, to cause it to engage in certain transactions or to modify its structure. The Board is divided into three classes. At the annual meeting of shareholders in each year, the term of one class expires and directors will be elected to serve in that class for terms of three years. This provision could delay for up to two years the replacement of a majority of the Board. A director may be removed from office only for cause and only by a vote of the holders of at least 75% of the outstanding shares of the Fund entitled to be cast for the election of directors.

The affirmative vote of at least 75% of the entire Board is required to authorize the conversion of the Fund from a closed-end to an open-end investment company. Such conversion also requires the affirmative vote of the holders of at least 75% of the votes entitled to be cast thereon by the shareholders of the Fund unless it is approved by a vote of at least 75% of the Continuing Directors (as defined below), in which event such conversion requires the approval of the holders of a majority of the votes entitled to be cast thereon by the shareholders of the Fund. A Continuing Director is any member of the Board of the Fund who (i) is not a person or affiliate of a person who enters or proposes to enter into a Business Combination (as defined below) with the Fund (an Interested Party) and (ii) who has been a member of the Board of the Fund for a period of at least 12 months, or is a successor of a Continuing Director who is unaffiliated with an Interested Party and is recommended to succeed a Continuing Director by a majority of the Continuing Directors then on the Board. The affirmative vote of at least 75% of the votes entitled to be cast thereon by shareholders of the Fund will be required to amend the Articles to change any of the provisions in this paragraph and the preceding paragraph.

The affirmative votes of at least 75% of the entire Board and the holders of at least (i) 80% of the votes entitled to be cast thereon by the shareholders of the Fund and (ii) in the case of a Business Combination (as defined below), 66 $^{2}/3$% of the votes entitled to be cast thereon by the shareholders of the Fund other than votes held by an Interested Party who is (or whose affiliate is) a party to a Business Combination (as defined below) or an affiliate or associate of the Interested Party, are required to authorize any of the following transactions:

(i) merger, consolidation or statutory share exchange of the Fund with or into any other person;

(ii) issuance or transfer by the Fund (in one or a series of transactions in any 12-month period) of any securities of the Fund to any person or entity for cash, securities or other property (or combination thereof) having an aggregate fair market value of $1,000,000 or more, excluding issuances or transfers of debt securities of the Fund, sales of securities of the Fund in connection with a public offering, issuances of securities of the Fund pursuant to a dividend reinvestment plan adopted by the Fund, issuance of securities of the Fund upon the exercise of any stock subscription rights distributed by the Fund and portfolio transactions effected by the Fund in the ordinary course of business;

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(iii) sale, lease, exchange, mortgage, pledge, transfer or other disposition by the Fund (in one or a series of transactions in any 12 month period) to or with any person or entity of any assets of the Fund having an aggregate fair market value of $1,000,000 or more except for portfolio transactions (including pledges of portfolio securities in connection with borrowings) effected by the Fund in the ordinary course of its business (transactions within clauses (i), (ii) and (iii) above being known individually as a Business Combination);

(iv) any voluntary liquidation or dissolution of the Fund or an amendment to the Fund s Articles to terminate the Fund s existence; or

(v) unless the 1940 Act or federal law requires a lesser vote, any shareholder proposal as to specific investment decisions made or to be made with respect to the Fund s assets as to which shareholder approval is required under federal or Maryland law.

However, the shareholder vote described above will not be required with respect to the foregoing transactions (other than those set forth in (v) above) if they are approved by a vote of at least 75% of the Continuing Directors. In that case, if Maryland law requires shareholder approval, the affirmative vote of a majority of votes entitled to be cast thereon shall be required. The Fund s By-Laws contain provisions the effect of which is to prevent matters, including nominations of directors, from being considered at a shareholders meeting where the Fund has not received notice of the matters generally at least 60 but no more than 90 days prior to the first anniversary of t